Responding to Deception: The Case of Fraud in Financial Markets

Elisabeth Brooke Harrington, Copenhagen Business School

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The Case of Fraud in Financial Markets

Brooke Harrington

I took such pains not to keep my money in the house, but to put it out of the reach of burglars by buying stock, and had no guess that I was putting it into the hands of those very burglars now grown wiser and standing dressed as Railway Directors.

*Ralph Waldo Emerson, 1857*

The economic history of the 21st century reads like a litany of Biblical plagues: instead of locusts, frogs, and boils, we have Enron, WorldCom, and Tyco, followed by the options-backdating scandal and now the subprime mortgage meltdown. It is perhaps even more disheartening to realize that American investors are still in much the same position as Emerson was over 150 years ago: dismayed to find themselves on the receiving end of deceptive corporate practices. *BusinessWeek* summed up this crisis in financial markets with the headline: “Can You Trust Anybody Anymore?”

What happens when deception on such a massive scale is uncovered? How do social beings cope when they discover they have been duped? As it turns out, one of the biggest gaps in our knowledge about deception concerns the experience of those who have been deceived; as fragmented as research has been on deceivers, we know far more about them than we do about their targets. This chapter addresses itself to that lacuna by examining the responses of U.S. retail investors to deception by the companies in which they invested, as well as by the auditors and institutions that maintained trust in the financial system.

Brooke Harrington is a research fellow at the Max Planck Institute for the Study of Societies in Cologne, Germany. Her research examines the social underpinnings of financial markets. Her book on retail investors, *Pop Finance: Investment Clubs and the New Investor Populism*, was published by Princeton University Press in 2008, and she is now conducting a study of dynastic wealth.
While other chapters have explored definitions of deception, its ethical status, and the pragmatics of its execution—from minute movements of facial muscles (see Frank, this volume) to photographic forgeries (see Farid, this volume) and cognitive hacking (see Thompson, this volume)—this chapter will focus on deception’s aftermath: the repair work “dupes” must undertake in order to participate again in social life, including economic activity. The eminent sociologist Erving Goffman termed this process “adaptation to failure.” Writing about con artists and their “marks,” Goffman noted that among the consequences of deception for those on the receiving end, losing money was less distressing than losing an idea of themselves as competent, intelligent individuals. As a result, people who have been fleeced by con artists rarely go to the authorities for legal redress, because to do so means public exposure (and humiliation) as dupes. Instead, the dupes often turn to private means of identity repair, such as seeing a psychiatrist or accepting the ministrations of the con artist’s “cooler”—a person charged with consoling the mark and patching up the identity damage done to him or her.

Unfortunately, Goffman’s analysis stops short before offering a more comprehensive analysis of “adaptations to failure.” Since his theories posited action (rather than beliefs) as the basis of social life, his primary interest was in the puzzling inaction of those who had been deceived by con artists: why they did not go to the police, for example. My goal is to build on the foundation Goffman laid by examining in more detail what the deceived do to repair the damage done to their social identities by the discovery of a deception. If they are not going to the authorities, what are they doing?

To this end, I will propose a model of responses to deception, illustrated with anecdotes from my own field research among U.S. retail investors: individuals whose contributions to the stock market fuelled the prosperity of the 1990s, and who lost significantly when the dot-com bubble burst and the revelations of corporate fraud began to unfold. My findings build on and expand Goffman’s model by illustrating a set of responses stemming from a possibility he did not consider: marks sometimes refuse to acknowledge that they have been conned. This is closely tied to the phenomenon of self-deception described in Lutz’s chapter (this volume).

My findings, detailed below, show two framing devices (another theoretical contribution of Goffman’s) that marks use to deny that they were conned. One approach acknowledges the con, but not the individual’s role as a mark; rather, the individual asserts him- or herself as a knowing accomplice of the
con artist. While this creates a burden of culpability for the individual, he or she also avoids the loss of status associated with being identified as a victim. The second method means denying that the con ever took place, instead framing losses as a temporary setback in a fundamentally sound endeavor. Both strategies allow the deceived parties to continue their participation in the con—of course, in a different kind of game than the one-time, hit-and-run cons that Goffman’s theory envisaged. Instead, this chapter, along with several others in the volume (see Rowan, for example), supports what might be called the “P. T. Barnum hypothesis”: that some cons can be both chronic and systemic, with deception built into certain institutions as an enduring feature of their operation. But the stock market, unlike the circus, does not require a sucker to be born every minute: rather, marks manage their own sustained participation in a corrupt and deceptive financial system.

