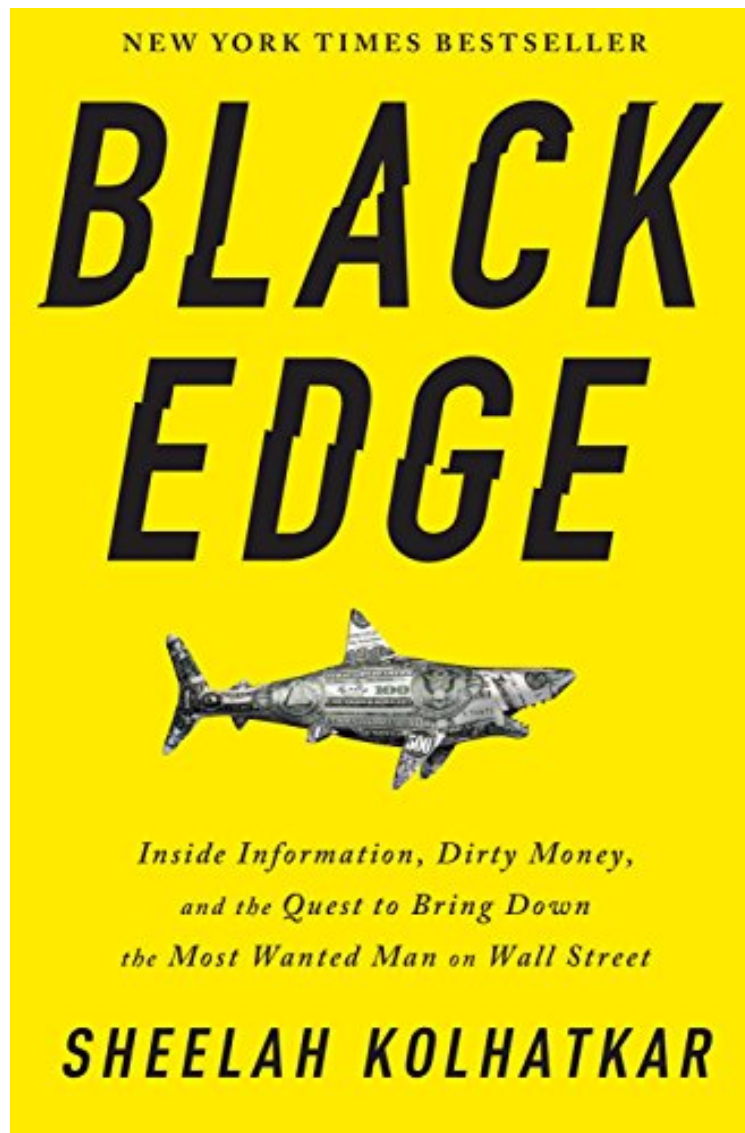


[E-BOOK] Black Edge: Inside Information, Dirty Money, and the Quest to Bring Down the Most Wanted Man on Wall Street

Black Edge: Inside Information, Dirty Money, and the Quest to Bring Down the Most Wanted Man on Wall Street

Sheelah Kolhatkar

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Sheelah Kolhatkar : Black Edge: Inside Information, Dirty Money, and the Quest to Bring Down the Most Wanted Man on Wall Street before purchasing it in order to gauge whether or not it would be worth my time, and all praised Black Edge: Inside Information, Dirty Money, and the Quest to Bring Down the Most Wanted Man on Wall Street:

83 of 89 people found the following review helpful. Outstanding story of insider trading in the 21st century. By The

