

# Investors pay when corporate critics are silenced

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Short-seller Carson Block made his name by foretelling the implosion of Chinese-Canadian firm Sino-Forest Corp. Now he and his firm, Muddy Waters Research, have moved on to a bigger target: giant Singapore-based commodities trader Olam International Ltd.

The company, which counts Singapore sovereign wealth fund Temasek among its largest investors, is fighting back by suing Mr. Block for defamation after he called into question the company's accounting. It's too early to declare who the victor will be, but the lawsuit underlines the occupational hazards facing anyone who expresses a strongly negative opinion of a company.

Investors pay the price for this ban on skepticism, because it prevents free and vigorous scrutiny of potential investments. Sure, wild accusations should be subject to the normal rules of libel. In this case, however, Mr. Block appears to be asking legitimate questions about Olam's business.

Rather than scorn Mr. Block, investors should applaud his courage - and encourage other commentators who are willing to probe the issues often left untouched by the Street's perennially bullish analysts.

At the moment, corporate naysayers are lonely voices. Their criticisms and motives are called into question, although recent years have provided several examples of skeptics who were eventually proven right.

When *Veritas Investment Research* analyst *Neeraj Monga* labelled Yellow Pages Income Fund a "sell" six years ago, he earned a belittling rebuke from CEO Marc Tellier, who pointed out that 11 of 12 analysts had a "buy" rating on the stock. Turned out *Mr. Monga* was right: The directories business kept on declining; all those "buys" were the wrong calls.

Short seller Jim Chanos flagged problems at British software maker Autonomy in 2011, long before Hewlett-Packard said this week it would write down 85 per cent of the value of that company, which it bought last year. Research by Mr. Block, *Mr. Monga* and others have put public companies and regulators in India and China on notice that if their capital markets are to be taken seriously, they will have to live up to higher standards.

Mr. Block's track record is far from perfect. Some of his targets, have performed well in spite of his public criticism. One, Focus Media Holdings Ltd., was subsequently sold to an investor group including private equity giant Carlyle Group, while another, Orient Paper Inc., produced an investigation from three independent firms, including Deloitte, that found no merit to Mr. Block's attacks.

In the case of Olam, however, Mr. Block's scrutiny seems long overdue. He is not the first skeptic to bet against the company. Analysts for years have had a hard time getting a handle on its complex business or how it values inventories, and have been uncomfortable with how Olam reports profits by booking gains on the book value of its agricultural assets.

The company's aggressive accounting, fast growth through acquisitions, rising debt levels and the fact most of its reported earnings result from book value asset valuations should give any investor pause. Mr. Block's criticisms have helped to touch off a much-needed debate; they will lead to improved transparency and clearer reporting. That's a service for which every investor should be grateful.