My interest here is not so much why individuals participate in these frauds, which may include motives such as financial necessity, greed, naïveté, a desire for risk as entertainment, or even misguided love (see O’Sullivan, this volume, on the ways in which even truth wizards can be blinded by affection). Rather, I want to examine how actors engage in these practices, making themselves knowingly complicit with those who wish to defraud them. Through what means do individuals accommodate themselves to corrupt arrangements and then “move on” in the aftermath? These processes form an essential part of what Goffman called “a very basic social story”: that of the seduction, deception, and consolation of marks by con artists.

Adaptation to Failure

Unlike previous generations who fled the stock market following major downturns (most notably the cohort who could recall the crash of 1929 and the Great Depression that followed), the retail investors of the 1990s have largely stayed put: the proportion of Americans who own investments in the stock market has remained relatively stable since 1999, at a little over 50 percent, and their input continues to buoy stock prices. This is noteworthy for a number of reasons. First, it suggests why we need a better model of responses to deception. The repertoire of “adaptations to failure”—in this case, failure to anticipate the bursting of the dot-com bubble and to expose the corruption that underpinned it—appears to be broader than the withdrawal and wound licking that Goffman posited.
Second, the persistence of retail investors defies economic expectations as well as sociological ones. While caveat emptor may be the rule in individual transactions, even conservative economists agree that public trust in markets as a whole—including the belief that cheating will be caught and punished, by prices if not by regulation—is a necessity in order for modern capitalist economies to function. Indeed, modern economics views financial markets not just as a mechanism for conducting transactions and generating profits, but as a social coordination mechanism: a system of governance and a basis for social order unto itself. Thus when markets break down, the whole social system is endangered.

Alan Greenspan—then-chairman of the Federal Reserve Board—summed up the problem in a 1999 commencement address at Harvard College: “Trust is at the root of any economic system based on mutually beneficial exchange. In virtually all transactions, we rely on the word of those with whom we do business . . . If a significant number of business people violated the trust upon which our interactions are based, our court system and our economy would be swamped into immobility.” While the years immediately following Greenspan’s speech were filled with revelations of the ways in which “a significant number of business people violated the trust upon which our interactions are based,” his predictions of an immobilized economic and legal system did not come to pass until recently, when U.S. banks stopped lending to one another. Remarkably, though, the millions of amateur investors who were expected to lose faith and take their money out of the stock market have not done so. Their savings and retirement funds have remained largely unchanged since before the credit crunch, despite the risks presented by institutional insolvency and plummeting stock prices.

This begs the question: How is such robustness and resilience possible, particularly among people whose whole net worth may be at stake? At a practical level, how do investors continue participating in market system that has shown itself to be corrupt at many levels? While this may be due in part to regulation designed to restore faith in the system—such as the Sarbanes-Oxley bill—recent evidence suggests that such measures have been largely ineffective and may actually have increased incidents of financial fraud. For example, a 2007 economic study of regulatory measures taken following the Enron and WorldCom cases found that “tougher regulation may sometimes have unintended consequences; in particular, making disclosure of firm results more precise can actually increase incentives to commit fraud.”
And while we can make some educated guesses as to the reasons why Americans continue to invest in a market system that has violated their trust—reasons such as the economic necessity imposed by an inadequate social safety net—we know almost nothing about how they do it. How, for example, do people overcome the distrust that Greenspan and many others have posited as fatal to the economic system, and continue entrusting their money to corporate entities within a system that has proven itself to be rife with deception? What “adaptations to failure” have these individuals developed?

Examining these questions about contemporary American investors can shed light on a much broader puzzle in social life: how individuals sustain their participation in systems they know to be corrupt or fraudulent. This theme crops up throughout the chapters in this volume, as when Fine describes how some people willingly spread rumors they know or suspect to be false, or when Möllering writes of the suspension of disbelief that makes both trust and deception possible. Both imply a troubling complicity between deceivers and their targets, one that raises further questions about the ethical status of deception, such as: Do some people, sometimes, want or need to be deceived? Perhaps, as T. S. Eliot wrote in *Four Quartets*, the problem is that “Human kind cannot bear very much reality.” If so, then what happens when we are confronted with the disillusioning reality that we have been duped? How do we make ourselves whole again?

