

Search

How do I find it?

Subscribe to paper



Money » Mar

■ GET A QUOTE: E

-CLICK ON ICONS TO FIND MORE-

2VABEACH SANDBRIDGE REALTY VIRGINIA BEACH RESORT HOTEL

VIRGINIA AQUARIUM & MARINE SCIENCE CENTER
It's a Life Experience
 The Virginia Aquarium has unleashed the brand new Restless Planet exhibit. VirginiaAquarium.com

What do you live for?
 Live the Life VIRGINIA BEACH

defrauding investors by failing to disclose conflicts of interest in mortgage investments it sold as the housing market was collapsing.



Oklahoma City
Survivors, families observe the 15th anniversary of the bombing.



Pope Benedict
A tearful leader says the Catholic Church will protect the young.



ACM Awards
Carrie Underwood makes history at the show on Sunday.

More: Video

Goldman Sachs charges raise fears among investors

Updated 1d 21h ago | Comment | Recommend

E-mail | Save | Print | Reprints & Permissions | **RSS**

By Adam Shell, USA TODAY



Enlarge By Chris Hondros, Getty Images

The drop in Goldman shares erased more than \$12 billion in market value.

NEW YORK — Major aftershocks are reverberating down Wall Street after security regulators charged banking titan **Goldman Sachs** with civil fraud.

Goldman, one of the most powerful, well-connected and profitable financial firms in the world, was accused Friday by the **Securities and Exchange Commission** of allegedly peddling a complex investment tied to subprime mortgages in April 2007 when the housing market was beginning to falter without disclosing key facts that would have revealed conflicts of interest.

FRAUD CHARGES: SEC cites Goldman Sachs in subprime case

The SEC alleges that marketing materials promoting the financial product — a whiz-bang creation known as a synthetic collateralized debt obligation or CDO — did not disclose that a giant hedge fund helped select the securities that were included in the portfolio. Nor were investors made aware that the hedge fund, Paulson & Co., was also actively betting against the new investment in a trade known as a short sale, in which the investor makes money when the price of the security drops. Indeed, the hedge fund reaped a profit of an estimated \$1 billion, the SEC says, when the underlying subprime mortgage-backed securities in the portfolio were downgraded and fell in value.

"The product was new and complex but the deception and conflicts were old and simple," SEC director of the Division of Enforcement Robert Khuzami said in a statement.

Investors that invested in the CDO — known as ABACUS 2007-

Share

Yahoo! Buzz

Add to Mixx

Facebook

Twitter

More

Subscribe

myYahoo

iGoogle

More

Related Advertising Links

What's This?

Acai Berry EXPOSED. Washington: Report
Washington Warning: Health Reporter Discovers The...
ConsumerNewsReporterDaily.com

Acai Berry EXPOSED. Washington Report
Washington Warning: Health Reporter Discovers The...

What's this?

Real estate

Real solutions for your real estate needs.

Choose from the selections below:

- Customized financial solutions
- Search properties nationwide
- Full service relocation assistance
- Apartments for rent in your area
- Home improvement options



Click here to begin

powered by **USA Real estate**

Financing Options:

Wikinvest Community Analysis:

Wikinvest provides insights on changing stock p

Need help financing or refinancing a home?
[Click here](#)

[View the full GS chart at Wikinvest](#)

What do Bulls and Bears say :

[Read more on GS at !\[\]\(339a16584d5da0f0a3ca4e9ec17bf6a1_img.jpg\)](#)

ACI — lost \$1 billion, the SEC says.

AUDIO: [SEC Enforcement Director Robert Khuzami discusses the charges](#)

VIDEO: [Analyst Art Hogan looks at the charges](#)

READ: [SEC complaint](#)

MORE ON GS: [Stock quote](#) and [Wikinvest commentary](#)

The fallout was swift and widespread on Wall Street. Some key aftershocks included:

• **A big hit to Goldman shares.** Not only did Goldman's (GS) reputation take a big hit and suffer a black eye, so did its stock. Goldman shares fell \$23.57, or 13%, to \$160.70, erasing more than \$12 billion in market value.

• **A fear that it could spark a broader market correction.** "Fraud matters," says Michael Farr, president and chief investment officer at Farr Miller & Washington, referring to the SEC's allegations. "It is one thing to go to the casino when you know

the odds are in the casino's favor. It is quite another thing to find out that the casino is actually cheating."

Farr, who sold all of his Goldman shares after the news broke, says the Goldman accusations make it much more difficult to trust companies and markets. And that could prompt investors to sell. "A lack of trust removes investors from the market and takes dollars off the table," he says.

The news weighed on the broader market Friday, ending a six-session winning streak. The Dow Jones industrial fell 125.91 points, or 1.1%, to 11,018.66. And the Standard & Poor's financial index fell 3.8%, as investors worried that other banks might get engulfed in the crisis.

