

*If anyone tries to peddle you anything listed on the Vancouver Stock Exchange, hang up fast. There isn't any gold in Vancouver, but there's plenty of brass.*

## Scam capital of the world

By Joe Queenan

**L**IKE MOST LARGE North American cities, Vancouver has a serious garbage disposal problem, but this one is unique. The garbage is the Vancouver Stock Exchange. It is polluting much of the civilized world.

The vse, founded in 1907, is the longest-standing joke in North America, the Cubs included. Each year it sucks billions of dollars out of legitimate markets by inducing dupes in North America and Europe to invest in mysterious outfits making hydrodouches, computerized golf courses and airborne farm equipment.

Rumored to be a laundering vehicle for mobsters and undesirables such as Ferdinand Marcos, the vse is piously defended by its members and local politicians. They say it is a vital source of seed money for intrepid investors seeking to transform their brainchildren into the next Xerox. Usually, the brainchildren are born brain dead, and the next Xerox turns out to be the last Hydrodouché.

"Half the companies on the vse are out-and-out scams," says Vancouver writer Adrian du Plessis, formerly a vse floor trader. "And most of the rest are rig jobs of some sort."

Besides being home to the vse, this city of 1.5 million people is the hallucinogen capital of North America.

At some point, the powers-that-be in Canada, which has no Securities & Exchange Commission but regulates its exchanges on a province-by-province basis, seem to have decided to turn British Columbia into a financial combat zone. Though the sleazeball entrepreneurs who launch these crud-

dy companies may come and go, the infrastructure of chicanery remains in the 46 firms that make up the vse. New companies are merely the vehicles the underwriters use to perpetrate their latest depredations. Thus the legendary Harry Moll, who started out in the oil business, resurfaces with the Proprietary Viscosity Control System, the self-watering Deco-Plant Minder, and a breakthrough

technology called stereolithography. Nobody blinks or even chuckles.

In 1988 the vse accounted for a third of all trading volume in Canada—3.5 billion shares, worth \$3.3 billion. (All figures are in Canadian dollars, unless otherwise noted.) A lot of that volume, one suspects, was wash sales and money laundered through

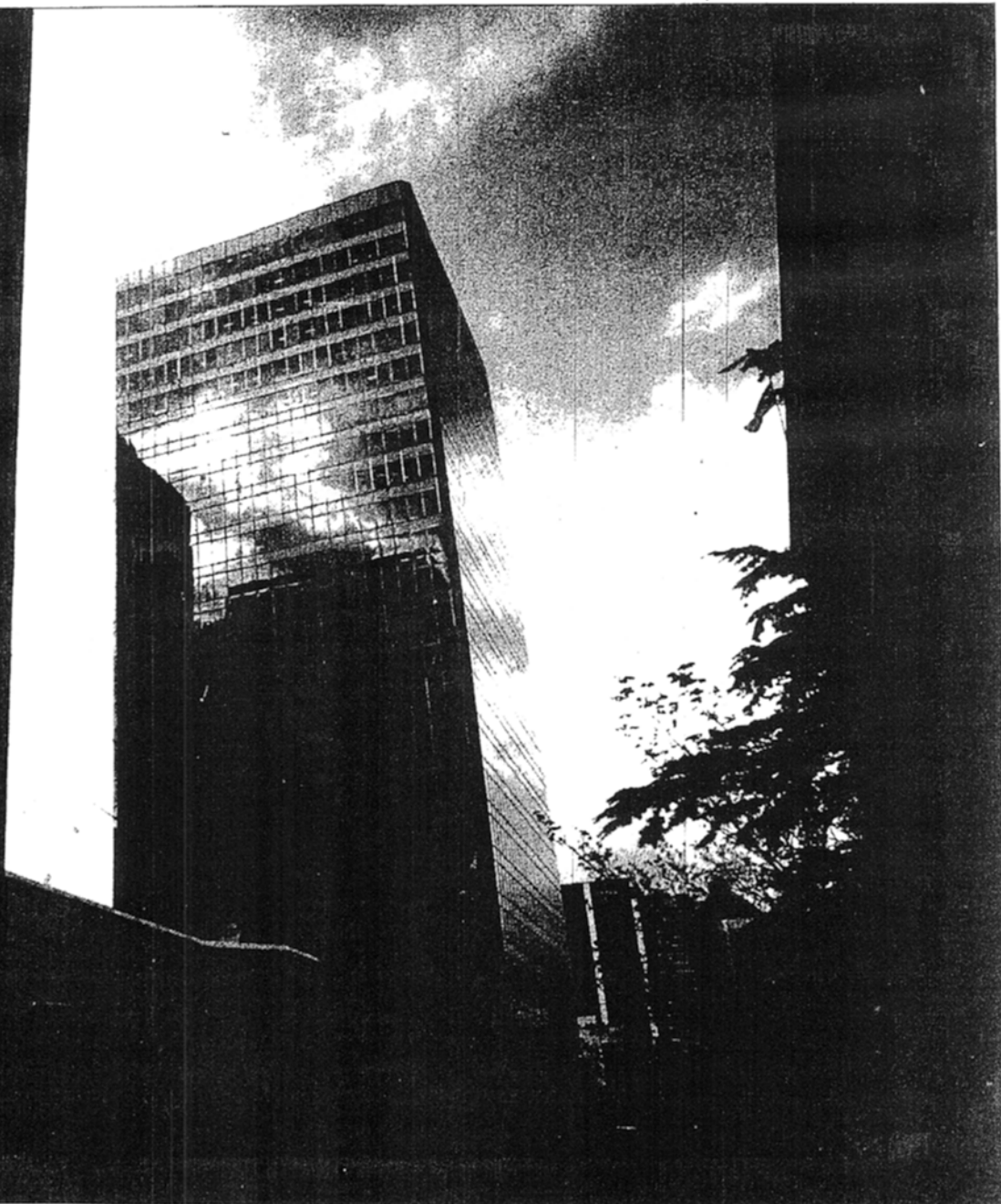
shells that were mining outfits on Tuesday but by Thursday were in the three-dimensional, pangalactic anti-AIDS cybernetics business.