“Irrational Exuberance” and the New Investor Class

In hindsight, it is easy to point out signs that some sort of fraud underlay the U.S. stock market boom of the 1990s. As economist and historian John Kenneth Galbraith once wrote, all of the great swindles—from the South Sea Bubble of 1720 to the Ponzi schemes of the 1920s—have been driven by the “mass escape from sanity by people in pursuit of profit.” As if to illustrate his point, just months before the dot-com bubble burst, U.S. publishers brought out three books (by three different authors) vying to make the most optimistic claims about the trajectory of the bull market: the publication of *Dow 36,000* in May 1999 was followed in June by *Dow 40,000*, and in September by *Dow 100,000*. Though we might now wish to shelve these books in the science-fiction section of the library, at the time their ideas were treated quite seriously and discussed earnestly in almost every public news forum.

However implausible it might seem in the morning-after light of the early
21st century, these books simply reflected the astonishing upsurge in the stock market just prior to their publications. For example, on March 29, 1999, the Dow Jones Industrial Average—an index of the stocks issued by 30 industrial firms that has long been used as a barometer of the U.S. stock market as a whole—closed above 10,000 for the first time in its history, having doubled its value since 1995; just five weeks later, the index climbed another thousand points to close over 11,000—the fastest run-up in its history. This frenzy of economic optimism culminated on January 14, 2000, when the Dow closed at what was then an all-time high of 11,722.98, followed by a descent almost as swift as its rise, with the index dropping almost three thousand points over the next few months.

Among the most notable legacies of this extraordinary period was a shift in what could be called the “investor class.” Once limited to a tiny elite among America’s wealthiest families—the 1 percent of adults who owned stocks in 1900, which by 1952 had risen to just 4 percent—investing in stocks became a mass activity, involving over half the U.S. adult population by the end of the 20th century. Much of this growth in “market populism” occurred during the 1990s. For example, at the beginning of that decade, about 21 percent of American adults owned stocks; seven years later, the percentage had more than doubled, rising to 43 percent; by 1999, the figure was 53 percent, where it has held steady despite the market downturn.

Investment clubs were a major source of this growth in the investing population; as do-it-yourself mutual funds, they made it easy for first-timers to start buying stocks and learning about the market. The clubs typically involve 10 to 15 people who contribute an average of $35 each—the mean cost of a single share on the New York Stock Exchange—at monthly meetings; the group then allocates this investment capital to a portfolio of stocks the members own in common. In this respect, the designation “club” is somewhat misleading: while investment clubs are voluntary associations, their ownership of stocks subjects them to legal, accounting, and taxation requirements much like any small business. Perhaps more important, the clubs have significant economic clout: by the late 1990s, an estimated 11 percent of American investors—about 20 million people—belonged to an investment club, pouring hundreds of millions of dollars into U.S. stocks every month. Since, simply put, “firms commit fraud in order to get funds from investors,” all this new investment flooding the market presented a tempting target for corporate deception.

Retail investors do not deserve blame for being conned. In fact, as recent economic research concludes, “it is pointless to blame investors for the abuses
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[of corporate corruption] by arguing that they were careless or naïve when making their decisions. . . . it may have been fully rational for them to trust publicly available information in many cases, instead of carefully monitoring firms that requested funds." Rather, from a sociological viewpoint, studying U.S. retail investors and their experiences in the late 20th and early 21st centuries presents a rare opportunity to examine fraud from the perspective of the mark.

Goffman argued that individuals who have been conned shun attention afterwards, preferring to repair the damage they have sustained in private. But my investigation of the repair work done by defrauded investors suggests that, rather than retreating from social life, they used small-group interaction to cope with their predicaments. Their identity-rebuilding project employed the same kind of group processes, and call-and-response mechanisms posited by Goffman in his work on the construction of self. And while many of the investors I studied defined their experiences in terms of being defrauded by deceptive corporate practices, they nonetheless continued investing in U.S. stocks. This behavior was due in part to structural reasons I describe in greater detail elsewhere--most notably to the lack of secure retirement funding from either public or private sector organizations--and was consistent with the national trend. Even by 2003, well after the dot-com bubble burst, investment clubs still owned $125 billion worth of U.S. stocks—including significant stakes in Fortune 100 firms like General Electric and Intel—and were pumping in new investment dollars at the rate of $190 million each month.

