Wall Street's Fatal Flaw: Confusing "Disruptors" with "Corruptors"

By Pam Martens
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Sanford (Sandy) Weill, the Man Who Put the Serially Charged Citigroup Behemoth Together

In the late 1990s, Salomon Smith Barney's telecom analyst, Jack Grubman, was viewed by his powerful firm as a "disruptor." He was throwing out the old rules on how a telecom analyst should interact with a company on which he was delivering research to the public and creating a new, innovative model. Instead of following the old rules and remaining pristinely independent and objective, Grubman was sitting in on board meetings at WorldCom, giving investment advice to its executives, while simultaneously issuing laudatory research to induce the investing public to buy the stock.

When BusinessWeek questioned Grubman on this new analyst model on May 14, 2000, here's how the disruptor explained his redesign of his job:

> "What used to be a conflict is now a synergy...Someone like me who is banking-intensive would have been looked at disdainfully by the buy side 15 years ago. Now they know that I'm in the flow of what's going on. That helps me help them think about the industry...Objective? The other word for it is uninformed."

Grubman was seen by himself and his firm as a disruptor *not* because his model made any sense, but because it was bringing in hundreds of millions of dollars in deals for Salomon Smith Barney. Grubman, in turn, got his piece of the action. According to the SEC, between 1999 and 2002, Grubman's compensation exceeded $67.5 million. Grubman was, in fact, a corruptor not a disruptor. Many of the companies he recommended went bust. The SEC barred him from the industry for life and fined him $15 million for issuing fraudulent research.

Around the same time that Grubman was corrupting research practices on Wall Street, his big boss, Sandy Weill, was peddling the idea to the media, Congress and regulators that he was a genius disruptor as well. He wanted to tear down the old regulatory walls separating FDIC-insured banks from their gambling-casino cousins, the Wall Street investment banks, and create a financial supermarket called Citigroup. Behind the scenes, however, it was really just about money – money for Sandy Weill.

According to a Bill Moyers interview on PBS with John Reed, the former CEO of Citibank – the insured-depository bank that Weill had selected as a merger partner – Weill had explained the outcome of the merger thusly: "John, we could be so rich."

Disruptors are apparently an easy sell – even when saner voices from the public are screaming "corruptor." On April 8, 1998, the following appeared on the Times editorial page:

> "Congress dithers, so John Reed of Citicorp and Sanford Weill of Travelers Group grandly propose to modernize financial markets on their own. They have announced a $70 billion merger — the biggest in history — that would create the largest financial services company in the world, worth more than $140 billion… In one stroke, Mr. Reed and Mr. Weill will have temporarily demolished the increasingly unnecessary walls built during the Depression to separate commercial banks from investment banks and insurance companies."

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