Listing requirements on the vse are much more relaxed than in the U.S. A company can go public for as little as \$600,000, all fees included. Though the vse boasts about the \$1 billion in venture capital it raised last year, the only comprehensive study of the vse ever conducted, concluded in 1979, reported that only an estimated 51% of the money raised actually goes to the companies, the rest being split by brokers and promoters. The study also found that investors in the vse lose 84% of their money some of the time and all of it 40% of the time. The study was interred, unpublished, by the British Columbia government.

Generally speaking, the most respected fiction writers in Canada are Margaret Atwood and Robertson Da-

vies, but no one churns out a body of fiction of as consistently high a quality as the companies listed on the vse. The exchange's own press releases tout the vse as a home for junior mining companies, noting that "of the more than 2,300 companies listed on the vse as of the end of 1988, 72% or almost 1,500 issues were natural-resource related." Actually, 1,500 into 2,300 is 65%, not 72%, which gives you an idea how trustworthy numbers are out here.

Moreover, according to writer Du Plessis, out of 1,205 mining compa-



*The Vancouver Stock Exchange building*

**President Don Hudson blames "unobjective" observers for the VSE's poor image.**

nies on the vse, only about 50 actually produce minerals, and only 10 to 15 are profitable. Other journalists say that not more than a tenth of the 2,300 companies listed on the vse are real companies, in the sense that they have earnings, profits, employees, products or futures. But brokers unaffiliated with the exchange look baffled when asked how many legitimate companies there are on an exchange where Technigen once vaulted to \$16 a share with promises of a computerized golf course and driving range.

"I don't know of any," says one.

"You go into a stock because you know the promoter can run it up to 12 bucks, and then you try to get out before the bottom falls out." When John Woods, editor of *Vancouver Stock Watch*, was asked how many vse companies actually evolved into "real" companies that stayed around for a few years, he looked amused. "One percent?" he theorized. "Well, that's the pessimistic view. The optimistic view? Two percent."

