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SAC's Cohen Said to Be Deposed in SEC Trading Probe

By Joshua Galla and Sajef Kishan - Jun 21, 2012

Steven A. Cohen, the billionaire founder of hedge fund SAC Capital Advisors LP, is facing renewed scrutiny from U.S. regulators over whether he illegally bought and sold stocks using inside information, two people familiar with the matter said.

Cohen, 56, was recently deposed by Securities and Exchange Commission investigators in New York about trades made close to news such as mergers and earnings that generated profits for his fund, said one of the people, who asked not to be identified because the investigation isn't public. Neither Cohen nor Stamford, Connecticut-based SAC Capital, which oversees about \$14 billion, has been accused of wrongdoing.

SAC Capital has repeatedly landed in the cross hairs of a federal crackdown on insider trading on Wall Street that burst into public view in October 2009 with the arrest of Raj Rajaratnam, founder of Galleon Group LLC. U.S. criminal prosecutors said last year they were looking at trading accounts at SAC Capital, including one run by Cohen that consists of the best ideas from the firm's portfolio managers and analysts. Also last year, two former traders pleaded guilty to engaging in criminal securities fraud while at SAC Capital.

Cohen, who made his name as a rapid-fire stock trader, is one of the biggest and most successful managers in the \$2.13 trillion hedge-fund business. SAC Capital has returned an annual average of 30 percent since the firm opened in August 1992. That compares with an annualized gain of 7.96 percent, including reinvested dividends, by the Standard & Poor's 500 Index (SPX) of the largest U.S. stocks.

Raise Eyebrows

"Being deposed will certainly raise eyebrows among investors," said Vidak Radonjic, managing partner at Beryl Consulting Group LLC in Jersey City, New Jersey, which advises clients on investing in hedge funds. "But I doubt that they'll be inclined to pull their money from him given the relationship and trust his firm has with them."

Jonathan Gasthalter, a spokesman for SAC Capital, and John Nester, a spokesman for the SEC in Washington, declined to comment. The people familiar with the matter didn't specify the exact date of Cohen's deposition.

Since the SEC began to unravel a web of traders, analysts and corporate insiders about five years ago, federal authorities have criminally charged 68 people, and 62 of them have been found guilty. Last week, Rajat Gupta, a former head of McKinsey & Co. and a former Goldman Sachs Group Inc. director, was found guilty of passing tips to Galleon's Rajaratnam, who was sentenced to 11 years in prison in 2011 and is appealing his conviction.

Childhood Passion

Cohen said at conference in Las Vegas in May 2011 that he's been interested in investing since he was 12 years old, when after reading the sports pages he would pore over the stock tables in the New York Post his father would bring home every evening. He started SAC Capital with 12 people and about \$25 million after leaving brokerage Gruntal & Co.

Cohen's main fund, SAC Capital International Ltd., saw net deposits in 2011 before he closed it to new investments in August, people with knowledge of the matter said at the time. The fund raised \$2.8 billion from June 2009 through October 2011.

The fund declined 19 percent in 2008, the first loss in its history. It has returned 4.5 percent this year through May, according to two people briefed on the matter. Hedge funds on average have returned 0.83 percent this year, according to data compiled by Bloomberg.

Finra Referrals

SAC Capital drew attention in May 2011 when U.S. Senator Charles Grassley asked the Financial Industry Regulatory Authority, the brokerage industry's self-regulatory body, to provide information on the "potential scope of suspicious trading activity."

Finra referred to the SEC at least 18 trades by SAC Capital in the past 11 years that were executed close to market-moving announcements, including mergers and the release of clinical-trial results for new drugs. The referrals aren't allegations or proof of securities-law violations.

"It's pretty serious if it's risen to the state that the SEC wants him to testify on the record," said Ross Intelisano, an attorney at Rich, Intelisano & Katz LLP in New York, who has represented investors in lawsuits against hedge funds.

At least one agent at the Federal Bureau of Investigation, B.J. Kang, had been inquiring about SAC Capital's trading for several years, according to a person who's been interviewed by him. Kang was the lead agent in the Galleon investigation and is pictured in photos taking Rajaratnam into custody on Oct. 16, 2009.

January Arrests

In January, the government arrested Jon Horvath, a technology analyst at SAC Capital's Sigma Capital Management unit, over claims he made trades based on tips from a Dell Inc. employee. Horvath has pleaded not guilty.

Former SAC Capital portfolio manager Donald Longueuil received a 30-month prison term after pleading guilty in April 2011 to a four-year conspiracy that included his then co-worker Noah Freeman and others. Freeman, who also pleaded guilty, is cooperating with investigators and has yet to be sentenced.

Prosecutors said Longueuil and Freeman were friends who shared illegal tips about technology companies in order to get a trading edge. Longueuil, who worked for SAC Capital's CR Intrinsic unit in New York from July 2008 to July 2010, was accused of giving information to Freeman.

Freeman in return passed material non-public information to Longueuil that he had obtained from other sources, including Winifred Jiau, a former consultant to expert networking firm Primary Global Research LLC who was convicted in June 2011.

Primary Global

At Jiau's trial, Freeman testified that SAC Capital used Primary Global "almost exclusively, if not exclusively" as its expert networking firm. Primary Global employees as well as corporate executives they paid as consultants have been ensnared in the government's probe.

Longueuil, who also agreed to forfeit more than \$1.25 million in illegal profits, admitted that after reading a newspaper article about a federal probe of Primary Global, he went to his office and took pliers to two drives on his computer, destroying them. Prosecutors said he walked 20 blocks and dumped the parts in four different garbage trucks.

As part of the conspiracy, which prosecutors said ran from 2006 to 2010, Longueuil and the others obtained inside information about companies including Marvell Technology Group Ltd., Fairchild Semiconductor International Inc., Advanced Micro Devices Inc., Actel Corp. and Cypress Semiconductor Corp., the U.S. said.

Art Collector

Cohen has a net worth of \$8.3 billion as of March, according to Forbes magazine. He lives in a mansion in the woods north of downtown Greenwich, Connecticut, that features a basketball court and a two-hole golfing green. He's also an avid art collector, having owned works by Jeff Koons and Damien Hirst. SAC Capital employs 1,000 people worldwide in offices from New York to Hong Kong.

Cohen, who was an unsuccessful bidder for the Los Angeles Dodgers of Major League Baseball earlier

this year, is an investor in the New York Mets.

“The spotlight is on him again and will likely be distracting for him,” said Peter Rup, chief investment officer at New York-based Artemis Wealth Advisors LLC, which invests in hedge funds. “However, Cohen has enough capital to indemnify investors against disgorgement and legal fees, so it’s not as if they’re going to pull their money quickly.”

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