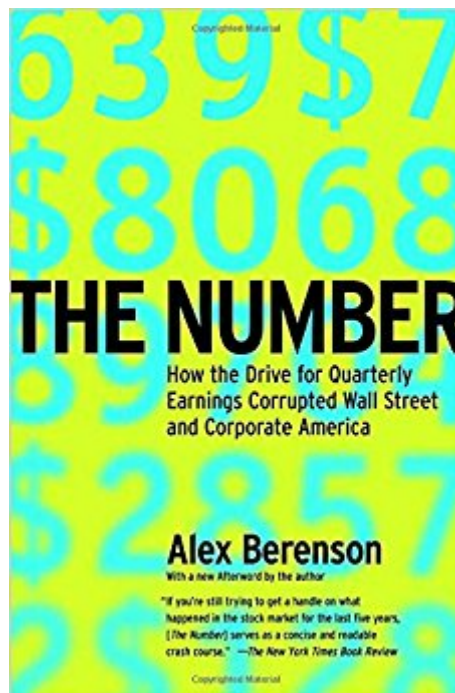




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The Number: How The Drive For Quarterly Earnings Corrupted Wall Street And Corporate America



Synopsis

With a new Afterword by the author and a new Foreword by Mark Cuban In this commanding big-picture analysis of what went wrong in corporate America, Alex Berenson, a top financial investigative reporter for The New York Times, examines the common thread connecting Enron, Worldcom, Halliburton, Computer Associates, Tyco, and other recent corporate scandals: the cult of the number. Every three months, 14,000 publicly traded companies report sales and profits to their shareholders. Nothing is more important in these quarterly announcements than earnings per share, the lodestar that investors use to judge the health of corporate America. Earnings per share is the number for which all other numbers are sacrificed. It is the distilled truth of a company's health. Too bad it's often a lie. Alex Berenson's *The Number* provides a comprehensive, brutally factual overview of how Wall Street and corporate America lost their way during the great bull market that began in 1982. With wit and a broad historical perspective, Berenson puts recent corporate accounting (or accountability) disasters in their proper context. He explains how the wheels came off the wagon, giving readers the information and analysis they need to understand Enron, Tyco, WorldCom, Halliburton, and the rest of the corporate calamities of our times.

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Customer Reviews

(Starred Review) In the wake of Enron's spectacular implosion, the scandals surrounding the collapse of Tyco's stock price and revelations that WorldCom inflated its earnings by \$9 billion, many wonder how independent auditors could have overlooked such huge discrepancies in

financial records. Others ask how the SEC failed to spot corporate fraud and errors of the accounting firms on such a scale when reviewing the annual reports. New York Times reporter Berenson provides eye-opening answers to these and other equally disturbing questions in this hard-hitting and well-documented study. Against a background of the decline in independent investment research and the shift in client base for investment houses from individual investors to corporations, he charts the ascent of earnings per share-"the number"-to measure companies' health. As stock options became a major element in executive compensation and the consulting role of audit firms increased while the SEC neglected to pursue fraud on any major scale, Berenson argues, corporate executives' motives to manipulate "the number" met with a perfect opportunity to defraud unsuspecting investors, and many couldn't resist. His coruscating portrait of the boldness and reach of corporate fraud over the past five years is a clarion cry for reform. But his discussion of the SEC's shortcomings-due to lack of staff and budget in 2001, it could audit only 2,280 of the 14,000 annual reports received and has investigated a mere fraction of all allegations of fraud in corporations-shows the agency, created to protect investors from exactly what's happened, in the direst state of emergency. Copyright 2003 Reed Business Information, Inc. --This text refers to an out of print or unavailable edition of this title.