Because they were still actively engaged in the stock market following revelations of deception by many major firms, the investors I interviewed had adapted to their situation in ways that permitted them to continue participating in the system rather than withdrawing. These adaptations were my primary interest, as the existing scholarly literature had little to say about how people recover from such significant breaches of trust. Rather than the post-deception withdrawal posited by Goffman (and by economic theory), I found investors using other strategies to make the seemingly impossible possible: to continue investing without trust or faith in financial institutions.

Responses to Deception

Before discussing the adaptations in use by the retail investors I studied, it may be helpful to review the little that is known about responses to deception. As Goffman notes, marks assume a series of common postures following their
discovery that they have been duped. These include despair, denial, and of course anger, leading to the need to “cool out” the mark. The process typically happens in private and culminates in withdrawal—not just from the scene of the con but also from social life more generally. Being conned, Goffman wrote, destroys the self symbolically, rendering victims “socially dead.” This may help explain why many of the adaptive mechanisms observed among the deceived resemble those seen in individuals grieving the death of a loved one, such as denial and lethargy.

Goffman’s interest lay in the production of inaction: the docile or lethargic state of the mark that protects the con artist from exposure and punishment. Thus Goffman focused on the role of the “cooler,” the con artist’s accomplice who comes in after the deception is complete to offer “words of consolation and redirection” to the mark. Coolers encourage marks to define their positions in such a way that their responses do not threaten future con operations.

When the bull market of the 1990s collapsed, financial and government institutions deployed similar mechanisms to “cool out” the millions of investors who discovered that they had been defrauded following the collapse of the boom market. The effort deployed by the coolers in this case was formidable, from the public officials who consoled retail investors by assuring them that their sufferings would be avenged in the courts, to policymakers who lowered interest rates and encouraged investors to redirect their attention toward real estate, and finally to the finance-industry journalists and pundits who encouraged retail investors to turn their anger inward, blaming themselves as accomplices in the market’s collapse.

Retail Investors: The Interview Participants

The investors I interviewed in 2004 were members of a sample group originally chosen at random in 1997 from a list of investment clubs in the San Francisco Bay Area, where I was conducting research for the large, multimethod study that became Pop Finance. All 50 interview participants—28 men, 22 women—belonged to one of the seven investment clubs whose monthly meetings I observed between late 1997 and early 1999. Since not all of the clubs I had followed in the 1990s survived the market downturn, I was not able to interview all 83 members of the original clubs I had studied in the earlier part of my research; many had left the Bay Area and were out of touch with other club
members, thus I was unable to trace them. However, by the time of my 2004 follow-up study, four clubs were still in operation with a largely unchanged cohort of members, and I ultimately managed to find and interview over half of the members of the three clubs that had disbanded. When I reconnected with them, my questions focused on whether and how their investing behavior had changed following the revelations of financial deception in American companies over the previous three years.

In this regard, it was useful to begin the interviews with one of the most difficult questions: How much money did you lose when the dot-com bubble burst in mid-2000? Of the four clubs that remained intact, all had lost substantial sums of money compared to their cash outlay—most estimated the loss at between one-third and one-half of the club’s precrash portfolio value. Perhaps tellingly, few of them kept detailed enough records for me to confirm these figures independently; maybe not knowing exactly how much they lost was part of what enabled them to survive. Among the three clubs that had disbanded, the members I interviewed were also vehement that money had nothing to do with their decision to split up, citing other factors—such as fragile relationships among members—instead.

