Congress and a 16-year study of ‘insider trading’

6:07 pm November 16, 2011, by jgalloway

Whether you are Republican or Democrat, an occupier or a tea partyist, the report last Sunday by CBS’ “60 Minutes” on insider trading by members of Congress should have steam whistling from your ears.

But there’s more to tell. And the news will not make you any happier.

The most egregious example cited by CBS was U.S. Rep. Spencer Bachus of Alabama, who three years ago was the ranking Republican on the House banking committee, and is now its chairman.

In September 2008, Bachus and other congressional leaders were privately briefed by Treasury Secretary Hank Paulson and Federal Reserve Chairman Ben Bernanke on the economy’s imminent meltdown.

The next day, Bachus was buying option funds that would increase in value if the economy tanked. It did. While your 401(k) and all thoughts of retirement melted into a never-ending job at Wal-Mart, the House chairman made a tidy profit on his country’s misfortunes.

And he didn’t do anything illegal.

Financial investments by House Speaker John Boehner and former speaker Nancy Pelosi also earned mentions. And yet, there is the temptation to write such incidents off as exceptions that prove the rule of good behavior.

But in fact, the insider trading problem in Congress is systemic and longstanding. Though it received no mention, the foundation of the “60 Minutes” report was 16 years of analysis by an academic quartet led by Alan Ziobrowski, a professor of real estate finance at Georgia State University.

His wife, Augusta State University professor Brigitte Ziobrowski, James Boyd of Lindenwood University and Ping Cheng of Florida Atlantic University served as fellow researchers – as did an army of grad students.

“For years, we went through financial disclosure forms and we digitized their stock transactions. And then we ran a series of tests to see how [members of Congress] compared to the market,” Alan Ziobrowski said this week.

“The bottom line was that they considerably beat the market. In academic finance, we consider that to be prima facie evidence of insider trading,” he said. “They were even better than corporate insiders at it.” Senators were the best and even outperformed hedge fund managers.

Technically, Ziobrowski said, what members of Congress (and their staffers, one presumes) are engaged in isn’t insider trading. That’s a term reserved for executives within a particular corporation.

“What we claim they have is an informational advantage,” he said. “These guys have information that’s outside the corporation. Probably, companies would love to know what they know.”

Little things like regulations that can be added or subtracted, defense spending that might be cut or increased. That sort of thing.

The Ziobrowski crew has eschewed anything that might smack of partisanship – which explains its absence from the “60 Minutes” report.

A first study, covering investments of U.S. senators from 1993 to 1998, was published in 2004. A second, larger study took the measure of 16,000 stock transactions by U.S. House members from 1985 to 2001. It was just published this spring in an academic journal, with this priceless
Partisan differences in investment returns were minimal. Senators beat the market by 12 percent per year, House members by 6 percent – a difference that could be explained by the fact that the Senate is a smaller club, where access to fruitful information is more concentrated.

In the House, younger members made greater gains in the market than senior members. Possibly because younger members are less financially secure and more likely to take financial risks.

A large part of me wants to believe that members of Congress are simply brighter than the rest of us, perhaps more aware of societal and financial trends. It is a sliver of hope that Ziobrowski politely demolishes.

"From my perspective, it’s fairly simple. If I’m sitting on a pile of $50,000 worth of stock of XYZ Company, and I find out that something’s coming down the pike that’s not going to be good for XYZ, how could you resist the temptation to unload it?" he asked.

Democrats and Republicans have introduced legislation this week to prohibit members of Congress and their staffs from using nonpublic information for investing or personal gain. Investment transactions would have to be reported within 90 days.

Ziobrowski said the legislation would be better than nothing. "The problem is the system is rigged. The whole notion that, somehow, financial disclosure solves all the ethical issues is really quite a joke. Financial disclosures are not audited. There’s nobody to check them to see if they’re accurate. Even if they are accurate, the public doesn’t see them for a year, year-and-a-half after the transactions have been made," he said.

Corporate insiders are required to report their stock transactions immediately. Ziobrowski would like to see Congress adopt that rule. Though there’s no chance that it will.

But the House-Senate "super committee" in charge of formulating a deficit reduction deal has a deadline coming up next week. The impact on your economic fortune and mine may hang in the balance.

It sure would be nice to know if any members of Congress are saying the right things in public – and betting against us in private.

- By Jim Galloway, Political Insider

For instant updates, follow me on Twitter, or connect with me on Facebook.
and other common criminals is that they get to make the rules.

I am sure TD can defend this. I am waiting.

The only way to remedy our broken system is to infuse honest people into all levels of government. This would be along the same lines as a bone marrow transplant. The current atmosphere of unaccountability, as widely demonstrated in Georgia, has been a magnet for society’s most unsavory characters – true sociopaths, people who are completely devoid of any scruples.

But first, it will require an exorcism of our brainwashed electorate, who are blind to the reality.

Term limits would help in this and many other situations. The longer they stay the deeper they dig their hands into the cookie jar. I would love to see this study add in the factor with the amount of years in Congress and how much they make as well. They gain seniority which leads to more power and more influence and more connections. Cut that time served and these relationships and the 'perks' that go with them begin to fade.