• Alex Berenson, a whip-smart New York Times business reporter, is [a] wisecracking play-by-play commentator. In *The Number*, he offers a compelling account of how many large-number corporations went astray in the late 1990s. . . . Berenson knows this material cold, and he has a way with a phrase. • "The Washington Post" Berenson's book is about far more than one financial concept or dictionary definition. It is a well-written, informative, fact-filled review of how we got into this mess. More, it's the sort of book those of us who plan to be around the financial-services industry for a long time can take down from our bookshelves years from now, during the next bubble, and say to the younger folks, "Let me tell you something, this has happened before." • "The Mercury News" If you're still trying to get a handle on what happened in the stock market for the last five years, [The Number] serves as a concise and readable crash course. • "The New York Times Book Review"

I wrote this review in late 2007 for a class: Greed. Unparalleled greed. One might assume from the title of his book that Alex Berenson wrote a mathematical treatise. He did not. *The Number* is a study of how independent, rational investors can and do throw their experience to the wind in a desperate money-grab, couched in business suits and financial statements, but unremoved from a

freewheeling gold rush. Berenson writes in a comfortable, easy style refined through editorial experience as an author for [...], a Wall Street financial publication, but he is not measured or sanguine here. In this book, published shortly after the implosive demise of Enron, WorldCom, and hundreds of smaller companies that would not survive the market bust of 2000, Berenson's prose has the cynical, bitter flavor of a man who just cannot believe how far the mighty have fallen. The Number has eleven chapters and crescendos to a peak with a recounting of the end of the bull market of the 1990s. The first four chapters cover the history of the stock market; the crash of 1929, the evolution of investment theory, the rock-and-hard-place alignment of accountants, and the creation of the Securities and Exchange Commission. In part two, Berenson explores 1987's Black Monday, and the conception of a new metric of company performance: earnings per share, the number that entitles this book and that would lead indirectly to financial meltdown in 2000. Short sellers, those that bet that a stock will fall based on flaws in public filings, make an appearance in the later chapters. It's charitable that Berenson gives them the limelight here, because they would be ignored completely from 1995 to 2000. The Number pauses in chapter ten for a breath of air as Alan Greenspan, chairman of the Federal Reserve, ponders how to respond to the failure of the enormous hedge fund Long Term Capital in 1998. The markets were overvalued, but had yet to reach the unrestrained delirium that would envelop them a year later. Should he lower the short-term lending rates to promote investing, or let the market find its own way? Greenspan chose the former, a move that Berenson likens to pouring vodka in the communal punchbowl. The rest of the chapter is a whirlwind, a eulogy to the insane. And then he comes to the aftermath, a survey of the damage wrought. Berenson talks of Enron, Sarbanes-Oxley, and the slow struggle for reform in the SEC. The last chapter is downcast. There is no catharsis. In 2003 at the time of writing, the Bush administration was already trying to reverse the regulations called for by the public just a year prior. The market had rallied as investors turned their attention to the looming specter of the Iraq War. Now in 2007, just five years after two of the largest bankruptcies in corporate history, after accounting fraud on a scale so enormous that it boggles the imagination, the Dow hovers at 13,500, a gain of twenty percent over the peak in April 2000. What have we learned? Apparently, nothing at all. As Berenson concludes, "The buyers remain as blissfully unaware as ever." Berenson's thesis is that investors rely to excess on earnings per share figures. Companies should operate with an eye toward the future, but having stock prices and corporate options tied to quarterly earnings provides a tremendous incentive to cook the books. This seems so obvious in hindsight that Berenson has no trouble deftly illustrating his case. He draws from his own experience with [...], public records of other papers, interviews with prominent members of the financial community, and a vast working