Table 13.1 summarizes the financial status of the seven clubs at the time of the follow-up study. For the groups that remained intact, I was able to use their current records to calculate their annualized internal rate of return, a standard performance measure used in the finance industry as well as by many investment clubs. For disbanded clubs, I spoke to the treasurers and

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<thead>
<tr>
<th>Club</th>
<th>Still Together?</th>
<th>Compound Annual Return from Inception Through February 2004, or Date Disbanded</th>
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<tbody>
<tr>
<td>Portfolio Associates</td>
<td>Yes</td>
<td>24%</td>
</tr>
<tr>
<td>Valley Gay Men’s Investment Club</td>
<td>Yes</td>
<td>16%</td>
</tr>
<tr>
<td>Ladies With Leverage</td>
<td>Yes</td>
<td>3%</td>
</tr>
<tr>
<td>California Investors</td>
<td>Yes</td>
<td>-2%</td>
</tr>
<tr>
<td>Bulls &amp; Bears</td>
<td>No</td>
<td>30%</td>
</tr>
<tr>
<td>Asset Accumulators</td>
<td>No</td>
<td>22%</td>
</tr>
<tr>
<td>Educating Singles Against Poverty</td>
<td>No</td>
<td>9%</td>
</tr>
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</table>
either obtained the last accounting statement or used the treasurer’s best estimate of the group’s returns. While these estimates are obviously less reliable than the accounting statements, my goal was not to document rates of return with precision, but rather to establish a context for the adaptation strategies the interview participants had developed. To put these figures in broader perspective, investment clubs across the United States earned an average of 12.6 percent annual rate of return on their portfolios during the 1990s—somewhat above the average for U.S. stocks over the past century, but well below the annual return rates of those stocks during the 1990s, which sometimes exceeded 30 percent.

While it would be unwise to rely too heavily on these figures, there does appear to be a surprisingly weak relationship between profits and investment club participation. That is, clubs that were doing poorly (such as California Investors) did not necessarily disband, and those that were doing better financially (such as Bulls & Bears) did not necessarily stay together. This “loose coupling” between financial payoffs and perseverance in investing may have provided participants with some valuable flexibility in reframing their experiences on the receiving end of corporate deception, allowing them to adapt rather than withdraw from the market as previous generations had done.25

Also, as studies of organizations in complex environments have shown, the more instability and rapid change that surrounds it, the more an organization has to adopt a “chameleon strategy,” remaking its identity and self-presentation in order to adapt and survive.26 For groups investing in the stock market—one of the most volatile organizational environments imaginable—reframing their identities in an adaptive way allowed them to continue participating in the financial system even after its deceptive practices were revealed. So, rather than withdrawing, as predicted by Goffman’s theoretical model, these marks who were targeted as a group also responded in groups: put in the language of Goffman’s theories about identity, retail investors were able to maintain their lines of action via their identity-related interactions.

Findings

Paralysis: Frozen in the Headlights of History

Like the marks in Goffman’s study of con artists, most of the investors I interviewed experienced a period of shock and paralysis upon learning that they had been deceived. Many said that they “froze” when the news broke about
Enron, WorldCom, and other financial frauds: unsure what the declines in stock valuations meant, or how long they would last, the majority of participants in this study just stopped buying or selling stocks. Some participants were still in that state of suspended animation when I interviewed them in February 2004. As Carla of the disbanded mixed-gender club ESP put it: “I don’t know whom to trust. I’m not sure if [our] system is wrong, but [it] assumes that you can trust firms’ financial statements, and I have no idea what to do now that we know you can’t trust anything firms tell you.” Like Carla, other participants in my study expressed resignation upon learning of the frauds perpetrated on them, even as recognition grew as to the pervasiveness of corruption in the stock market. Neither angered nor energized by the crisis, most still claimed to be frightened, both by the losses they had already experienced and those that the future might hold. Yet their fear did not motivate action: these investors just sat on their portfolios and did nothing. While they lacked the generalized, impersonal trust in the “system” that economic theory suggests is necessary for the capitalism economy to function, they kept their money in the stock market rather than “cashing out.”

These investors reached stasis in part by construing their situation as offering no alternatives to remaining invested in the stock market. This interactive framing process, which—like their investment decisions—occurred through group discussion, closed off options that were objectively available to them, such as FDIC-insured savings accounts or certificates of deposit. As a result, these participants acted “as if” they had no choice about where to put their money. Troy of Valley Gay Men’s Investment Club summed up this point of view by asking: “Where else are we going to put our money? In the mattress?” This phrase recurred, verbatim, in interviews with men and women from other three clubs I had studied, almost as if it had become a mantra for the survivors of the dot-com crash. Repetition of this phrase was like a magic spell immobilizing those who used it, leading directly to their (in)actions.

