

**BILL ACKMAN**

When I was a student a good friend of mine told me that he was thinking of becoming involved with a company called Amway and he suggested that I should also think about becoming involved. I had never heard of Amway so my friend told me that they were a company that sold lots of everyday products like washing powder. He also told me the reason I had not heard of them was because instead of selling through retail outlets they used a “direct marketing” approach.

My friend invited me to attend a meeting that described how this “direct marketing” approach worked. To my surprise the meeting was held in an ordinary family home. The speaker had a selection of Amway products and he said that all members tended to use the products themselves as they were good quality. Members also sold the products and they received a percentage of any sales they made. These sales tended to be mainly to family and friends. The speaker then went on to say that if a member introduced a new member they would also get a small payment for anything they sold. If the member you introduced then introduced a member you would also get a payment for whatever they sold.

I didn’t say anything at the meeting but afterwards I said to my friend that I was uncomfortable with the concept. I said that the effort involved in selling to family and friends was too great for the money involved and the idea of making money from recruiting new members who would go on to recruit other members struck me as sounding like a pyramid scheme.

At the time I felt that even if it wasn’t illegal, ethically it was not something that I wanted to get involved with.

A short time later my friend gave up his dream of becoming an Amway millionaire and over the years it has never come up in conversation again.

Until a few weeks ago the name Bill Ackman and Pershing Square / Gotham Partners were names I had heard of but were not names I had researched to any extent. I knew Bill was a hedge fund manager and his company was Pershing Square. I also knew that he was known as a value manager with a reputation for activist investing.

I had come across him in the context of the Pershing Square Challenge, a competition he sponsors for students at Columbia University, where the students present investment ideas and the winners receive prize money

(Details on the Pershing Square Challenge can be found at: <http://www8.gsb.columbia.edu/valueinvesting/events/pershing>)

I had also heard of him because of his high profile involvement with Procter & Gamble where he agitated for management change.

It was only when another member of the Value Investment Institute brought my attention to an interview with him on YouTube that I realised that he was a particularly interesting individual.

(The interview can be found at: <http://www.youtube.com/watch?v=Lnh0TmyVG9A>)

The interview covers many aspects of Bill's career but the part of the interview that attracted my attention the most was the part that dealt with a company called Herbalife.

According to Bill, Herbalife is a pyramid seller. The way he described it reminded me of Amway and given how uncomfortable I felt at that Amway meeting nearly thirty years ago I decided to do a bit more research.

I started off with the original presentation that Bill gave on Herbalife at a conference on Dec. 20th 2012: (<http://www.visualwebcaster.com/VWP/Player/advplayer.html?id=91149&uid=0&time=GEFHFGFMFHEHE&digest=q1XhXJcPfg/ORCOPYlpLWQ&ls=>)

Having watched the presentation I felt that he had made a pretty convincing argument. I thought that the share price would struggle to recover from such an in depth piece of research but I was surprised to discover that it had not only recovered from an initial fall but had gone on to increase significantly.



In the original interview Bill mentioned that Carl Icahn had been appearing on TV promoting Herbalife but it was only on further investigation that I discovered that Carl had become a major shareholder.

Not only had Carl Icahn got involved but other well known investors like Daniel Loeb (mentioned in my June opinion piece because of his activism at Sony), Kyle Bass and Stan Druckenmiller had also been buying Herbalife shares. They obviously did not believe Bill when he said that it was a pyramid scheme.

Carl went on the record saying that Bill was wrong because his legal advice was poor. Carl said that the legal firm Bill used was not a specialist in that area. Carl said that his legal advisers specialise in this area of consumer protection and they believe that Herbalife is not a pyramid scheme.

Bill and Carl even ended up in a nasty debate live on CNBC where the accusations flew thick and fast (<http://www.youtube.com/watch?v=hCZRk11L90Q>)

Unfortunately I am not in a position to say whether Bill is getting good or bad legal advice. All I know is that I felt ethically uncomfortable with Amway and I get the sense that there is an ethical dimension to Bill's stance on Herbalife.

I am also concerned by the obvious hostility that exists between Carl and Bill. Part of me thinks that Carl sees this as an opportunity to get one over Bill because of the legal battle they had a few years ago.



As part of my research into Bill and Herbalife I also discovered that this was not the first time Bill had taken what I would describe as an ethical position on an investment. Back in 2003 Bill had researched a company called MBIA and he had reached the conclusion that it was trying to pretend that it was financially strong but in reality it was weak and that weakness was a threat to the whole financial system. For four years Bill did everything in his power to convince the American authorities and the Ratings Agencies that they needed to do something about MBIA but the more he tried the more he was treated as a crank.

In the end he was proven right as MBIA contributed to the near collapse of the global financial system in the wake of the Lehman bankruptcy.

To me the whole MBIA situation gives Bill enormous credibility and makes me think that he is motivated by wanting to do the right thing as much as by wanting to get wealthy.

(I highly recommend the book "Confidence Game" by Christine Richard because it goes into detail on the whole MBIA saga.)

When Bill talks about Herbalife he talks with passion about how he feels the majority of the people that become Herbalife distributors will be worse off rather than better off. He feels that poor, less well educated people are being sold a get rich quick dream but the only people getting rich are a small minority of distributors and the executives at the top of the organisation.

What I can gather from what Carl has said is that he seems to think that Herbalife distributors are being given a chance of setting up their own business and as the majority of small business start-ups fail well then Herbalife is no worse than any other business opportunity. I personally have a problem with this logic because of my experience with Amway. If I thought somebody could make a decent living from selling Herbalife products without recruiting other distributors I would not have a problem and I presume Bill Ackman would feel the same way.

In one of Bill's presentations he specifically referred to Ireland and so even though I have not personally been offered any Herbalife products and no one has tried to get me to be a distributor, I know that there must be people in my community that are in most likelihood going to end up losing money. I therefore hope Bill succeeds in his attempt to reform the direct marketing industry.

In conclusion I just want to say that I do not know how this is going to end because it really will come down to a legal argument rather than an ethical argument but I know where my sympathies lie.