Wall Street Weaselwords

Pretexting, backdating, market timing. So many of the phrases that catch on in the business world obscure what's really happening. Can't we use just plain English?

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Oct. 2, 2006 issue - There are times when having an English degree comes in handy for looking at the business world. This is one of those times, because the only way to grasp the essence of the Hewlett-Packard and "backdated" stock-options scandals is to speak in plain English instead of using euphemisms that obscure what's going on. As even non-English majors know, euphemisms—such as "advance to the rear" instead of "retreat"— are words designed to make ugly things sound less ugly. Think of it as putting perfume on a pig.

Our most recent pig is "pretexting." It's a term that's been around for years but became widely known only when news broke recently that people who call themselves pretexters had impersonated members of the HP board of directors to get their phone records. The information made its way to Patricia Dunn, HP's soon-to-be-former chairman of the board, who used it to out a leaker on the board. (Dunn says that, at the time, she didn't know how HP got the phone records.)

Pretexting sounds innocent—something involving books, perhaps. But what it really means is "lying." Pretexters lie to phone companies or credit-card companies or God knows who else by impersonating you so they can get unauthorized access to your personal records and sell the information. Every time I hear the word pretexting, I grit my remaining teeth. If we called this sleazy—and possibly illegal—practice lying, we might get less of it. Call me naive, but even some pretexters might try to find another way to make a buck if they had to tell their friends and families that they're professional liars.

Then there's "backdating" stock options—more pig-perfuming. In English, it means "cheating." Companies cheated their shareholders by transferring wealth from them to employees (often top executives) —and in the process reported years of falsely high profits. Here's how: Employee options give you the right to buy shares at a fixed price for a fixed period, call it 10 years. These options were supposed to be priced at the stock's market value the day they were granted, to align optionholders' and shareholders' interests. Instead, dozens of companies granted the options at a lower, earlier price. Hence the term backdating. That doesn't sound offensive—unless you happen to know how options work and how companies were supposed to account for them.

Let's say, for example, that you got options for 1,000 shares of stock when it was $35, but they were backdated to a day the stock traded at $30. If you exercised the options, you paid the company $30,000 for the shares instead of $35,000. You're $5,000 ahead, the shareholders are $5,000 behind. What's more, under accounting rules years ago when these options were granted, companies didn't have to subtract the value of options from their reported profits if they were granted at the market price. But they did have to subtract the value of below-market-price options. That's why companies involved in the scandal are restating their profits from earlier years. (Accounting rules have since been changed, and now require all options to be counted as an expense.)

Then there's the mutual-fund scandal that New York Attorney General Eliot Spitzer kicked off three years ago when he revealed that large, well-connected hedge funds had taken advantage of small, unconnected investors by "timing" the mutual funds in which these small fry had investments. Timing is the euphemism hedgies used to describe their activity—which we should call "skimming." The hedge funds did rapid-fire trading of boatloads of mutual-fund shares in a way designed to let them skim profits from the funds' other, smaller investors.

Most timing is a legitimate strategy: trying to buy investments at the bottom and sell them at the top. Had hedge funds called themselves skimmers rather than timers, at least some of their investors might have suggested it was wrong. And we'd have had a skimming scandal, which anyone could understand, instead of a complicated timing scandal.

Finally, we have the tried-and-true euphemisms that Wall Street uses to help keep money flowing into investments. When stock prices fall sharply, it's a "correction," not a "decline" or a "crash." If a drop is a correction, were the price rises preceding the drop a "mistake"? Of course not, they were a "rally." Then there's "profit taking." Which is really "selling," because no one knows if the sellers are taking gains or losses.

I could go on, but you get the point. Euphemisms obscure. Plain English enlightens. So whenever anyone drops a market euphemism on you, tell her to stop prettying up pigs.