On the one hand, the financial losses these clubs and individuals experienced as a result of corporate fraud and the subsequent collapse of the bull market makes it surprising to see a rationale like “where else are we going to put our money?” invoked. After all, if their money had been stashed in a mattress, at least they would not have lost it as they did in the stock market. And yet Susan of Ladies with Leverage, echoing the sentiments of many of the interview participants, said, “I can’t afford to leave [the market] . . . I have to make back my money.” Since her club still owned 62 shares of WorldCom—by
then delisted and almost valueless—and had lost everything it had invested in the TriTeal IPO (a firm described by Motley Fool as one of the “worst investments of the 1990s”), the prospect of making the money back with new investments seemed a little far-fetched. But her trust seemed to be grounded in the interactions of the investment club proper, rather than in the market as an institution whose untrustworthiness she acknowledged. “We did not lose money because we made bad decisions,” she said. “We lost money because the market was sinking under its own corruption.” The men of Portfolio Associates gave a similar account of their reasons for continuing to invest as part of the club, despite the shock and disappointment of their losses in the previous three years. When I asked them why they kept investing together, several of the men responded in quick succession:

*Charles:* Inertia.

*Dave:* Habit.

*Kevin:* We’re joined at the hip.

*Arnold:* We needed someone to commiserate with about the market.

All four answers foregrounded the role of the group as a coping mechanism rather than the profit-generating entity that it once was. In a sense, this was a textbook example of the “chameleon strategy,” shifting from one identity to another as the market environment required. All the clubs that remained intact performed this kind of adaptive maneuver, which probably contributed to their survival. Members of the clubs that did not effect this identity reconstruction had to do it themselves—not alone, but in small groups other than their investment clubs—in order to continue investing (see the following two sections for details on the processes of denying the con and identifying as an accomplice).

Among the clubs that were still investing together in 2004, interaction patterns remained very similar to those I had observed five years previously. The members of Portfolio Associates continued to bicker amicably after amassing over a million dollars in stock holdings; similarly, I found that Ladies with Leverage still relied on members’ consumer experience as its primary means of evaluating stocks. The men of Valley Gay Men’s Investment Club had experienced some turnover, but five of the original members remained, six new ones had joined, and most of the stock purchases the club had made since its inception six years earlier were still in the group portfolio, including Dollar General, Amgen, Lear, and Medtronic. The other all-male group, California
Investors, was largely unchanged in membership and investment strategies; its portfolio had changed only because the club members continued to employ costly and counterproductive stop-loss orders to automate the sale of stocks they owned when the share values dipped below a specified limit.

In other words, these four clubs seem to have weathered the discovery of widespread fraud in the U.S. stock market by ignoring or minimizing it. To the extent that the participants made changes in their investing strategies, they were relatively minor. While some had begun investing in real estate because it seemed less prone to the kind of “book cooking” frauds that had been exposed in the Enron and WorldCom cases, most participants made smaller moves, like seeking out firms that paid cash dividends or seeking information from individuals they knew and trusted, rather than the mass media or other arms’-length sources. As Stan of California Investors put it, “I love cash dividends; you can’t fudge a cash dividend.” This “show me the money” response was echoed by the members of Valley Gay Men’s Investment Club as well as those of the defunct club Bulls & Bears, whose members continued to invest on their own. Some participants also began seeking advice from finance professionals, but only those with whom they had long-term, face-to-face relationships. For example, Janet of ESP turned her portfolio over to her nephew, a professional money manager; similarly, Greg of Bulls & Bears said he “only trades now based on the recommendations of people I know personally.” Both of these responses are essentially tactical adaptations rather than withdrawals or active strategy changes, and their consequence was to maintain the status quo and keep these individuals invested in the stock market.

**Denial as Adaptation**

Some investors adapted by simply refusing to acknowledge the con: they claimed no deception had occurred. Social psychologists who have observed similar phenomena within cults and other insular groups call this response “escalation of commitment.” Perhaps the most eloquent expression of this quasi-religious faith in the market was provided by Stan of California Investors. When I asked the group when members knew the bull market of the 1990s was over, Stan rejected the premise of the question:

I don’t agree that the bull market ended. I don’t believe there ever was a bear market. The bull just slowed down for a few years. I believe in the optimism of the people—people are going to create things and want things for themselves
and their children, and that’s going to keep the big wheel turning. And if you think it’s over, you’re making a big mistake.