Hibernian Autodidact This is a book giving great insight into the American phenomena of the rich getting richer by any means and doing so with impunity. According to the author, there are three different types of edge, or information a hedge fund trader can obtain before trading a security. There's "white" edge, which is information known to the general public that anyone can find; there is "gray edge", or information that's not quite proprietary, but only available to people familiar with the inside workings of a particular company; and finally there is "black edge", which is proprietary, supposed to be held in confidence, and can have clear positive or negative impact on a stock's price. The latter is illegal, of course, and the essence of insider trading, but also the trader who uses black edge information has a distinct advantage over the millions common folk investors. Some of the characters working for SAC finally did receive justice by falling on their swords and refusing to cooperate with the SEC, whether through loyalty towards or fear of, or both, of Steven Cohen. Ultimately, this book is about SAC and Steven Cohen, and company and its founder who made unheard of profits year over year through the constant use of "black edge." Some paid the price, however Cohen never did. In America, billionaires can do virtually whatever they want, and they influence our lives more than we realize. If you're interested in white-collar crime, particularly securities fraud, you are probably familiar with "Den of Thieves," an excellent account of the excesses of Wall Street's Masters of the Universe in the 1980s, like Michael Milken. "Black Edge" is a 21st century continuation of the tale, with the main difference being that the bad guy not only eludes justice, but he continues to prosper, unlike what happened to Michael Milken. "Black Edge" reads like a cross between crime fiction and a primer on high finance, meaning it's tautly written, the story flows beautifully, and the author Sheelah Kolhatkar weaves together an extremely complex array of characters into a well structured and easily comprehended narrative. Any negative review I've read of this book up to February 17, 2017 is entirely bogus and illegitimate, written by people who know, or are the people themselves, who are painted in an unflattering light in this book. Don't expect a feel good book with a justice prevails outlook, however. In 21st century America, with the undoubted further de-regulation of Wall Street that is to come in the future, those that think laws are for suckers will continue to prosper at the little guy's expense. P.S. anyone who has read thus far and takes exception to the political overtones of my review, please keep this in mind: I'm very well versed in Libertarian free market economics, as I've read a few classics, such as "Free to Choose" and "The Road to Serfdom"; while the free market is in theory a beautiful idea, in practice it's simply my opinion that the Steven Cohen's of the world need at least some regulations to help equalize the opportunity for all trading in the securities market, and to keep them from distorting the market forces grossly in their favor. I want to keep my review as apolitical as possible, and respect the views of anyone reading this. I hope it comes across that way. 4 of 4 people found the following review helpful. really enjoyed reading this book By Bill Guggenheim - Author of Hello From Heaven! I really, really enjoyed reading this book. The author conducted incredible research for it by interviewing so many people in the financial and legal worlds regarding insider trading on Wall Street. Unfortunately the "big fish" swam away and is a billionaire today -- he literally beat the system. 3 of 3 people found the following review helpful. Great Book By J. Tummino Great book, fascinating look into the hedge fund industry, if you watch the show Billions you realize it actually does mirror real life. The annoying part is that white collar criminals always seem to be able to pay a fine, not admit guilt, and walk away just fine, while anyone who doesn't have those resources is treated much harsher.

NEW YORK TIMES BESTSELLER; The story of the billionaire trader Steven A. Cohen, the rise and fall of his hedge fund, SAC Capital, and the largest insider trading investigation in history; for readers of The Big Short, Den of Thieves, and Dark Money; and fans of Showtime's Billions. Longlisted for the Andrew Carnegie Medal for Excellence and FT McKinsey Business Book of the Year 2017 The rise over the last two decades of a powerful new class of billionaire financiers marks a singular shift in the American economic and political landscape. Their vast reserves of concentrated wealth have allowed a small group of big winners to write their own rules of capitalism and public policy. How did we get here? Through meticulous reporting and powerful storytelling, New Yorker staff writer Sheelah Kolhatkar shows how Steve Cohen became one of the richest and most influential figures in finance; and what happened when the Justice Department put him in its crosshairs. Cohen and his fellow pioneers of the hedge fund industry didn't lay railroads, build factories, or invent new technologies. Rather, they made their billions through speculation, by placing bets in the market that turned out to be right more often than wrong; and for this they have gained not only extreme personal wealth but formidable influence throughout society. Hedge funds now manage nearly \$3 trillion in assets, and competition between them is so fierce that traders will do whatever they can to get an edge. Cohen was one of the industry's greatest success stories. He mastered poker in high school, went off to Wharton, and in 1992 launched SAC Capital, which he built into a \$15 billion empire, almost entirely on the basis of his wizardlike stock trading. He cultivated an air of mystery, reclusiveness, and extreme excess, building a 35,000 square foot mansion in Greenwich, Connecticut, and amassing one of the largest private art collections in the world. On Wall Street, Cohen was revered as a genius. That image was shattered when SAC became the target of a sprawling, seven-year government investigation. Labeled by prosecutors as a "magnet for market cheaters"; whose culture encouraged the relentless hunt for "black edge"; or inside information; SAC was ultimately indicted in