The vse is a self-regulating organization, meaning that its transgressions must be punished by the same

brokerage firms that routinely perpetrate them. Since it is infested with crooked promoters, sons of crooked promoters and sons of friends of crooked promoters, having the vse regulate itself is like hiring the Gestapo to supervise the ss. vse President Donald Hudson told *FORBES* he is tired of negative portrayals of the exchange by unobjective observers. For example, he objects to published reports that Alfred Woo, vse vice president of listings, was recently dumped by the exchange for circulating a letter critical of stock promotions. He

says Woo's resignation is unrelated to the letter.

Because most of the stocks listed on the vse are penny stocks, there is a misconception in the U.S. that investor losses are microscopic. Untrue. Lots of these stocks have market caps of \$150 million for minutes at a time before their abrupt descent into oblivion. International Tillex Enterprises, a New York-based mining and insurance company, went from 30 cents a share in 1985 to \$77 a pop in 1986 before it was delisted, turning \$172 million worth of stock certificates into confetti. That was chump change compared with the quintessential vse con job: the Columbia Homogeneous Parallel Processor.

Chopp transmogrified itself from a mining outfit called Baz Resources trading at 17 cents in 1984 to a "rival" of Cray Research trading at \$120 a share by 1986, with a market cap of \$300 million. Chopp had all the vital elements of the classic Howe Street Scam: an amazing technology (a computer 100 times faster than Cray's fastest super-computer), the supposed involvement of celebrities (Michael Jackson's younger brother Randy) and a cooperative press (journalists love rewriting these guys' press releases). Of course, it never had a product. After reality axed Chopp, it got itself delisted, merged with its sister company and navigated south to the U.S., where it was soon trading at less than a buck.

It is hardly surprising that a mood of flagrant contempt for the law should flourish in a province whose premier from 1975 to 1986 went on trial in April for insider trading. Ex-premier Bill Bennett and his brother were accused of dumping a half-million shares of Doman securities in November 1988 just 20 minutes before a takeover of Vancouver's Doman Industries by Louisiana Pacific was called off.

Phone records show that Bennett's office was in constant contact with lumber executive Herb Doman's office that morning. After the announcement, shares of Doman dived from \$11.37 to \$7.50. It's worth noting that when FORBES asked Tanya Sarkis, statistical clerk of the vse, for examples of Vancouver "success stories," her tidy list included Doman.

Bennett's trial has been a bit of a hoot anyway, since the ex-premier,



Humanitarian/entrepreneur Larry Brilliant



Humanitarian/stock promoter Robert Friedland



Reformed acid head turned speculator Ram Dass and Seva Foundation fundraiser Wavy Gravy

whose major fundraisers are vse notables, was snatched away from much tougher Ontario prosecutors to be tried in the friendlier confines of British Columbia, where he faces far less stringent penalties in the court of a judge reported to be soft on white-collar crime.

As the Bennett scandal illustrates, Vancouver is an extraordinarily chummy place, where a stock promoter can wander straight from the vse into public office. He can also get his wife into the act. Consider Glider Resources, a mining outfit that went public at 50 cents a share last June, and then decided to become a bat sanctuary. That didn't pan out either, so it devolved into a real estate development company. One of the firm's

managers was Yvonne Reynolds, wife of the speaker of the B.C. legislature, ex-stock promoter John Reynolds.

In theory, Vancouver should be a short's paradise, because even the most adroit promoters can keep these surrealistic stocks propped up for only so long. However, one broker, who requested anonymity, says he is wary of shorting even the most deliriously idiotic vse scams because "it's hard to get the paper around here; you have to go down to New York and New Jersey to borrow it." And another is wary of going short for a quite different reason. Fear.

"It's one thing when you're dealing with \$3 and \$4 stocks," he says. "But when you start shorting companies with a market cap of \$150 million, you don't know who's on the other side of the deal." Asked to elaborate, the broker mentions Swiss and Caribbean money, which he believes is connected with drugs (a huge proportion of Canadian drug traffic flows through British Columbia, which also happens to be the magic mushroom capital of the world). "If you hurt these guys on a drug deal, they're going to get you. So what makes you think it's going to be any different just because it's paper?"