Several other participants indicated similar leanings by minimizing the impact of the ongoing financial scandals and shifting their focus to a notional “bright side.” Tara, of the disbanded all-women’s group Asset Accumulators suggested that it was only a matter of time before stock prices recovered and vindicated her commitment to remain invested in the market:

My husband wanted to sell everything when the market went down, but I convinced him to hold onto our stocks. And he trusted me because I’d been meeting with Asset Accumulators for ten years and he thought I must know something! He would have sold everything if I hadn’t convinced him otherwise; and now the stocks are going up again.

While not as extreme as Stan’s position, Tara’s framing of her experience suggests a similarly intense and unshakeable faith in the ideology of capitalism. In fact, many participants spoke of their experiences in the market downturn using terms that would be familiar in any tale of sin and redemption: “I’m still a fundamentalist,” said Berry of Asset Accumulators; “We never lost faith,” said Skip of Portfolio Associates. By construing the news from Enron, WorldCom, and similar cases as something other than evidence of pervasive deception in the stock market, these investors were able to continue participating in the system, even if they simply remained in stasis.

**Self-Blame: The Individual Investor as Knowing Accomplice**

Another group of investors I interviewed took a position of self-blame vis-à-vis the revelations of corporate fraud—a perspective heartily encouraged by finance professionals and corporate media. As one investment adviser wrote to his clients, “the seeds of the current crop of corporate scandals were planted not by corrupt executives but by greedy investors and their Wall Street cheerleaders.” As WorldCom prepared to file the largest bankruptcy claim in U.S. history, the New York Times rallied sympathy for the firm by noting that its crimes included falsifying accounting statements to avoid earnings shortfalls of 1/100th of one cent—WorldCom’s executives were reportedly trying to avoid the economic punishment meted out to companies that missed earnings expectations, with miniscule underperformance often resulting in losses of 10 percent of the firm’s market value. In this variation of the “I blame society”
defense, corporations like WorldCom managed to shift the focus from their illegal activities to the alleged unreasonableness of investors and regulators.

Surprisingly, many of the participants in my study were quite willing to accept the blame. Many spoke of a sense of complicity in the decline of the bull market, as though their actions contributed to falsified accounting statements or to corrupt auditing and governance practices. While the problems in these areas were clearly systemic, involving dozens of firms and hundreds (if not thousands) of finance professionals, the only anger the participants in this study expressed was directed at themselves. Several used the word “delusional” to describe their thinking during the bull market, while others used phrases that hinted at a sort of temporary insanity: “We thought we were brilliant,” one said. “We were living in a fool’s paradise,” said another. Still others judged themselves in terms reminiscent of an old-time revival meeting. Cate of Bulls & Bears said, “We got greedy—it was too easy for us. We forgot the basic principles.” Frank of Valley Gay Men’s Investment Club put it even more bluntly: “We were money whores back then—we would buy anything that would make us a buck.”

And in the classic mode of redemption narratives, these confessions of error and decadence were followed by a recommitment to the fundamentals—the Old Tyme religion of investing in undervalued firms and expecting modest profits in return. In this light, the financial losses that the participants experienced, both in their club portfolios and personal investments, were interpreted as just punishment for straying from the path of fundamentalism. Frank of Valley Gay Men’s Investment Club said that when the group was confronted with facts or reliable data on the stocks they owned or were considering for purchase, “we would discount the data and manipulate it to fit our needs.” Similarly, Dan of California Investors summed up the attitude of his group toward analysis during the 1990s as: “Don’t confuse us with the facts because we already have our minds made up.”

This self-blame coexisted with a surprisingly tolerant attitude toward corporate corruption. While one or two expressed shock at the revelations uncovered by the Enron trial, the majority treated the news as—literally—business as usual. Many expressed some version of the perspective voiced by Karen of the all-women’s group Ladies with Leverage:

My experience in the work world taught me that business people cheat all the time, so the scandals didn’t come as a surprise. But in the 1990s, people weren’t looking that closely at the veracity of the numbers, either, because it was all good news. That’s just human nature—why look a gift horse in the mouth?
Similarly, Greg—former president of the disbanded club Bulls & Bears—argued not only that he should have known better than to trust in the financial markets, but that he did know better, and participated nonetheless:

I knew it was a sham back then. I was just riding it as long as I could. I remember being so surprised that a startup like Iomega was valued more highly than General Motors; there’s no way a startup could be worth more than GM on the first day of trading. I knew there was cheating going on in the whole market, how some people got in on IPOs and some did not, and I knew I was only a two-bit player, because I had to buy stock on the open market. I knew there was favoritism among boards of directors. It was all a sham when people said “It’s a new era, things are different now.” I never believed it. And the scandals haven’t damaged my trust in the system because I never trusted it to begin with. So some people got special deals from mutual fund managers—so what? I work at [a major defense contractor]: we see special deals all the time!