connection with a vast insider trading scheme, even as Cohen himself was never charged. Black Edge offers a revelatory look at the gray zone in which so much of Wall Street functions, and a window into the transformation of the U.S. economy. It's a riveting, true-life legal thriller that takes readers inside the government's pursuit of Cohen and his employees, and raises urgent questions about the power and wealth of those who sit at the pinnacle of modern Wall Street. Praise for Black Edge: "A modern version of Moby-Dick, with wiretaps rather than harpoons." —Jennifer Senior, The New York Times "If you liked James B. Stewart's Den of Thieves, Sheelah Kolhatkar's thrilling Black Edge should be next on your reading list." —The Wall Street Journal "A richly reported, entertaining tale about the cat-and-mouse game between the government and Cohen." —Andrew Ross Sorkin, The New York Times Book Review

"A modern version of Moby-Dick, with wiretaps rather than harpoons." —Jennifer Senior, The New York Times "Excellent." —The Economist "If you liked James B. Stewart's Den of Thieves, Sheelah Kolhatkar's thrilling Black Edge should be next on your reading list." —The Wall Street Journal "A lot of people do not trust Wall Street. They regard it as a moneymaking machine for those who work there, which has little interest in practice in its stated aim of channeling capital into businesses and helping them to grow for the broader benefit of society. For such skeptics, Steven Cohen is Exhibit A." —John Gapper, Financial Times "A richly reported, entertaining tale about the cat-and-mouse game between the government and Cohen." —Andrew Ross Sorkin, The New York Times Book Review "There are few financial-industry struggles as titanic as the one portrayed in these pages." —Reuters BreakingViews "One of the best books about the 2008 financial meltdown." —The Globe and Mail "Well-written, with pointed characterizations of the ambitious players and their motives, this book is highly recommended for readers interested in finance, crime, and politics." —Library Journal (starred review) "A tour de force of groundbreaking reporting and brilliant storytelling, a revealing inside account of how the Feds track a high-profile target—and, just as important, an unsettling portrayal of how Wall Street works today." —Jeffrey Toobin, New York Times bestselling author of American Heiress "Black Edge is not just a work of major importance, it is also addictively readable—and horrifyingly compelling. Sheelah Kolhatkar pulls back the curtain on the cheating, corruption, and skulduggery that underlie large swaths of the hedge fund industry and some of Wall Street's most fabled fortunes. This book is as hard to put down as it is to stomach." —Jane Mayer, New York Times bestselling author of Dark Money "Fast-paced and filled with twists, Black Edge has the grip of a thriller. It is also an essential expose of our times—a work that reveals the deep rot in our financial system. Everyone should read this book." —David Grann, New York Times bestselling author of The Lost City of Z "Black Edge is a real-life thriller about the government's attempt to get the legendary trader Steve Cohen on insider trading charges—and the lengths to which he goes to elude them. Using deep reporting and top-notch storytelling, Sheelah Kolhatkar is able to shed new light on one of the least known and most fascinating characters on Wall Street." —Bethany McLean, co-author of The Smartest Guys in the Room About the Author Sheelah Kolhatkar, a former hedge fund analyst, is a staff writer at The New Yorker, where she writes about Wall Street, Silicon Valley, and politics, among other things. She has appeared as a speaker and commentator on business and economics issues at conferences and on broadcast outlets including CNBC, Bloomberg Television, Charlie Rose, PBS NewsHour, WNYC and NPR. Her writing has also appeared in Bloomberg Businessweek, New York, The Atlantic, The New York Times and other publications. She lives in New York City. Excerpt. copy; Reprinted by permission. All rights reserved. Chapter 1 Money, Money, Money There tend to be two types of people who seek out jobs on Wall Street. The first are those with wealthy parents who were sent to the right prep schools and Ivy League colleges and who, from their first day on the trading floor, seem destined to be there. They move through life with a sense of ease about themselves, knowing that they will soon have their own apartments on Park Avenue and summer houses in the Hamptons, a mindset that comes from posh schooling and childhood tennis lessons and an understanding of when it is appropriate for a man to wear seersucker and when it isn't. The second type call to mind terms like street smart and scrappy. They might have watched their fathers struggle to support the family, toiling in sales or insurance or running a small business, working hard for relatively little, which would have had a profound effect on them. They might have been picked on as children or rejected by girls in high school. They make it because they have a burning resentment and something to prove, or because they have the ambition to be filthy rich, or both. They have little to fall back on but their determination and their willingness to do whatever it takes, including outthrusting the complacent rich kids. Sometimes the drive these people have is so intense, it's almost like rage. Steven Cohen came from the second group. As he reported for work one morning in January 1978, Cohen looked like any other twenty-one-year-old starting his first job. He could hear the roar of the trading floor, where dozens of young men were chattering away on the phone, trying to coax money from the people on the other end of the line. The room was alive with energy. It was as if a great oak tree were shaking in the middle of an autumn forest and leaves of hundred-dollar bills were raining down. To Cohen it felt like home, and he ran right in. Gruntal Co. was a small brokerage firm located

