
Early Lessons Learned on “The Street”

While I was growing up, thanks to some “hot tips”—which were usually no more than lukewarm—my mother dabbled in stocks with what little extra money she had. My father, on the other hand, only bought stock once. He would often repeat the story, especially after I became a stockbroker, of how he bought into New York Airways in the 1960s. The company ran helicopters from the top of the Pan Am building to New York City’s two airports. Two days after he bought the stock, before he even sent in the money, one of the company’s helicopters was involved in a serious accident and several people died. Soon, the company was no more. That was Dad’s lesson to me about investing in stocks and his last foray into the market.

Shortly after my wedding, I took a guided tour of Wall Street and the New York Stock Exchange, and I was fascinated. The people, expensive suits, and palatial buildings were a foreign world to me. Everything about the process seemed fast-paced and exciting. It just reeked of wealth ... and I liked that.

Despite the fact that I had no stock market experience, there was something about Wall Street that called to me. I can’t tell you what it was; the whole atmosphere seemed exhilarating to me.

As a result, I began making regular trips to the library to read up on investing, and was fortunate that a guy I worked with at the warehouse was heavily involved in the technical end of the market. We’d both read up on new investments and market trends, then we’d talk for hours and hours. He later introduced me to his broker, who patiently explained to me how the markets worked. In the process, I saw more of the nice cars the brokers drove, the clothing and jewelry they wore ... their lifestyle enticed me as much as the markets did. Growing up with next to nothing, you mistakenly believe, as I did, that people who had expensive things were somehow happier than us poor schmucks. They looked happy. I wanted that. I wanted all that “stuff” and that happiness for me. Not for my wife or future children, just for me. It was all about me.

So, in 1982, with nothing more than some self-study, a tourist’s excursion, and some of the shared knowledge from my warehouse friend, I took \$7,000 of Mary’s dowry and began trading options. I bought, sold, bought, sold, and as amazing as it sounds, in less than a year, the account was worth about \$100,000 minus taxes.

I thought we were set for life! Then I got my first hard Wall Street lesson. That’s when a penny stockbroker (who shall remain nameless, but his firm was called Blinder Robinson, but should have been called Rob-Them-Blind Robinson) convinced me to put all of the proceeds into a company called Telstar, which was going to put cable TV in hotels. One of the big draws was the fact that Ed McMahon was on the board of directors. Well, instead of “Heeeeeeeeeere’s Johnny,” I heard, “Heeeeeeeeeere’s nothin’,” as I lost the entire investment because the company went belly up. It

happens to everyone at one time or another and is the basis for an old saying among financial professionals: If you want to end up with a million dollars in the stock market, start with two million.

Yet, the good (I think) that came out of this huge financial hit for a twenty-six-year-old suburban warehouse manager was this: Losing that much money made me passionate about becoming a stockbroker because I saw that even though I lost money, the broker still made money. It's a lesson I would never forget. Certainly, I could do better than the guy who fleeced me, I thought. But I wasn't ready to jump right into being a broker since I still had to put food on the table, and I knew brokers didn't make money right away; they had to build up a clientele. So I tested the investment waters a little further with my first real marketing angle: I started an investors club.

With one ad in a local north Jersey newspaper, thirty-seven people showed up for the first meeting of the New Jersey Investors Club. I conceived the idea of the club not to gain wisdom or knowledge, but as a way to meet potential clients. I had designs on becoming a broker, and since I didn't know the type of folks who had money to invest, starting the club gave me both credibility and a pool of prospective investors. We didn't combine our money and invest as a group as some clubs did, but instead pooled our ideas and shared speakers. It was my first real angle, and within a short time, the club grew to nearly a hundred members. Naturally, I was the president.