knowledge of the history of Wall Street. And he is right, of course, but solutions are slow in coming. The last few pages implore the reader to be skeptical, to keep the market in context; in short, to keep one's head in an atmosphere that smells overwhelmingly of dollar stock. That's all Berenson can offer. The book makes a strong case that the SEC should have more funding and that accountants should be held to higher standards, but he explicitly rejects discarding earnings per share. We need the number, Berenson says. We just don't need so much of it. When he isn't lamenting the obsession with quarterly earnings, Berenson gives a withering indictment of the would-be fiduciaries of the financial community and their contribution to the bull market of the 1990s. The accountants lost their independence and with it their dignity, bedding the corporate executives that provided their fees. The SEC, perennially underfunded and led by men unwilling or unable to stand against the combined interests of their wards, was less a shotgun behind a door than a slingshot with a fractured band. Stock options corrupted company leadership and led to an incestuous relationship with analysts, with financial fraud as the inevitable result. With a market predicated on lies, a collapse was inevitable. Of the investors themselves, Berenson's tone is moderate. He does not chastise, but their behavior seems to baffle him at times. Why, when they discovered that America Online had lied about their profits, did investors continue to drive up AOL stock? A seminal book on trading theory is *A Random Walk Down Wall Street*, by Princeton economist Burt Mikhael. He proposes that stock prices vary at random in the short term, and that investors would do best to put their money in index funds because it isn't possible to consistently beat the market average. *A Random Walk* and *The Number* both explore the efficient market hypothesis, wherein the prices of stocks are assumed to reflect all available information. A market that follows the stronger forms of EMH is difficult or impossible to beat, because historical information, private information, and analysis are reflected instantly in share prices. There is an unstated presumption underlying EMH of a rational entity, of investing decisions that have a logical framework when viewed through the impartial lens of hindsight. After reading *The Number*, I concluded that the market is efficient in the way that EMH supposes. New, public information does impact share prices immediately. The problem is that it does not do so rationally. The investors, as a group, do not act rationally. Group psychology disproportionately magnifies the market response to small changes, like a trailer swinging behind a truck. Why did the market crumble in 2000? Berenson suggests, "As in 1929, no single profit report or piece of economic data caused the sell-off; investors simply decided en masse they could no longer justify owning stocks that traded at two hundred or three hundred or five hundred times earnings, or had no earnings at all and no prospect of making any." That's his entire explanation. After five years of euphoria on a heroin high,

the market became suddenly sane. That Berenson does not explore this psychology is perhaps the only unsatisfying facet of *The Number*. If there's a lesson here, it's that greed is the universal language, and people never, ever, change. There is nothing more galvanizing to the will of an investor than the notion that his neighbor is making money and he is not. This book is a case study of the disastrous consequences of unrestrained capitalism. In such an environment, only the firm hand of the Federal Reserve and the threat of the SEC can hold the corporate machine in line, and prevent investors from losing their confidence, their shirts, and their minds.

I bought this after reading Mark Cuban espousing it on his blog. I thought, given the subject matter, that it would be quite a dry book but Alex Berenson does an excellent job of making this an incredibly easy read while touching on a number of complex issues re: the US stock market, accounting industry, SEC, etc. Alex gives a great overview of corporate governance in the US, the evolution of the SEC, AICPA and FSAB, their marginalization at the behest of the US govt, and the role of all these parties in the run up to the Enron/Tyco/Worldcom fraud cases. As a Brit now living in the US, *The Number* brought to light a series of issues and scandals that I was previously unaware of, and am still somewhat shocked by. The ineffectiveness of the bodies created to monitor and set accounting standards is quite staggering, as are the blatant conflicts of interest when the big accounting firms moved aggressively into management and technology consulting. The most damning part of the book is the conclusion Alex reaches; that there is no champion within the world of US corporate governance, or indeed within the government itself, who is looking out for the individual consumer/investor. A sad state of affairs. Good read, well worth buying. Total read time: approximately 7-8 hours.

Numbers has been an interesting look at how the stock market works and how so many white collar criminals took advantage of making up fake reports that fooled a lot of people. A lot of people lost their life saving because of questionable accounting practices. Not just questionable but criminal accounting 101.

The Number is an excellent history of the stock market and what drove it up to about 2007. I recommend this book to any investor. It gives keen insights into what makes the market move. Those insights are as true today as when it was written. But, the writing style is a bit weak, almost high schoolish. This isn't because the writer is targeting a less intelligent reader / investor, but because he cannot write well. I think this is because of the writer's background as a magazine

article writer rather than a book writer. Again, though, this is a must read for any investor.

This book was a required as part of one of my masters degree courses, but I ordered it a few weeks before class started to get the book read. It was a very worthwhile read that depicted on a historical basis the formation of markets and the efficiency (or lack there of). I thought I understood stock before I read this book and overall market performance. I am happy to report that I have a much better understanding and would highly recommend this book. Good read.

I read this book for my graduate business financial accounting class but I would read it all over again just for fun. It's extremely informative on the stock market. I learned so much after reading it. I would recommend to anyone interested in stocks.

This is a the story of wall street. There's no trading strategies or anything like that, but it's pretty good. I read it cover to cover

A must read for anyone investing in the NY stock exchange (and most of us do, one way or another).The book explains step-by-step how we are being cheated by people who are inside the system.Part of the answer to the inevitable question: "What should I do?" is given by the excellent introduction by Mark Cuban.Read it!

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