around the corner from the New York Stock Exchange in the gloomy canyons of lower Manhattan. Established in 1880, Gruntal had survived the assassination of President McKinley, the crash of 1929, oil price spikes and recessions, largely by buying up other tiny, primarily Jewish firms while also staying small enough that no one paid it much attention. From offices across the country, Gruntal brokers tried to sell stock investments to dentists and plumbers and retirees. When Cohen arrived, the firm was just starting to move more aggressively into an area called proprietary trading, trying to make profits by investing the firm's own money. For an eager Jewish kid from Long Island like Cohen, Wall Street didn't extend an open invitation. Even though he was freshly out of Wharton, Cohen still had to push his way in. Gruntal wasn't well-respected, but he didn't care about prestige. He cared about money, and he intended to make lots of it. It happened that a childhood friend of Cohen's, Ronald Aizer, had recently taken a job running the options department at Gruntal, and he was looking for help. Aizer was ten years older than Cohen, had an aptitude for math, and had autonomy to invest the firm's capital however he wanted. On Cohen's first day, Aizer pointed at a chair and told his new hire to sit there while he figured out what, exactly, he was going to do with him. Cohen sank down in front of a Quotron screen and became absorbed in the rhythm of the numbers ticking by. The stock market distills a basic economic principle, one that Aizer had figured out how to exploit: The more risk you take with an investment, the greater the potential reward. If there's a chance that a single piece of news could send a stock plunging, investors expect greater possible profit for exposing themselves to those potential losses. A sure, predictable thing, like a municipal bond, meanwhile, typically returned very little. There's no reward without risk—it was one of the central tenets of investing. Aizer, however, had found an intriguing loophole in this mechanism, where the two elements had fallen out of sync. It involved stock options. The market for options at the time was far less crowded than regular stock trading—and in many ways, more attractive. Options are contracts to either buy or sell shares of stock at a fixed price, by a specific date in the future. A "put" represents the right to sell shares of stock, which means that the owner of a put will benefit if the stock price drops, allowing him or her to sell the underlying shares at the agreed-upon higher price. "Calls" are the opposite, granting the holder the right to buy a particular stock at a specific price by a future date, so the owner of the call will benefit if the stock rises, as the option contract allows him or her to buy it for less than it would cost on the open market, yielding an instantaneous profit. Investors sometimes use options as a way to hedge a stock position they already have. At Gruntal, Aizer had implemented a strategy called "option arbitrage." It was based on the idea that in a properly functioning market, the price of a put option, the price of a call option, and the price at which the stock was trading should be in alignment. Because options were new and