We learned a lot from the professionals who spoke before the club. One such speaker was Bob Knapp, an honorable man who owned a small New York Stock Exchange member firm. I point out the fact that Bob was moral and honorable because I soon found that he was not the norm. "Dishonorable" was, and often is, the status quo. Most brokers, I found, were simply interested in buying and selling stocks because with every trade they made a commission. Whether or not their clients were going to prosper was irrelevant. Bob was different. He seemed conscientious. Like me, he was analytical—he studied stocks and the market. He was smart. I liked him from the start. Bob talked about the markets and especially precious metals, and after the meeting was over he pulled me aside and complimented me on the great command I had over the group. When I talked, he said, people seemed to be riveted by what I was saying. "That's the type of stuff," he said, "you need to build a book of business." He said I'd be a great stockbroker.

Well, that's all it took. Less than half an hour of hearing Bob Knapp tell me I'd be successful and I was convinced. By the end of the night I decided to leave Toshiba and become a broker.

For the first time since dropping out of high school, I went "back to class" with a home study course for my Series 7 license. I read the book and took the sample tests over and over again until I was confident I would pass. But the broker idea didn't go over well at home; Mary was not thrilled. She felt I had a good job at Toshiba and shouldn't jeopardize it. It didn't help that my father-in-law in Ireland thought all stockbrokers were crooks, so he was against it, too. However, I persevered and eventually took the test in New York City and passed with flying colors.

In April 1984, I did something I never could have imagined a decade before: I became a stockbroker with Bob Knapp's firm. That's all it took—some cajoling and a few months of at-home training, and this high school dropout was now offering advice to business owners, executives, doctors, attorneys, and other professionals about how to invest their money.

A few weeks into my new career, I opened an account for a technology executive who did a fair amount of trading. That led to the first time (though not the last) I found myself in what I call "the

gray area” where I was on neither the right nor the wrong side of the law ... let’s just say I was straddling the line. You see, this guy bought lots of stock and options in a company called Decision Data, for which I believe he consulted. It didn’t look that hot to me, so naturally I asked him why he was buying so much of the stock and options. He answered with a wink and a nod saying, “It’s probably best if you don’t know.” Well, I didn’t need a college education to figure out that this guy knew something I didn’t. So, I bought it, too, and advised the clients I had to do the same. It was no surprise when the company received a takeover offer and the stock price jumped. I didn’t ask any questions, but profited nicely—both personally and professionally.

After the transaction was complete, I remember thinking that I had just made more money on that one trade than I had ever made in an entire year. I subsequently took up the mantra, “It’s not who you know, but what they know.”

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Though some of the people from the investors club became clients, I needed to build my business bigger. However, the traditional way brokers find clients, cold calling, gave me sweaty palms. I hated it, and I wasn’t very good at it. I was so depressed after the very first hang-up that I knew I had to find another way to attract clients. That’s when Bob

Knapp suggested I write a newsletter. The idea was for me to document my views and forecasts, and use the publication as a tool to drum up business. The concept was approved by the compliance guy in the office, and in just one day, the newsletter was born. I wrote, typed, made two hundred copies, and sent out the first edition of *The Grandich Letter*.

I sent it to friends and clients, I put an ad in the paper for a “free investment newsletter,” and gave them out at Rotary Club meetings. I can even remember putting them on car windshields in the parking lot. I was willing to try anything at that point. I was desperate for clients.

The newsletter resulted in only a little bit of new business, but what it did was start my love affair with putting my ideas in writing. Since that first edition in 1984, I have written millions of words in newsletters, newspapers, magazines, books, and my blog.

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One day, much to my surprise, Bob Knapp announced that he had to sell the firm because of financial troubles. Soon after, he left and joined a firm called Underhill Associates. My clients and I went with him. It was run by, in my opinion, the first really bad man I came to meet in the business. Soon, I began to question my decision. The joke in the office was the firm should be called “Underwater Associates” because all our stocks ended up “under water.” We also called the place “the home of *submerging* growth stocks” because they all tanked.