WALL STREET: [Stocks tumble as Goldman charged with fraud](#)

• **A worry that other banks are being eyed for similar transgressions.** Investors simply don't know if the Goldman bombshell was a one-off event or a more systemic problem within the industry. The fear is that regulators will unearth evidence that shows what is alleged to have happened at Goldman also occurred at other banks.

The SEC itself admits that it will continue to investigate the practices of banks and others that were involved in creating the popular complex instruments tied to the housing market as it was showing signs of distress.

Scott A. Meyers, a partner and securities litigator at Ulmer & Berne law firm in Chicago, says the civil suit filed by the SEC against Goldman could be followed by a criminal suit. "Whenever you have a civil fraud allegation," he says, "there is a risk that it could be accompanied by a criminal charges." At this point no criminal charges have been filed.

• **A concern that it could spark a crisis of confidence among investors.** Investors haven't fully forgotten the accounting frauds earlier this decade at companies like [Enron](#) and [WorldCom](#), but they had been fading from view. The last thing the market needs is another crisis caused by investors' distrust of the system, says Farr.

"In retrospect, the creation and buying and selling of CDOs was akin to alchemy," says Farr.

• **A catalyst for stiffer financial regulation.** President Obama's administration is pushing to pass a regulatory reform bill that is designed to rein in bank risk taking as well as provide greater oversight on the banks themselves. The timing of the SEC accusation involving Goldman could foreshadow even tougher financial regulation, says Dan Clifton, an analyst who monitors issues on Capitol Hill for Strategas Research Partners.

"It creates the likelihood of a more aggressive financial regulation bill," says Clifton. "Now it makes it harder for moderate Republicans and Democrats to oppose the bill."

The timing of the Goldman charges, which come three years after the collapse of mortgage securities, suggests that financial regulators, who were accused of being asleep at the switch when the financial crisis was forming, are seeking to restore the public trust, says Robert Bontempo, a professor at [Columbia Business School](#).

"It is a natural backlash," says Bontempo. "People are angry and are looking for someone to blame. The regulatory agencies did not come out of the crisis looking good. Now they want to restore the public's trust by finding someone else to blame. And they want to demonstrate that they have some teeth."

You might also be interested in:

[SEC charges Goldman Sachs with fraud](#) (USATODAY.com in Money)

['The Big Short' tells fascinating tales about subprime meltdown](#) (USATODAY.com in Money)

[Speeding 'cushion' may dwindle due to recession](#) (USATODAY.com in News)

[Bull market turns 1 Is it time to party, or worry?](#) (USATODAY.com in Money)

Selected for you by a sponsor:

[Ratigan the Radical, Basketball at Work, and the Girl Who Beat Wall Street](#) (The Big Money)

[Yahoo! Buzz](#) | [Mixx](#) |

Posted 2d 15h ago

Updated 1d 21h ago

E-mail | Save | Print | Reprints & Permissions | [RSS](#)

USA TODAY Personal Finance E-mail Newsletters

Sign up to get:

- Tips on managing money
- Latest financial news
- Jobs, economy, taxes and more



 [Sign Up Now](#)

To report corrections and clarifications, contact Standards Editor **Brent Jones**. For publication consideration in the newspaper, send comments to letters@usatoday.com. Include name, phone number, city and state for verification. To view our corrections, go to corrections.usatoday.com.

Guidelines: You share in the USA TODAY community, so please keep your comments smart and civil. Don't attack other readers personally, and keep your language decent. Use the "Report Abuse" button to make a difference. [Read more.](#)

Sponsored Links

Acai Berry EXPOSED. Washington Report

Washington Warning: Health Reporter Discovers The Shocking Truth!
New.s6Report.com

Washington: Mom Makes \$8795/Month

Unemployed Mom Makes \$8,795/mo Online! Read her story to see how.
www.New.s6Alerts.com

Get 3-in-1 Monitoring and FICO score now

Receive alerts to key changes in your 3 nationwide credit files
www.Equifax.com

[Get listed here](#)

<p>Your Price Is <big>GUARANTEED</big> To Stay Under <big>\$20</big>/month</p> <p><small>SPEEDS UP TO 1 MBPS WITH 2-YR. AGREEMENT (PLUS TAXES AND FEES).</small></p>	 
--	--

Newspaper Home Delivery - Subscribe Today

[Home](#) • [News](#) • [Travel](#) • [Money](#) • [Sports](#) • [Life](#) • [Tech](#) • [Weather](#)

About USATODAY.com: [Site Map](#) | [FAQ](#) | [Contact Us](#) | [Jobs with Us](#) | [Terms of Service](#)
[Privacy Policy/Your California Privacy Right](#) | [Advertise](#) | [Press Room](#) | [Media Lounge](#) | [Reprints and Permissions](#)

News Your Way: [Mobile News](#) | [Email News](#) | [Add USATODAY.com RSS feeds](#) | [Twitter](#) | [Podcasts](#) | [Widgets](#)

Partners: [USA WEEKEND](#) | [Sports Weekly](#) | [Education](#) | [Space.com](#) | [Travel Tips](#)

Copyright 2010 USA TODAY, a division of Gannett Co. Inc.