Du Plessis should pay heed. He spent six years as a floor trader on the vse before turning whistleblower in 1986 and launching a journalistic jihad against the exchange. This culminated in a hilarious 1988 book called *Sideshow: The Howe Street Carnival*. Since then, Du Plessis has repeatedly had his life threatened and has had large men identifying themselves as "Igor" turn up at his house. Brokers and fellow journalists think he may be playing with fire.

Du Plessis says it's an open secret that the vse is used for money laundering. Dirty money is laundered through brokers who control a stock and arrange wash sales with other cooperative brokers. The clean money is then moved to a tax haven.

The vse, of course, does more than make illicit money licit. An immense amount of money comes in from Europe, where criminal elements apparently profit at the expense of gullible, foolish pension fund managers. And not just in Europe. A fund manager at United Services' Prospector Fund in

San Antonio was bribed in 1984 and 1985 with more than \$1 million to buy \$22 million worth of worthless VSE shells.

What sort of person is attracted to the VSE? Let's take Larry Brilliant, a New Age hype machine cut from a different, more capacious cloth than the generic Howe Street con artists. Brilliant is a chest-thumping epidemiologist who supposedly helped the World Health Organization wipe out smallpox in India and Southeast Asia before wiping out investors in western Canada. He is the founder and ex-chairman of NETI Technologies, an Ann Arbor, Mich. company selling "computer conferencing software."

Brilliant says that he launched NETI because he wanted to raise money for SEVA, a foundering organization seeking to wipe out blindness in Nepal. The SEVA Foundation's board members include Ram Dass, the reconstructed Harvard acidhead who, with his pal Timothy Leary, helped introduce hallucinogenic drugs to North America. A fellow board member is Wavy Gravy, the anarchistic ex-acidhead who was master of ceremonies at Woodstock, who helped run a pig for President in 1968 and who now

raises money for SEVA cataract operations. SEVA's absurd board also included Robert Friedland, one of the most successful stock pushers in Vancouver history, whose Galactic Resources lost \$44 million last year, and who introduced Brilliant to the VSE.

Brilliant donated 10% of NETI's stock to charities such as SEVA. A seemingly warm gesture, this was also a neat way of keeping stock in friendly hands, though it put thousands of blind Nepalese in the unfortunate position of having their ophthalmological futures pegged to the gyrations of the Vancouver exchange.

Needless to say, this Nepalophilic humanitarian computer-conferencing company, whose chairman tithed his salary to charity, entrusted its public relations to a Los Angeles-based firm run by Scientologists.

NETI Technologies, which once traded at \$12 a share before retreating to a recent 2 cents, was a miracle of hype and misrepresentation. Armed with bullish forecasts from Dean Witter ("the next spreadsheet") and touted as the next Xerox with multibillion-dollar potential by shrill newsletter writers such as Adrian Day and Doug Casey (pals and/or clients of the flack for

Brilliant), NETI raised over \$8 million in a 1984 public offering. An undetermined number of Brilliant's friends and six SEVA board members bought shares before the public offering.

Not long after the initial public offering, the firm realized that there was no real market for computer conferencing software, particularly not a UNIX-based product, so it retreated into itself, betting the farm on docuForum, a "group-editing" product with infinitely more modest applications. But Brilliant kept raising money. Software designers who escaped from this ludicrous company told FORBES that docuForum never had a chance of being anything more than a tiny niche product. By the time Brilliant had finished, NETI held the VSE record for the most money ever lost by a nonresource company—\$35 million—including \$8.6 million it snagged late in the game from—get this—European pension funds.

Along the way, Brilliant would trumpet financially inconsequential agreements with AT&T and Geisco as "major marketing alliances."

"It was just amazing that they could raise that last round of money," says Harry Stevens, whose legitimate

### The man who found himself

**T**o this day Larry Brilliant insists that he is just your average epidemiologist, hoping to eradicate blindness in Nepal, who drifted into the Vancouver Stock Exchange and got fleeced. But the facts tell a very different story.

In the 1970s, while wandering around India seeking the meaning of life, Brilliant ran into Robert Friedland, a future stock promoter with drug problems in his past, whose uncle, a Swiss commodities trader, had once cornered the world market in metric nuts. After a stop-off at Uncle Marcel's, Friedland made his way to Vancouver and became one of the most successful stock pushers in recent history.