But it was at Underhill that I saw for the first time how one lucky break in the media can make millions. One of the Underhill deals was with Mel Fisher, the renowned treasure

hunter. One morning shortly after Bob and I arrived, ABC News broke the story that Fisher’s crew had just found the mother lode from the sunken Spanish galleon *Nuestra Señora de Atocha* off Key West, Florida. As a result, the phones rang off the hook for a week or so, and we were swamped. I’ll bet a couple of guys made \$50,000 that week selling limited partnerships with Mr. Fisher. They did

more business in a week than I could do in a year. It amazed me. Though the publicity was short-lived, it opened my eyes to the power of the media and what it could do for my bottom line. It's a lesson I never forgot.

One other good thing came out of my short stay at Underhill: the company paid for my newsletter to be professionally produced. My slick newsletter caught the eye of an executive at Philips, Appel, and Walden (PAW), members of the New York Stock Exchange, and he invited me to his office. I went, I liked him right away, and it seemed like no sooner than I started at Underhill, I was gone, and this time Bob Knapp followed me.

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My new boss at PAW was Bob Trause, the branch manager. He was a great guy with a fast-paced, high-energy manner fueled by what seemed like gallons of coffee. One day we counted twenty-three cups—that's right, twenty-three cups of high-test, caffeinated, burn-a-hole-in-your-gut coffee. By the end of each day he was either blissfully happy or totally disenchanted with life.

When you think of a NYSE-member firm back then, companies like Merrill Lynch, Dean Witter and Prudential usually come to mind—old, prestigious firms dealing in bonds, retirement accounts and blue chip stocks like IBM.

Over-the-counter (OTC) firms, on the other hand, usually handled the cheap “penny” stocks. Well, PAW was a penny stock house dressed up as a NYSE firm. Though they were a member of the NYSE to try to give the impression of prestige, their primary business was selling initial public offerings (IPOs) in the \$1–\$5 range, not the big stock deals most people would assume.

Most of the brokers, including me, were stock jocks, salespeople who worked the phones to try to sell financial products. Financial planning was not yet the way of the world, so most brokers earned their money trading stocks. There were a cast of characters in this office that rivaled any soap opera, but two always had my eye. There was Ray. He was a nut job, plain and simple. Sometimes we'd find him crouched underneath his desk talking to his clients in a whisper. Other times he would be loud and boisterous with arms flailing. He fit the stereotype of the high-pressure penny stock broker and could say just the right thing to influence or even shame the customer into making a purchase.

“If I was selling you gold for twenty dollars an ounce you'd find the money...” and

“Who wears the pants in your family, you or your wife?”

But the best one I remember was when he was obviously not getting the prospect to buy and I heard him say, “Do you have \$300?”

I knew we didn't take orders that small.

Obviously, the prospect asked if he wanted him to buy just \$300 worth of the stock, because I then heard Ray say, “No, I want you to buy a gun because you'll want to shoot yourself when you see what this stock does and you're not in it.”

This guy was priceless. And he made money. He was always one of the top five producers in the

office.

There were other characters. One of the PAW brokers did nothing but limited partnerships (LPs). Back then, they were sold as tax shelters and you could invest a dollar and claim losses of two, three, or four. The law has since been changed and they are no longer the tax shelters they were, but at the time LPs were most often used by investors for write-offs. This particular broker especially pushed LPs when the underwriter offered incentive vacations in return for a specific sales volume. We later learned that he would take girlfriends on these trips and tell his wife he was doing “due diligence” on a potential partnership. One day, after his wife obviously found out about one of his affairs, she showed up in the office and poured hot coffee all over him. Two days later he was back in the office hawking the LPs. And that was just another day in the dysfunctional life at PAW. The assumption by the public was that the majority of people working within the firm were highly educated, clean-cut, all-around good people. When, in fact, it was a bunch of misfits, gambling junkies, and a cast of unsavory characters dressed up as brokers.

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When pushing IPOs, every single deal required a due diligence meeting where brokerage firms underwriting and/or selling the deal would meet to hear about the deal. PAW did mostly all their own deals so it ended up just PAW brokers at most of the meetings. We learned to judge the potential of the company and its stock by the spread of food that was put out at the meeting. Inevitably, the more they tried to schmooze us, the less they had to offer. If a superb meal was given with gifts, we concluded the stock was a dud. If the spread consisted of cheese and crackers, we surmised the stock had potential. It’s uncanny how accurate our grading system was.

