



Congress Handing Out Stock Tips to Hedge Fund Managers

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As if trading on insider information gleaned from their legislative duties wasn't bad enough, now it turns out Congress has been passing that information on to hedge fund managers as well.

That's helped many hedge fund managers make the same sort of lucrative bets in the stock market that has enriched members of Congress.

Meanwhile, Congress isn't doing anything to help individual investors, who don't have access to insider information and would probably be fined or jailed for doing what their representatives have been doing for decades.

"We the people need a new bill of rights from Congress," said **Money Morning** Capital Waves Strategist Shah Gilani. "I'm talking about our rights to control their indiscretions, lies, cronyism and the actions they take under cover of the protections of their offices."

Washington's latest transgression was revealed Tuesday in **The Wall Street Journal**.

New York-based broker-dealer JNK Securities Corp. arranges about 12 meetings a month between legislators and hedge fund managers.

If the information discussed turns into a useful stock tip, the hedge fund must execute the trade with JNK so it can earn a commission. But as questionable as it all sounds, no one is breaking any laws.

It boils down to "buying information from members of Congress in a perfectly legal way," Richard Painter, a former ethics lawyer for President George W. Bush and currently a law professor at the University of Minnesota, told **The Wall Street Journal**.

Greed, Corruption and Lies

In one instance, Conatus Capital Management scooped up 300,000 shares of Visa Inc. (NYSE: V) in the first quarter of 2010, knowing that a key provision harmful to the major credit card companies would not be included in the Dodd-Frank legislation. That tip came from a meeting with bill co-author Sen. Christopher Dodd, D-CT.

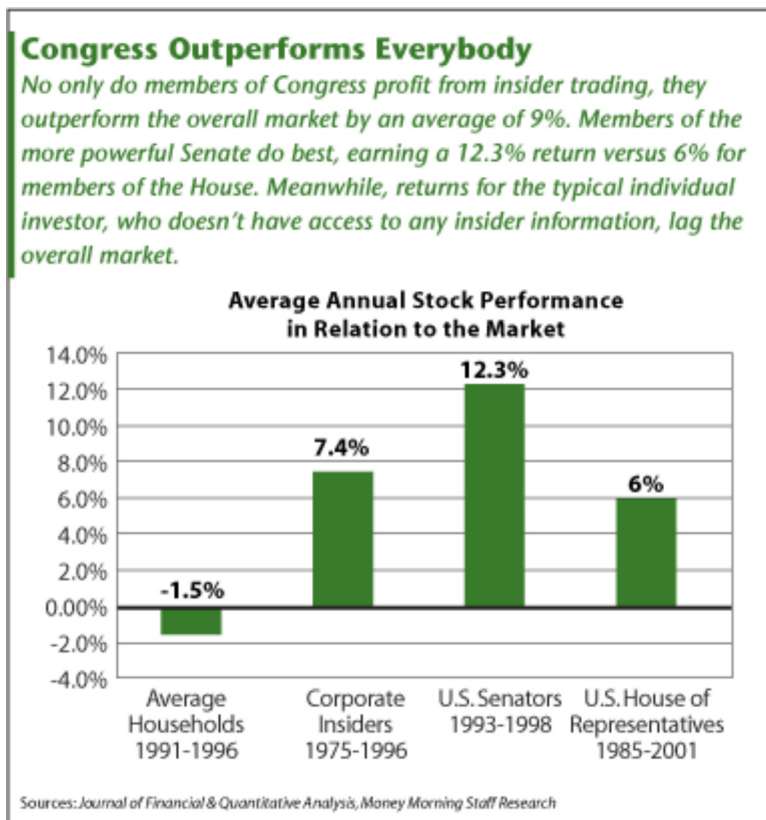
"Hedge funds and other investors have found that Washington can be a gold mine of market-moving information, easily gathered by those who are politically connected," Sanford Bragg, CEO and President of Integrity Research Associates, told **The Wall Street Journal**.

Both Republicans and Democrats defended the practice, telling **The Journal** that the discussions with hedge fund managers help them shape legislation.

Clearly, Congress can't be trusted with market-sensitive information. And if you think the revelations in **The Journal** or the **CBS News** "60 Minutes" expose on insider trading in November will slow them down, think again.

They have too much incentive to maintain the status quo.

A study by the academic journal *Business and Politics* shows that over the long term, members of Congress beat the market by an average of 9% annually.



That's even better than the 7.4% advantage over the market that corporate insiders manage, and way better than the -1.5% the average household gets.

And while the gains are bipartisan, it's Democrats with the clear edge. Members of the party of the New Deal earn average returns 9% over the market -- far better than the 2% market beat for Republicans, the alleged allies of Wall Street.

The STOCK Act

Of course, the pending Stop Trading on Congressional Knowledge (STOCK) Act is supposed to end all this - or will it?

After the "60 Minutes" segment ran, members rushed to support the six-year-old piece of legislation, raising the number of co-sponsors from nine to 237. But in early December, House Majority Leader Eric Cantor, R-VA, put the bill on ice until next year.

And critics say even if the STOCK Act is passed, little will change.

"It appears that what Congress really wants is to keep making the big bucks that come from trading on inside information but to trick those outside of the Beltway into believing they are doing something about this corruption," Jonathan Macey, a Yale law professor and member of the Hoover Institution Task Force on Property Rights, writes in *The Wall Street Journal*.

Basically, the STOCK Act will simply serve to enshrine Congress' immunity from securities laws that the rest of us must abide by. While it modifies what a lawmaker must disclose and when, it doesn't stop the insider trading.

Money Morning's Gilani suggested a more effective remedy.

"We need a national Website with separate pages for every single member of Congress, the President and the President's administration, and the top regulators of every government agency," Gilani said. "On it they should, under strict criminal penalties, have to list every donation, trip, gift, meal or other like remuneration, what the amount or value is, who gave it, when, what was discussed and then followed up by what action (including any votes) in any committee or on any legislation that affects or has any impact or relevance to any one that has done anything with or for the person in receipt. And that should extend beyond the person's public duty for five years into their private life."

[Editor's Note: For a more thorough account of the misdeeds in Washington and Wall Street, sign up for Shah Gilani's free newsletter *Wall Street Insights & Indictments*.]

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