

MONEY STUFF

Politics, Polls, Art and Bribery



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By [Matt Levine](#)

The 18th Brumaire of Donald Trump.

Is it really possible that today is the 18th of Brumaire in the French Republican calendar? ([Apparently yes!](#)) That's a little on the nose. The date gives its name to Napoleon's [coup of 18 Brumaire](#), in which he seized power and ended the French Revolution. It also gives its name to Marx's essay "[The Eighteenth Brumaire of Louis Napoleon](#)," which famously opens: "Hegel remarks somewhere that all great world-historic facts and personages appear, so to speak, twice. He forgot to add: the first time as tragedy, the second time as farce." Hegel of course [usually worked in threes](#), and if tragedy is the thesis and farce the antithesis, then surely the synthesis is Trump, who is at every point a perfect superposition of tragedy and farce. Anyway! It will all be over soon, maybe.

What does it mean for your portfolio? Search me. Here's a guy named Chris who [sold everything in a panic](#), which, honestly, I am fine with? That isn't investment advice or anything, it's just, I get where he's coming from. He's now all in Treasury Inflation-Protected Securities, but remember, Trump sometimes talks about [defaulting on Treasuries](#), so even TIPS might not be safe enough. If I had sold all my stocks yesterday, I would have wanted to put the money in a better hedge, like [rural land in New Zealand](#), or a time machine. Here is [Josh Brown criticizing](#) Chris's efforts to time the market, predicting that they will doom him to a long life of 2 percent annual returns. But if I know Chris -- and I don't, but I feel like I do -- that is the least of his worries today.

One thing that fascinates me about this election is the idea that there are private polls that have the "real" answer, and that the public polls that we all obsess over and

that feed into the [FiveThirtyEight model](#) are basically just a distraction for rubes. You see this sometimes in articles about the candidates themselves, who conduct their own private polls. (Or at least they did until Trump [stopped paying his pollster](#).) But really anyone can get a private poll, [if they just pay enough](#):

Unwilling to rely on public polls conducted mostly by the media and universities, these hedge funds and other large investors are paying for their own poll data and analysis. And they're paying a lot more than any news outlet or school would pay for more precise data that isn't always publicly available – potentially in the millions of dollars.

The point is to get a higher-quality, more accurate read on possible outcomes than a cash-strapped newspaper might be able to, or to ask specific questions that public pollsters may not be thinking of, says Scott Tranter, cofounder of [Optimus](#), a DC-based data firm.

Some recurring themes here in Money Stuff are that professional investors have systematic informational and technological advantages over the general public, that popular outrage at these advantages is often under-analyzed and misguided, and that efforts to regulate those advantages are more complicated than they first appear. So, you know, fine. Still doesn't this seem weird? There are like a million media polls. Why not join forces and do fewer but better polls? Or is the aggregation of all the public polls itself a better estimation method than the fewer but more rigorous private polls? Or am I just jealous that some hedge-fund managers know who'll win and I don't? If you know who'll win the election because you have super-accurate private polls, could you just e-mail and let me know?

Meanwhile, the rest of us will have to rely on the predictions of [this goat](#).

Elsewhere! Here's [Scott Alexander](#), who previously wrote perhaps the [most disturbing post](#) I've read about the election. Here's Cardiff Garcia with an [election reading list](#). Here's [Michael Brendan Dougherty](#): "This election is God's judgment on us." Here's [Ezra Klein](#): "Donald Trump's success reveals a frightening weakness in American democracy." Here's [Howard Marks](#): "But as I look forward, I see the need for constructive, bipartisan governmental action. Is that wishful thinking?" Heh. And here's [Donald Trump in 2014](#): "I wonder if I run for PRESIDENT, will the haters

and losers vote for me knowing that I will MAKE AMERICA GREAT AGAIN? I say they will!"

Nothing else is happening.

I mean, come on.

Art.

We have [talked a few times](#) about Sarah Meyohas, the artist who placed trades in penny stocks, caused the prices to move, painted the price charts on canvas, and then sold the paintings to art collectors. It is definitely my favorite form of penny stock manipulation, though I cannot guarantee you that *even my favorite form of penny stock manipulation* is legal. Here's a [short video about Meyohas](#) by Harry Golden. I appear in the video talking about her work, which I love but can't afford. (I invest instead in knockoffs, just printing out Bloomberg charts of her trades to hang on my walls.)