communication between markets was sometimes slow, this equation occasionally fell out of line, creating a mismatch between the different prices. By buying and selling the options on one exchange and the stock on another, for example, a clever trader could pocket the difference. In theory, the technique involved almost no risk. There was no borrowed money and relatively little capital required, and most positions were closed out by the end of the day, which meant that you didn't develop ulcers worrying about something that might send the market down overnight. The strategy would be rendered obsolete as technology improved, but in the early 1980s it was like plucking fistfuls of cash off of vines—and the traders at Gruntal enjoyed bountiful harvests. All day long, Aizer and his traders compared the prices of stocks to their valuations in the options market, rushing to make a trade whenever they detected an inconsistency. "You could have IBM trading at \$100 on the New York Stock Exchange floor," explained Helen Clarke, who worked as Aizer's clerk in the early 1980s, "and the options that equal IBM at \$100 trading at \$99 in Chicago, so you'd run to Chicago and buy it and sell it at the NYSE." If done enough times, it added up. Without the benefit of computer spreadsheets, the traders had to keep track of everything in their heads. Aizer set up a system that required minimal thinking. You didn't have to be good, he liked to say, you just had to follow the formulas. It was tedious. A trained monkey could do it. On Cohen's first day, he watched Aizer work with a trading assistant, scouring the market for \$0.25 or \$0.50 they could make on their idiot-proof options schemes. During a lull in activity, he stared at the market screens. Then Cohen announced that he was looking at a stock, ABC. "I think it's going to open higher tomorrow," he said. Even brand-new on the job, Cohen was confident in his abilities as a trader. Aizer snickered. "All right," he said, curious to see whether the new kid with bushy brown hair and glasses had any clue what he was doing. "Go ahead, take a shot." Cohen made \$4,000 that afternoon, and another \$4,000 overnight; in 1978, this was a meaningful profit. Watching the price oscillate like a sine wave, placing the bet, taking the risk, absorbing the payoff—his body surged with adrenaline, and Cohen was hooked. Trading was all he wanted to do. Aizer was stunned. How could someone so inexperienced, someone who couldn't even be bothered to iron his shirt, be this good at predicting whether stocks would go up or down? "I knew he was going to be famous within a week," Aizer said. "I never saw talent like that. It was just staring at you." On Sunday afternoons, inside a four-bedroom split-level house in Great Neck, a little boy stood watch by his bedroom window, waiting for the sound of tires on asphalt. As soon as the Cadillac pulled up outside, he came flying down the stairs. He wanted to be the first of his siblings to reach the door when his grandparents arrived. Walter and Madeline Mayer, Steven Cohen's maternal grandparents, lived partly off an investment portfolio of inherited money, and they came to see their grandchildren once or twice a month. They led an alluring life in Manhattan, one

