

Insider Trading : How the SEC Broke Huge Stock Case

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Jack Nugent started the ball rolling by blabbing to Tom Peacock about his Washington lobbying firm's hot new client. Peacock passed the word to his stockbroker, Steve Tatusko. Tatusko invited nine guys in his brokerage office in on the deal.

When an \$8,700 stock option investment out of that office turned a \$911,000 profit in four days, the Securities and Exchange Commission got very interested.

And that was only one phase of what became the biggest insider trading case in history.

Alhambra Oil Company

Santa Fe International, an Alhambra oil company, announced on Oct. 5, 1981, that it was being purchased by Kuwait Petroleum Co., an arm of the Kuwaiti government, for \$50 a share, or twice the market price of the stock.

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For every gain in the securities markets there is, of course, a loss. Here, the principal victims were floor traders of Santa Fe stock options on the Pacific Stock Exchange in San Francisco, who are required to quote a price for every option and fill every order.

Thousands of Options Sold

In the weeks before the Oct. 5 merger announcement, these traders sold thousands of options representing contracts to sell hundreds of thousands of Santa Fe shares. Known as "out of the money" options because they gave buyers the apparently worthless right to buy shares for \$30 or \$35 each at a time when the stock was available on the open market for less than \$25, they went spectacularly in the money on Oct. 5, when the stock jumped to nearly \$50.

William Charles had been an options trader for less than three years. The expense of covering his obligations on Sante Fe options wiped out everything he had made up to then and left him with a debt of more than \$1 million. He needed three years to accumulate again as much capital as he had before the merger. "It was like I worked three years for nothing," he says.

Other traders never did recover. Although the millions disgorged through the SEC's efforts will go into a fund to reimburse traders and others, the victims expect to recoup less than 30 cents for each dollar of losses.