One such deal was a company called New York City Shoes. The sizzle was supposed to be the fact that every pair of shoes sold for ten dollars. When we arrived at the hotel for the due diligence meeting, the entire banquet room was set up as a New York City Shoes store. The dinner was top-notch, and we each received numerous pairs of shoes as gifts. From this glitzy show, we figured the deal was tough even before looking at the prospectus.

I had learned early on that the key to any IPO was getting past two factors in the prospectus: dilution and legal actions. How much money did they have, how were they going to spend it, and did they have any legal issues? In the New York City Shoes case, dilution was almost 100 percent. The majority of the money was going to pay off debt (much of it owed to officers of the company) and back taxes, which appeared in the legal action page. The company had not paid state taxes, citing the need for capital to grow the firm. As a result of this information, I passed on the deal because I didn’t think the company would amount to much. Others didn’t, however—to them it was another sale and another commission. They weren’t particularly concerned whether their clients were going to make money, only whether or not they were making money. In less than a year of going public, the company went bankrupt, but not before a lot of stockbrokers made money.

Yet another deal we did was called Steve’s Ice Cream. At their meeting we were served no dinner, given no gifts and only got a single pint of ice cream. That stock tripled in the first year and getting much of the IPO was impossible because it was in such high demand.

One company I was involved in was a generic drug maker called Zenith Labs. Zenith was working on a drug that, if approved, could potentially drive the stock price considerably higher. At their annual meeting, the CEO announced the drug’s approval and said the approval information had

just been announced to the world in a press release. I rushed to the phone booth—there were no cell phones or BlackBerrys back then—and called the office. For some unknown reason, the news of the drug's approval had not yet hit the wires, so the stock's price was largely unchanged. We bought call options and shares and later that day the news hit and the stock rose nicely. Ka-ching.

Along the way, I also learned the value of trusting my instincts. Along the east coast, the electronics store Crazy Eddie, owned by Brooklyn, New York-based ERS Electronics, was well-known for its low prices and loud spokesperson, "Eddie," who was named for the store's co-founder Eddie Antar. We began to make a market in the stock under four dollars and the commission, also known as the "chop," was sometimes $3/8$ of a point. That was nearly 10 percent, which meant you could sell just a thousand shares and earn \$387. Nothing makes a stock more interesting to a broker than the chop. Takeover rumors began to circulate, so I began to buy heavily, no matter what the commission was. I ended up with the biggest position in a stock for clients in my short career. Soon after, a company called Entertainment Management, which traded on the Amex, made a bid at eight dollars for Crazy Eddie. The stock went above eight dollars, suggesting the market believed a higher bid would be needed.

I was surprised to learn that PAW was working for Entertainment Management, and I was asked to join some of our officers at a Crazy Eddie warehouse. While there, we started discovering that some of the boxes were empty, even though TVs and other electronics were supposed to be in them. It seemed not to faze some other brokers, but I took this as a bad sign and called all my clients to sell around eight dollars. Brokers in my office laughed at me because the stock was expected to go to a ten-dollar or even twelve-dollar offer, but to me something just didn't smell right. The stock did, in fact, rise to around nine dollars a share; however, within a short period, it was discovered that the brothers who owned Crazy Eddie cooked the books and the stock fell hard. My clients were already out, and so was I. Me seeing a few empty boxes may have been construed as insider information, but who's to say that because a couple of boxes were empty that the owners were crooks? Was this legal? It was gray ... deep gray!

Incidentally, in 1989, Crazy Eddie declared bankruptcy and was liquidated. Antar, who was nicknamed "The Darth Vader of Capitalism" by U.S. Attorney Michael Chertoff, was eventually charged with a series of crimes and did a few years in "Club Fed" for fraud. He was ordered to pay more than \$150 million in fines and a billion (yes, billion with a "b") dollars in judgments to defrauded stockholders, whom I doubt will ever see a dime.