One thing that I meant to say in the video is that you can think of a simple model of the art world in which artists are expected to be rebels who reject the usual trappings of modern bourgeois society and turn their backs on conventional capitalist success to produce deeply felt original works of personal expression. Then they sell those works to hedge-fund managers for large sums of money that they use to buy Soho lofts and houses in the Hamptons. In a sense, their most important artistic work is the aura of authenticity that they create, so that the hedge-fund managers can feel that they are getting something of spiritual value in exchange for their money. (No one really wants to buy art from a corporate capitalist, though Damien Hirst keeps [selling those dots](#).) And the artist's authenticity cannot be fully self-created; it comes not just from her work and lifestyle but also from the belief of her collectors. What she offers them is not just something pretty to hang on their walls, but also this sense of participating in a kind of artistic creation themselves, the creation of the artist as a repository of authenticity. The collectors get their money from commerce, and they use it to buy the artist's commercial production, but the artist and the collectors collaborate in a ritual intended to efface the commercial nature of their transaction and make it something spiritual.

What I like about Sarah Meyohas is that she just short-circuits that process. She's a Wharton graduate who paints stock-price charts and sells them to hedge-fund managers. It is commerce all the way through. It turns out that the performative rejection of capitalism is not essential to artistic authenticity. You can just trade stocks instead.

Herbalife videos!

Elsewhere in film, the [Bill Ackman Herbalife movie](#), "Betting on Zero," got a distribution deal and "will reach theaters early next year"? Okay? Look the Herbalife saga is pretty interesting for a short activist campaign, but how many other movies about short activist campaigns have you watched on the big screen? I guess there is "The Big Short," which has the shorting right in the name. And maybe "Goldfinger" a little. Okay fine whatever, "Betting on Zero" will probably be a massive hit, and the next decade will be filled with sequels and prequels and reboots and crossovers with the Marvel universe. "[Betting on Zero 2: Betting on Modest Regulatory Fines and Structural Changes That May Slowly Cripple Herbalife's Growth](#)." "Bill Ackman: The Silver Knight Rises." "Captain America: Diet Shake War." I don't really understand movies.

Elsewhere, John Oliver [devoted half an hour](#) to multilevel marketing companies this weekend, and it was pretty effective! The highlight comes about five minutes in with video of an MLM guy screaming at a gravestone, and while I have to say I do not understand how that would appeal to anyone, the main theme of today's Money Stuff is really that I don't understand how many things that appeal to millions of people would appeal to anyone. The problem might be with me.

Och-Ziff in Africa.

This Institutional Investor article about "[Dan Och's African Nightmare](#)" -- referring to Och-Ziff Capital Management Group LLC's dealings in various African countries, which led to [\\$413 million in settlements](#) with U.S. regulators for bribery charges -- is really something else. I usually think of bribery as being on a continuum with regular means of winning business. Och-Ziff decided about a decade ago to move more into private-equity-type deals, and "to strike partnerships around the globe" to do it. If you are going to do private investing around the globe, you will need local partners

who have the right connections. This is true in the U.S. -- if you want to buy a private company, it helps to hire a banker who has a good relationship with the company's chief executive officer, and a lawyer who has a good relationship with the antitrust regulators -- and it's true everywhere else. But notions of business propriety aren't the same everywhere, and while in the U.S. politeness might demand that you take a potential client out to a fancy dinner, elsewhere it might demand that you hand a government official a suitcase full of cash. If you do that you are breaking the law in the U.S. (and probably in the foreign country), but I can understand how it happens.

But hoo boy is this not that! This is like, Alpha Condé was elected president of Guinea, a somewhat surprising outcome, and did some favorable deals with other foreign investors, including one that was a joint venture among Och-Ziff and entities owned by South African businessmen Olaf Walter Hennig and Tokyo Sexwale. ("There were a group of investors and a group of bankers that have been known to get almost everything of value in Africa," says a former Guinea government official.) "Witness statement submitted as part of the arbitration testimony allege that Condé rigged the election with the help of Hennig, Mébiame, Sexwale and others." Who knows? "None of the evidence reviewed by *II* suggests that Och-Ziff was involved in the 2010 Guinea election." There are also allegations that Och-Ziff was a very indirect investor in a Zimbabwean company that may have helped fund "a state-sponsored campaign of violence in which as many as 200 people were killed, 5,000 more were beaten and tortured, and 36,000 were displaced" as part of Robert Mugabe's re-election efforts, though there were no accusations of wrongdoing against Och-Ziff there.

It is all much more *active* than I usually expect from bribery investigations. This does not seem to be a story of investors going into a foreign country, hiring a local fixer, and regretfully acceding to the local custom of greasing a few palms in order to get necessary governmental approvals for valuable investments. If you believe all the allegations, this is more about investors *deciding who should run the country*, making that happen, and then expecting their reward.

Broker networks.