that involved fancy restaurants and Broadway shows. They represented escape and abundance and excitement, and when Steve was growing up, their visits were his favorite moments of the week. They were always talking about money, and Cohen listened carefully to the lessons that emerged, the idea that once you had money, banks would pay interest on it, and that money could be invested and it would grow, requiring little or no work on the part of the investor, who was left to be envied and admired by others. The freedom that his grandparents enjoyed was a sharp contrast to the pinched and pedestrian existence of Cohen's parents. When his father walked in the door after work each night, Cohen grabbed his New York Post so he could study the stock tables like his grandfather. Born in the summer of 1956, Cohen was the third of Jack and Patricia Cohen's eight children. Great Neck was twenty miles from New York City, an affluent suburban enclave of progressive-minded Jewish professionals who expected their children to do well in school and go on to careers as doctors and dentists. F. Scott Fitzgerald settled there in 1922, and the area became partial inspiration for *The Great Gatsby*, which was set in the fictional "West Egg," based on Kings Point, Great Neck's northernmost tip on the Long Island Sound. Many of the fathers of Great Neck lived separate Long Island and Manhattan existences, which involved a lot of drinking and long train commutes and extended hours away from home. There were synagogues and good schools and grand estates. In Great Neck, the Cohens were on the low end of the financial spectrum, which Steve was aware of from an early age. At a time when the Garment District still produced garments, Cohen's father, Jack, took the train every morning to one of his showrooms in Manhattan, where he ran a business called Minerva Fashions, which made twenty-dollar dresses for chains such as Macy's and J. C. Penney. Minerva was always on the verge of going bankrupt, so Jack was rarely home. Cohen's mother, Patricia, was a self-employed piano teacher. She advertised in the local *Pennysaver* for clients, mostly neighborhood children, and taught strictly popular music—"Hello, Dolly!" rather than Beethoven or Brahms. She was a harsh, uncompromising woman who dominated the family, known for a sense of humor that could cut like a blade and for periodically berating her husband: "Jackie, you gotta fuck them before they fuck you!" Money was a constant source of stress in the Cohen household. Cohen's mother and father spoke openly about the inheritance they hoped was imminent from Patsy's parents, which they planned to use to introduce more comfort into their lives. Although he was small, Cohen was a gifted athlete, pitching for the baseball team, playing point guard in basketball. But his parents didn't have the means to help him make the most of his athletic potential—there wasn't much money for private lessons or time to drive him around to games. The junior high soccer coach ran a lakeside summer camp in Maine where several of the neighborhood children went. Cohen attended in 1968 and loved it. Camp was an enchanted world, a great equalizer where all the kids wore the same T-shirts and slept in little pine cabins, everyone on equal footing. There were no parents around fighting about the bills and telling the kids they couldn't do things. After that one summer, however, Steve's parents never sent him back; his classmates believed it was because they couldn't afford the fees. Still, Steve was doted upon. His grandmother marked him as the brightest of the eight siblings and referred to him as the "sharpest pencil in the box," which made him glow with pride. He got good grades without spending a lot of time studying. Cohen's older brother Gary remembers their mother fixing steak for Steve while the rest of the kids got hot dogs. "I used to complain," he recalled, "and my mother said, 'Your brother Steve is going to support us someday.'" In high school, Cohen discovered the one extracurricular activity that ignited true passion in him: poker. "A group of us, we started playing cards at each other's houses, all day, then all night," Cohen remembered. "The stakes started at, like, a quarter, fifty cents. Eventually we got up to five, ten, or twenty bucks a replacement card, and by tenth grade you could win or lose a thousand dollars in a night." All this card-playing helped Cohen learn an important lesson about capitalism. There were relatively difficult ways to make money, like working as a stock boy at Bohack supermarket for \$1.85 an hour, which he did one summer and found to be excruciating. And there were much easier ways to earn a buck, like beating his friends at the poker table, which he found to be quite enjoyable. Cohen would stumble home early in the morning with fistfuls of cash, making sure to return his dad's car keys in time for his father to make his morning commute to work. Watching his father trudge off to work each day, Cohen had one thought: This life is not for me. Cohen was admitted to Wharton, and his parents were overjoyed. They had inherited some money from Jack's parents, freeing them from the burden of student loans, although Steve would still have to work to earn money for books and going out. As soon as he arrived on campus, he noticed that the parking lot was filled with BMWs and Mercedes that belonged to his fellow students. Once again, Cohen was in an environment where most everyone around him came from wealthier families than he did and he was shut out of the most elite social circles. His fraternity house became the center of his life. The culture at Wharton was driven by the worship of money. Cohen's fraternity, Zeta Beta Tau, or ZBT, was the wealthier of the two Jewish fraternities on campus. Its nickname was "Zillions Billions Trillions." Cohen spent most of his nights in ZBT's living room, which was transformed into a gambling den, with a dozen guys around a table. At the center of the table sat Cohen, leading the game, intensely focused amid clouds of smoke and clinking beer bottles. He was part of a core of five or six young men who dominated the table, while a rotating cast of losers filled the extra seats.