Hedge fund SAC indicted for insider trading

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A federal grand jury last week indicted SAC Capital Advisors, a multi-billion-dollar hedge fund run by Steven A. Cohen, in connection with systematic insider trading which resulted in "hundreds of millions" of dollars in gains for the firm. The indictment alleges that the $15 billion hedge fund committed wire and securities fraud and traded on non-public information from 1999 to 2010 "on a scale without known precedent."

The hedge fund was known for generating significantly higher returns than its competitors, which allowed it to take 50 percent of its investors' profits, a figure significantly higher than other hedge funds. The government's investigations into the activities of SAC make clear that its massive earnings were generated largely on the basis of fraud and illegal insider trading.

The indictment comes after the Securities and Exchange Commission (SEC) filed civil charges on July 19 against SAC Capital's multibillionaire owner and founder Steven A. Cohen. The SEC alleged that two portfolio managers who had engaged in illegal trades netting the company $276 million provided Cohen with information in 2008 that clearly indicated they were involved in insider trading. Far from reining in this blatantly criminal activity, Cohen rewarded one of the traders with a $9 million bonus.

The SEC also filed similar charges against SAC as a whole in March. The hedge fund paid $616 million to settle these charges, a fine that was half the size of Cohen's personal earnings for 2012.

The latest indictment arises out of a years-long investigation of SAC by the Federal Bureau of Investigation and the Manhattan US attorney's office in connection with which a number of the hedge fund's employees have been charged. Former SAC employees Noah Freeman and Donald Longueuil were charged with insider trading in February 2011. In November 2012, charges were brought against Mathew Martoma, a former portfolio manager for SAC, and on March 29, 2013, against portfolio manager Michael Steinberg.

Six of the eight SAC employees indicted so far have pled guilty to criminal charges in connection with the investigation. A number of these employees are cooperating with the prosecution in exchange for lighter penalties.

Despite the criminal indictment of SAC, Bloomberg News reported this week that Goldman Sachs, Morgan Stanley, and JPMorgan are "still providing trading and prime brokerage services to the hedge fund." SAC's systematic criminality is a matter of perfect indifference to these firms, who are themselves engaged in the same types of activity on a daily basis.

Steven A. Cohen is notorious for his lavish lifestyle, which personifies the rapacious opulence of the financial elite. He and his family reside in a 35,000-square-foot Greenwich, Connecticut mansion, and his Upper-East Side Manhattan penthouse just hit the market for $115 million.

Cohen's billion-dollar art collection includes works by Willem de Kooning, Jasper Johns and Vincent Van Gogh, among many others. When Elizabeth Taylor died, Cohen sold an Andy Warhol portrait of the actress for $27 million, netting a multi-million-dollar profit.

In 2006, Cohen paid some $8 million for Damien Hirst's "The Physical Impossibility of Death in the Mind of Someone Living," which consists of a 14-foot tiger shark preserved in 224 gallons of formaldehyde, weighing 22 tons. The shark was found to be deteriorating shortly after Cohen purchased it and so a new tiger shark was captured and killed off the coast of Australia to replace it. Cohen put up $100,000 for the replacement, a cost he described as "inconsequential."

Last November Cohen dropped $155 million on Picasso's "La Rêve," the second most expensive art purchase of all time. In March he bought a $60 million mansion in the Hamptons. Forbes notes that Cohen “reportedly purchased another home on the same street in 2007, but this is his first escape right on the water.”

The SAC indictment, like other recent insider trading cases, has given prosecutors and politicians the opportunity to issue empty declarations that Wall Street criminality will not be tolerated. As Preet Bharara, the US Attorney responsible for the case boasted, “I don’t see anyone that’s too big to indict. No one is too big to jail.” Republican Senator Charles E. Grassley added, “This sends a signal that no firm is too big or too powerful to escape scrutiny. It has a deterrent factor.”

The fact is that, even though the firm has generated massive returns for its owner and top executives, it is still small fry compared to the Wall Street titans. It was never among the top ten largest US hedge funds, and even at its peak size of $15 billion, had less than one percent of the current assets of JPMorgan, the largest US bank.

The handful of employees, all low-level traders, charged in connection with the case, face a maximum of a few years in prison, while top executives like Cohen have not even received criminal charges. In fact, the SEC’s decision to present Cohen with only civil, not criminal charges, is directly calculated to ensure that he does not go to jail or receive any penalty beyond a metaphorical slap on the wrist.

Cohen will likely get off with a trivial settlement, similar to the one worked out with the SEC earlier this year, and exit the process with his $9 billion fortune, amassed through fraud, intact.

Five years into the worst financial crisis since the Great Depression, not a single major financial executive has been criminally prosecuted. To the extent that the government takes any action against the financial criminality that pervades Wall Street, it is to charge a few low-level traders, agree to settlements amounting to a fraction of companies’ yearly profits, while shielding multi-billionaire executives from criminal prosecution.