His former colleague Cate responded in a strikingly similar way, albeit independently of Greg, in a separate interview. On the one hand, she claimed to have gone into the market with her eyes open to the corruption: “We sort of knew the books were cooked; I kind of saw it coming.” In the next breath, however, she reaffirmed her faith in the system in the abstract: “I never considered getting out of the market; I still believe in the business models, even though the top management is corrupt.” This is reminiscent of the profession of faith made by some believers who disdain the corruption of clerical leadership while remaining loyal to religious institutions in principle. The analogy is fitting, since—as economic anthropologist Keith Hart points out—“economics has become the religion of our secular scientific civilization.”

Discussion and Implications

In studying investor behavior following the exposure of pervasive deception within the U.S. stock market, I was surprised to find that none of the participants in my study had made the usual “adaptations to failure” posited by Goffman: instead of cashing out their investments and withdrawing, as previous generations had done in the wake of stock market frauds, they were all still engaged in the system. Moreover, they maintained their positions despite often-significant financial losses. And instead of finding the anger and sense of betrayal I expected, my interviews uncovered a mix of resignation, denial,
and self-blame, all of which enabled the people interviewed to continue participating in a market system that had proven itself corrupt. To achieve this feat, the marks reframed their collective identities within their investing groups, either casting themselves as knowing accomplices to the con, or denying that a con ever took place.

This is quite different from what Goffman predicted in his model of responses to deception and, as such, contributes an expanded understanding of deception as a social interaction. While the majority of research has focused on deceivers, this chapter has used Goffman’s own work on social identity, combined with interview data from 50 American retail investors, to show how people who have been deceived can do more than withdraw or allow themselves to be “cooled out.” While such passivity remains an option, the individuals in my study were far more active in responding to the con they had just experienced. Whether they took blame on themselves or reframed the events as a “temporary setback” in a basically sound financial system, they did not retreat from investing.

In addition to the expanded model of responses to deception, this chapter offers another implication for future research, as well as for policymakers: cons are not always one-time events but can be enduring and systemic as well. In terms of financial institutions, history suggests that deception is not an anomaly in investment markets, but rather a chronic condition. This suggests another reason to expand our model of deception by including responses that allow interaction to continue even after a fraud comes to light. A willingness to serve as a target of ongoing deception might be driven by necessity (as I suggest elsewhere), by self-delusion (see Lutz, this volume), or by technological innovations that create new and unexpected forms of deception (see Thompson and Hancock, both in this volume). Or it may be as simple as the overwhelming pervasiveness of deception in social life (see O’Sullivan, this volume) causing investors to say to themselves, essentially, “if you can’t beat ’em, join ’em.”

For policymakers, the implications are somewhat different. The evidence from this small study suggests that widely held beliefs about the need for public trust in financial markets may be unfounded. For example, although Alan Greenspan posited that the functioning of such markets is based on trust vested in business people, the individual investors in my study repeatedly affirmed that their faith lay elsewhere, in something far more abstract that they did not always articulate but that could perhaps be identified as capitalism or
the American Dream. Their beliefs might be wishful thinking, but it is clear in any case that trust in individuals has little to do with these investors’ ongoing participation in the stock market. Second, although Greenspan, along with other policymakers and economists, predicted that widespread violations of trust would result in the breakdown of the economic system, all of the evidence is poignantly to the contrary: despite being collectively defrauded of billions, individual investors have continued to pour their money into a market system they know to be corrupt. Banks may be putting the brakes on lending, but in the face of structural exigencies imposed by public policies and the rewriting of the social contract between management and labor, individuals in the United States have little choice but to keep investing, even if it means self-flagellation, spinning pie-in-the-sky tales of “prosperity just around the corner,” or adopting the weary resignation of marks who know they will get fooled again.