@Red: I think you’re absolutely right. It’s 12 years and out! You can mix and match between the House and Senate, but 12 and out is the key!

And, no lucrative retirement package or insurance or any perks. A citizen legislature, not career politicians!

@ old timer
It goes beyond retirement packages and insurance perks. Sonny had the state tax laws rewritten for a personal tax break, that only HE took. Remember Oakey Woods? The Florida real estate deal?

Looks like there’s a scoundrel under every dang rock in politics.

@ old timer
Look at what our newly elected crook(Graves), who replaced the crook who had to flee Washington(Deal), and his cohort, Rogers, just got away with. Read the details of the Gordon County motel deal and ask yourself, why aren’t they in jail?

To the partisans here who somehow see this as a Republican problem – read more carefully without your partisan filter. I'll quote the part above you obviously skipped over: "Partisan differences in investment returns were minimal."

There's nothing here to see, move along.
Every ten years they do a series on how congress abuses the system and nothing changes. Look at the republican candidates especially Newt and Perry. Perry has millions and has only been in public service. Newt was in academics but obviously switched because he knew where the money was. I’m not saying this isn’t a bipartisan problem but am simply pointing out the candidates running for president.

The state of GA is the same. Where did Deal get his money? Cagle goes on $5000 golf junkets. Once again I will say this is a bipartisan problem but we need to clean up our own state first.

Just watch Nathan Deal. Everyone knows the financial condition he was in when he took office. Just sit back and watch…

To Centrist: Since all the powers to be in georgia are all republicans and some crooked deal goes down, how can you be non partisan?

"To the partisans here who somehow see this as a Republican problem – read more carefully without your partisan filter."

Congratulations on your biggest whine ever Centrist. Both parties are full of crooks, no surprise at all.

Don’t forget the “I can never pay it back” no collateral loan Tea Party favorite Tom Graves got. Half the Georgia political crooks used to be Democrats but switched parties so they could stay on the government gravy train.

Oh i get it, democrat crooks are better than republican crooks..........some of you are so full of it! What does it matter they are crooks!

No one is seeing this as partisan.Regardless of party,they are all from same cloth as stated above.Another credit down grade another down market,more worthless $.More unemploymentWeak economy.recession.It’s as if we are purposely destroying our country,and taking the uninitiated peoples wealth.

The real fools are the people who vote for these crooks. It is painful to watch someone like Graves being sent off to Washington, to not only represent the ignorant people that voted for him, but also the sane people that didn’t. It’s like being forced to send money to a televangelist…

Biomass energy as a source of sustainable use of green energy is being more and more attention, which resulting development and use of biomass energy equipment will trigger a new revolution in the 21st century.
Biomass energy has a widely source, low cost and no pollution, at this stage to straw, manure-based. In fact, China already has a number of biomass energy equipment in use, for example, *Wood Chipper*, *Drier* and *Screener / Sifter*.

As people’s awareness to enhance the protection of the environment, I believe that the old energy equipment will be gradually replaced.

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**Pellet Mill**  
November 16th, 2011  
9:12 pm

Because the *mixers* is mixing the usual role of the various types of dry mortar, it is commonly known as the mixer. Mixer into a good variety, have forced mixer, a single horizontal shaft mixer, twin-shaft mixer, etc. when use mixers for dispersion and dissolution ofen need help by *Assistant Device*. Now the fuel of mixer has been widely use of biomass fuels, the most common is *Pellet Fuel*.

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**td**  
November 16th, 2011  
9:13 pm

**Shine**  
November 16th, 2011  
6:44 pm

I am sure TD can defend this. I am waiting.

Sorry to bust your bubble. I have said for a long time that Congress should not be exempt from any law that they create. I have also said that Congressmen should be barred from working for lobbyist for at least 10 years after they leave the Congress. After reading this article I now believe that they should be required to put all their assets in a blind trust.

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**td**  
November 16th, 2011  
9:18 pm

**hiram bronson granbury**  
November 16th, 2011  
6:54 pm

The Republicans are attempting to put none establishment people in office (Tea Party). What have the Dems done? When is the last time you have heard of a Dem being defeated in a primary challenge?

You libs keep bashing the Tea Party over and over again but at least they are outsiders and are trying to change things. Where is the Democratic effort?

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**Buck Hayek**  
November 16th, 2011  
9:29 pm

Bachus is sleazy but this is not close to insider trading because Congress is not an SEC regulated company.

Now if he had conspired with an insider of an SEC regulated company that is criminal for both.

Newt is the story today though – he lied about his Freddie Mac contract as a lobbyist. He will regret that $1.6 million.

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**Frederick Douglass**  
November 16th, 2011  
9:31 pm

**td**  
November 16th, 2011  
9:31 pm

If the whole jug of milk is rancid, doesn’t it just make you look like more foolish to rant and rave daily about your half gallon being less rancid?

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**double**  
November 16th, 2011  
9:35 pm

Amen to the blind trust. Amen to 12 year term limits. The ignorant out
"You libs keep bashing the Tea Party over and over again but at least they are outsiders and are trying to change things."

