

**Reporting v. PR: Meredith Whitney and AIG**By [Janet Tavakoli](#), President of Tavakoli Structured Finance, Inc.

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Much of the financial media blows in the wind of PR machines. AIG, Washington, Congress, various former investment banks, banks and others worked overtime to spin financial information over the past several years forcing competent reporters to engage in time intensive research on complex financial products. Other times, the press simply misinterprets the facts.

Last week, Charlie Rose billed Meredith Whitney on his show as the woman who gave early warning about AIG. I found that surprising given that as far as I know, she did not. The *L.A. Times'* review of *House of Cards*, a book about Bear Stearns, says author William Cohen gave Whitney credit for warning for some years that trading in credit derivatives and mortgage backed securities set us up for a credit implosion. This is not her expertise, but it is mine, and to the best of my knowledge she did not. Ironically, [Whitney rated Bear Stearns perform](#) and only downgraded it to *underperform* on March 14, 2008 as it tumbled 53% in one day. [Whitney rated Lehman outperform](#) in March 2008, while beleaguered Bear Stearns merged with JPMorgan Chase. She downgraded Lehman to *perform* towards the end of March 2008, and Lehman went under the following September.

Few specifically and publicly warned of the global financial meltdown in advance—when something could have been done about it—as far as I know, Whitney was not in that number. Warren Buffett, Jeremy Grantham, Jim Rogers, and I (among others) were. My early warnings of credit derivatives, structured products, and structured vehicles are well documented in articles and books over many years (see Bibliography). In August 2007, I spoke up about AIG to Warren Buffett, Jamie Dimon, and the *Wall Street Journal*.

Meredith Whitney seems best known for her analysis of Citigroup at the end of October 2007. Jim Rogers appeared with Whitney earlier in the year on *Cavuto on Business* and stated he was *short* Citigroup (he shorted C in late 2006/early 2007), and he said Citigroup was going to \$5. [Whitney rated Citi sector perform](#) from October 3, 2005 until October 31, 2007. The stock lost 7.9% versus a 7.5% gain for the Philadelphia Stock Exchange/KBW Bank Index during this period (David Gaffen, *WSJ*, Nov 1, 2007). The following table summarizes the timeline to the best of my knowledge:

Time Period	Citigroup Price Action	Analysis
January 3, 2007 - October 31, 2007	\$55.66 on 1/3/07. Steadily drops to \$42.25 by Oct 31, 2007	Jim Rogers is <i>short</i> ; says C will fall to \$5 on <i>Cavuto</i> . Meredith Whitney rates Citigroup <i>sector perform</i> . Her outlook differs from Rogers' on <i>Cavuto on Business</i> .
October 31, 2007	\$42.25 (Below \$30 by Dec 27, 2007 and still falling.)	Jim Rogers is still <i>short</i> . By now, prominent analysts: Richard Bove, Charles Peabody, and Michael Mayo have already said <i>sell</i> . Whitney rates it <i>sector underperform</i> and says it could trade in the low \$30s. She states Citi must cut dividend. Structured products had already ground to a halt (too late to warn).
Oct 31, 2007 - March 19, 2009	Stock drops steadily. Hits \$5 in January 2009; \$3.61 on March 19, 2009	Whitney becomes more negative on Citigroup. Jim Rogers takes his profit.

At the end of October 2007, Whitney said Citigroup needed to cut its dividend. It was a refreshing contrast to some of her competitors. She rated the dropping stock *sector underperform*, but said it “could trade in the low \$30s.” (“[Analyst Raises Doubts About Citigroup Dividend](#),” *NYTimes* November 1, 2007). To my mind, Whitney’s was not an early call; the stock had been dropping steadily throughout the year. Jim Rogers had been *short* the stock for almost a year. Citigroup had already reported a \$6.5 billion writedown for the third quarter of 2007. Whitney was ahead of many analysts who missed Citigroup’s problems, but at least [three prominent competing analysts](#) had previously told their investors to *sell*.

When it comes to press coverage of our major financial institutions, the stakes are higher and the issues are not innocuous.

When I challenged AIG’s second quarter 2007 financial reporting (“[In Subprime, AIG Sees Small Risk: Others See More](#),” David Reilly, *Wall Street Journal*, 13 August 2007.), it was based on my analysis of a \$19.2 billion super senior credit default swap position. With respect to potential principal loss or a mark-to-market loss, AIG had problems (even if AIG positioned some of its other contracts as “insurance” it still had to post collateral).

This was after the implosion of Bear Stearns Asset Managements’ two doomed hedge funds brought about by investment banks challenging the pricing of their “highly rated” assets and making collateral calls. [I publicly opposed Bear Stearns Asset Management’s proposed Everquest IPO and cited a dodgy Citigroup CDO therein, among other issues, in May 2007. This was one of the triggers of the price inquiries. (*Dear Mr. Buffett*, P. 131)]

Yet AIG’s PR spin was so effective, that the financial press backed off for the time being. AIG spins its PR like a top. It realizes what an effective strategy this is in deflecting financial reporters from the truth.

AIG asserted that it could not imagine any scenario under which its positions would have losses. Despite evidence to the contrary, AIG claims the unimaginative employees in its AIG Financial Products unit are the “best and brightest.” In early 2008 it entered into retention bonus contracts for these employees, yet there were many structured products professionals in New York looking for work.

How the employees of AIG Financial Products came to be so exalted above other finance professionals, and distinguished like some new species, is worth inquiring into.

Looking back on true early warnings and how they were dismissed and discredited helps us understand the issues now threatening the global economy and the failings in our system. It is important to identify who provided thoughtful analysis when it mattered most, because that can be helpful as we work on solutions.

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**And More.**

See also partial list of main stream media articles and videos from main stream media reportage in which Janet Tavakoli was quoted on specific topics ([www.tavakolistructuredfinance.com](http://www.tavakolistructuredfinance.com)).

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