Friedland, whose gold mines, including Galactic Resources and Cornucopia, produce far more press releases than precious metals, is one of the founders of SEVA and knows how to milk the blind people of Nepal for all the press coverage they're worth.

The blind came in handy for Brilliant, too, not just in getting NETI good ink but in keeping shorts at bay. To make a deal work on the VSE, you need to put plenty of shares in friendly hands. So it made perfect sense to donate stock to the wife, kids and charities, and to get friends from SEVA to come in. Anything to make it tough for shorts to borrow.

Brilliant says that neither he nor his humanitarian chums made money in NETI. "When I look into their faces, I see that they have lost money," he told FORBES. He doesn't have to look into their faces anymore: He recently moved from Ann Arbor, Mich. to that celebrated refuge for survivors of the Vancouver Stock Ex-

change, Marin County, Calif. There, he shares a house with SEVA cofounder Ram Dass, who in 1984 took time off from bashing the capitalist system to buy a couple of thousand shares of NETI before the initial public offering.

Alan Morinis, a board member of both NETI and SEVA, sold around 30,000 shares after NETI went public. Morinis establishes the ethical tenor of Brilliant's circle when he says of his investments, "I did fine in NETI. But I may not be telling you the truth."

To this day Brilliant insists that he never really knew anything about the financial architecture of the VSE. The facts suggest otherwise. Brilliant participated in a host of his buddy Friedland's promotions, making \$400,000 off a \$100,000 investment in Galactic, and also making money in Quartz Mountain and other Friedland productions. He got in on Medallion Books, a multilevel marketing stinkeroo. He split a \$300,000 finder's fee with two other men when Friedland needed to line up some investors to prop up his floundering gold mine. And the guy who claims to be a financial bozo admitted to FORBES that he bagged a nifty \$100,000 when he "did an arbitrage between two different classes of Galactic stock." Poor, dumb, unsophisticated Larry.

Most of Brilliant's insanely loyal supporters still buy his story that he got taken by the sharpies up north. Says ex-employee Wadad Abcb, "He is now on a ritual travel trip, devoting more of his time to his spiritual needs." Adds another NETI alumnus, Kevin Gallagher, "He is recentering himself spiritually."—J.Q.

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if unsuccessful company was acquired by NETI. Adds Marcus Watts, the software programmer reputed to be one of NETI's first employees: "At one point, they mailed a demo disc that had nothing to do with the product I had worked on."

Smoke-and-mirror outfits such as NETI are aided and abetted by a press that is often a sucker for humanitarian pitches—sightless Nepalese, for example. This has tended to get favorable publicity for these hype jobs. In 1985 the normally skeptical London *Financial Times* ran a story suggesting that NETI was just the kind of company the VSE needed to spruce up its image. Needless to say, the dealsters exploit such publicity to the hilt.

When anyone tries to trash a VSE production, the principals invariably threaten lawsuits, moaning that shorts are spreading rumors that they're mobsters or morons or dead.

**VSE publicist Joyce Courtney would have liked to talk longer, but she and the president of the VSE were on their way to hear a speech by American Stock Exchange Chairman Arthur Levitt. The subject of the speech was "Rebuilding Confidence in our Investment Markets."**

Thus Archer Communications, a maker of 3-D audio equipment, recently sued *Vancouver Sun* journalist David Baines for drawing attention to its trading irregularities.

Every so often, beleaguered B.C. regulators muster the resources to jail some hapless thug. The VSE then trumpets the imprisonment of the criminals behind an International Tillex as an example of how it is cleaning up. But it is never clear what one particular lowlife did that made him the object of prosecutorial vigilance, while scores of other lowlives beat the rap. The fact is, being thrown off the VSE for being crooked is like being thrown out of the Khmer Rouge for being too bloodthirsty.

When FORBES contacted the exchange recently, VSE publicist Joyce Courtney had to cut our chat short because she and her boss, VSE President Hudson, were on the way to a speech by American Stock Exchange Chairman Arthur Levitt. The subject was "Rebuilding Confidence in our Investment Markets." Which just goes to show: There isn't much gold in Vancouver, but there's still plenty of brass. ■