That is about the dumbest statement I have ever heard. Attila the Hun was an outsider too...

So insiders are a problem and now outsiders are a problem too. That just about covers the entire population is not worthy of Representing you. How do you fix the problem? Who is worthy of serving?

If the whole jug of milk is rancid, doesn't it just make you look like more foolish to rant and rave daily about your half gallon being less rancid?

How do you change the system then to make it better?

TD I would love to see all elected non establishment people. Even if they were all republicans.

So the U.S. Congress abuses their authority by exempting themselves from prosecution of what they send others to prison for. Crooks!

"Bachus is sleazy but this is not close to insider trading because Congress is not an SEC regulated company."

It is insider trading. These sleazeballs are privy to information that will move the market, prior to anyone else eg., who will receive multibillion dollar defense contracts, etc. Why do you think Washington is full of hedge fund operatives, who are spending 10s of millions of dollars to buy information from your corrupt politicians? The American people are being played like a fiddle...

"The Republicans are attempting to put none establishment people in office (Tea Party). "

Like Tom Graves?????? The Tea Party helped elect Deal.
There is corruption in all levels of the government. Local school boards, city/county government, state and federal offices. This isn't a partisan issue. They protect each other with lax ethics laws.

DannyX
November 16th, 2011
10:05 pm

"The American people are being played like a fiddle…"

Ain't that the truth.

Look before I leap...
November 16th, 2011
10:11 pm

Aren't the senior members of the executive branch including the First Family REQUIRED to create a blind trust while in office? Why not extend the same requirement to members of both Congressional branches? I don't recall the specifics, but I think Bill Frist hot himself into some hot water over this several years ago.

I agree this is a problem on both sides of the aisle and no party can claim to be any cleaner. The issue is that Congress sets regulations for conduct then ignores them. Constitutionally, the only entity that can regulate Congress is well...Congress. Fox, chickencoop etc.

The general rule of thumb for the average joe when it comes to "insider trading" is based on 3 questions:
Is this information available to the general market?
Is the action I am taking based on this information that I have?
Is the action I am taking designed to limit losses or otherwise enhance my financial position?

Sadly, I think many if not most, congress critters are incapable of truthfully analyzing the above or at best, they rationalize that their stock-holding constituents are gonna get reamed in any event, so why should they (the critters) take a loss?

Throwing the bums out is not a fix to a system that is broken.

hiram bronson granbury
td
November 16th, 2011
10:16 pm
10:16 pm

How do you fix the problem? Who is worthy of serving?

Honest people will have to get involved in the dirty business of politics. Intelligent, and informed people, who are motivated and capable of making rational decisions. Of course, there is not a congressional district in Georgia that would elect such a candidate, and forget the senate. These people will have to come from congressional districts within states with an educated electorate. In other words, they will be the antithesis of the tea party.

hiram bronson granbury
td
November 16th, 2011
10:16 pm
10:26 pm

In other words only Ivy League flaming libs fit your idea of the "right" kind to serve in Congress. Why don't we just become another communist dictatorship with only the Ivy league education being in the party. NO THANK YOU. I will take a good ole country bumpkin any day of the week.
“I will take a good ole country bumpkin any day of the week.”

My point, exactly…

General Andy Jackson
November 16th, 2011
10:35 pm

“It could probably be shown by facts and figures that there is no distinctly
native American criminal class except Congress.”

– Mark Twain

Look before I leap...
November 16th, 2011
10:36 pm

@td:
Not all liberals are Ivy Leaguers and not all Ivy Leaguers are “flaming
liberals”.
I prefer my representatives to be reasonably well educated. Sadly,
educated does not mean ethically and morally centered.

Martin Williams
November 16th, 2011
10:55 pm

Jim, I watched that same 60 minutes and I was very ashamed. I know
these people have no shame, I mean both parties. I always tell my co-
workers that Democrats and Republicans are the SAME people especially
under those Domes all across America. Remember the lobbyist Jack
Ambroff that went to prison for couple of years, he called the The United
States Congress the most corrupt Co-operation in the whole world. Think
about it. I will always vote as an independent because even the ordinary
people that vote Dems/Repubs have little sense. Take Tom Price of
Georgia, left his practice to be a Congressman and you know

Measure to ban
Congressional insider
trading gains steam –
USA Today
November 16th, 2011
11:16 pm

[…] to Hold First Hearing on Banning Insider Trading by Lawmakers
Split Journal (blog)Atlanta Journal Constitution (blog) -Politico -KETKall
339 news […]

Id
November 17th, 2011
12:05 am

Maybe Georgia needs to do what California did–put propositions on the
ballot.

Id
November 17th, 2011
12:05 am

Is there a way that propositions can be put on federal ballots?

Buckhead Boy
November 17th, 2011
5:23 am

Some of the same expressing indignation here espoused support in the
previous post for the only House Speaker ever reprimanded for ethics
violations. Those of my political persuasion are equally guilty of such
hypocrisy. As long as we defend the indefensible, the indefensible will
triumph.

Smoke
November 17th, 2011
6:01 am

#1: Free market, less regulations