Here's a [fun paper](#) by Marco Di Maggio, Francesco Franzoni, Amir Kermani and Carlo Sommovilla finding that investors who trade stocks through well-connected

brokers do better than those who trade through less central brokers. Why? Maybe something like this:

We can imagine an informed trader submitting an order through a broker, who can infer the informational content of the trade and spreads it to other clients. The incentive for the broker is to build a reputation as a valuable source of information and attract more business. One may think that the informed clients would not like their information to be spread to other investors. However, if the informed investors have capacity constraints, they may actually solicit other investors to trade in the same direction, so that prices reach the new equilibrium faster

A big hedge fund buys a lot of XYZ, the broker gives market color to her other clients that there's a lot of activity in XYZ, and the other clients interpret that market color correctly and "back-run" the big hedge fund by buying more XYZ. That's good for the big hedge fund, since after all it owns XYZ and wants the price to go up. (It would be less good if the other clients *front-ran* the big hedge fund, buying *before* it built its entire position, and I suppose with a large position built up over time there is always the risk of sort of ... mid-running?) "The best clients of the broker executing the informed trade, and the asset managers affiliated with the broker, are among the first to benefit from the information about order flow."

Again, the theme is informational advantages. Let's say that this paper is right and that the mechanism I just laid out is the correct explanation: Brokers share information about one client's trades with other clients, who then profit by copying those trades. Is that ... bad? Is it bad because the first client's information is used improperly? (Because the "back-running" bleeds into "front-running," or because the other clients are able to guess its positions, or whatever?) Is it bad because the other clients now have an edge over retail investors who don't get market color updates from well-connected brokers? Or is it just, like, a market is a mechanism for diffusing information, and prices do some of that work, but brokers do some of it as well?

People are worried about unicorns.

If you were a bank, and Uber wanted to sell stock to your private-wealth clients in a private offering without giving them financial statements, would you do it? There is a

sense in which this is, or seems like, a legal, or legal-ish, question. Certainly, if you think that disclosure of financial statements is required by law or good practice as part of even a private stock offering, then you will refuse to do the deal. But that's not what Bank of America Corp. and Morgan Stanley thought when they [did that deal](#) earlier this year, and presumably they have lawyers. But Bloomberg's Julie Verhage and Alex Barinka reported yesterday that JPMorgan Chase & Co. and Deutsche Bank AG both [turned down the deal](#), apparently not out of legal or reputational concerns, but because they were "concerned they wouldn't be able to fill demand for the offering given the lack of specifics." It is never entirely a great look to tell a client that you don't think you can sell a deal, if the client then goes to another bank that sells it with no problem. Morgan Stanley and Bank of America weren't put off by the lack of specifics! They were up for a bit of a challenge.

I guess there is another interpretation here where, look, if a private company with a \$62.5 billion valuation comes to you asking to sell stock to your private-wealth clients without giving them financial statements, *maybe that's the top* -- and maybe you don't want to stick your clients with it. I mean, what do I know; I assume Uber will eventually go public at like a \$200 billion valuation. But it does seem like you'd sell stock to retail investors without financial statements once you ran out of, you know, informed sophisticated investors to sell to.

People are worried about bond market liquidity.

Imagine being worried about bond market liquidity today. And yet I'm sure some people are. Here's Dan Jones yesterday with "[Real test for bond market liquidity is still to come.](#)" Actually that would be a good title for this recurring section. People keep worrying, but the real test is constantly in the future. Elsewhere: "Computer-Driven Hedge Funds Wrong-Footed on [Bond Bets.](#)"

Things happen.

European banks brace as they prepare to [disclose US accounts](#). [Libor Alternatives Have Their Own Issues](#). Pimco's Strategy for Life After Gross: Go Beyond '[Bonds and Burgers.](#)' European [Safe Bonds](#). Bondholders to [Mozambique](#): Go Fish. Mozambicans feel the pinch as '[tuna bond](#)' debt crisis deepens. Steve Ballmer is working on a "[10-K for the government.](#)" SEC Investigating Banks Over Possible

[Mishandling of ADRs](#). Environmentalists Backing Standing Rock Protesters [Target Bankers](#) Behind Pipeline. White-collar sentencing is [pretty random](#). British banker Rurik Jutting [found guilty](#) of Hong Kong murders. [Fast payments](#) – Enhancing the speed and availability of retail payments. Don't call your company [Tronc](#) (or tronc). Law-firm [fight](#). Why Oklahoma Can't [Turn Off Its Earthquakes](#). LinkedIn for [high-school students](#). Geese relief [dogs](#). The CIA refuses to release Osama Bin Laden's [pornography](#). Meat [cappuccino](#). Have a [Martini](#).

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