October 17, 2007

BusinessWeek’s “Facelift” Fails to Beautify Work of Gene Marcial

Bloomberg reports that BusinessWeek (BW) recently launched a new layout in an effort to increase declining advertising revenues. However, the financial magazine’s “facelift” fails to address serious issues lying at the heart of the publication, namely a senior investment writer’s involvement in the promotion of highly questionable companies. On several occasions, Gene Marcial has used his Inside Wall Street Column to hype public companies engaged in problematic promotional activities. Marcial’s dubious plugs include his promotion of such classic Asensio targets as Biovail, Hemispherx, Sterling Vision, Biotime, and other ugly blow-ups. In each instance, Marcial simply reprinted the propaganda of company executives. The information in his column was inaccurate and the recommendations he made to investors were fatally misguided.

Marcial’s stock promotions have led to his association with various unsavory figures and questionable companies. In 1997, Marcial featured the pronouncements of Dreyfus fund manager Michael Schonberg in his column. Shortly after the column’s publication, the SEC charged Mr. Schonberg for his role in a mutual fund securities fraud. In 1996, BW noticed unusual trading in stocks covered by Mr. Marcial and reported it to the SEC. In 1988, 11 individuals (including 3 stockbrokers) were convicted of trading on advanced information from Mr. Marcial’s column.

An excellent example of the problems associated with many of Marcial’s plugs is his promotion of Software Toolworks, Inc. In 1990, Marcial published “Applause for a Smart Piano,” celebrating the company’s latest product, a piano fully equipped with artificial intelligence. Marcial’s sources expected the software company’s stock to enjoy a big turnaround once investors recognized its enormous growth potential. In 1993, the SEC charged four Toolworks officials with various violations of the antifraud and corporate reporting provisions of the federal securities laws in connection with their activities in 1990. These violations included making material false representations and omitting and overstating revenues and sales. The SEC also alleged that Toolworks insiders sold stock while in possession of material non-public information. The Commission entered a final judgment on January 4, 1994. These represent only a sample of the legal controversies surrounding Mr. Marcial’s column.

Now Marcial is attempting to re-hype a questionable company he promoted years ago. He published his first article on Research Frontiers, Inc. (REFR) in 1995, touting the company’s licensing agreements with major firms like Japan Steel Works and Sanyo. Twelve years ago, Marcial cited sources to make the laughable claim that GE had started to accumulate shares of REFR and investors could expect a buyout at $25 per share. These predictions fell flat for the simple reason that Marcial’s treatment of REFR is nothing more than a stock promotion that spans over four decades. REFR could well be the longest running profitless side-show. Over the years, REFR has regularly promoted research developments and new license agreements and raised funds by publicizing its latest “discoveries” and “advancements” to uninformed media sources. Journalists cover REFR’s publicity stunts while company executives sit back and watch the price, trades, and volume of REFR stock go up. Since its foundation in 1965, REFR has not been profitable. In fact, it has suffered uninterrupted losses for 42 years.

On July 30, 2007, Marcial used his column in BW to again predict a big year for REFR. In reality, REFR would have been out of cash had it not sold stock on the cheap in the first quarter of 2007. According to Marcial’s sources, REFR’s new SPD SmartGlass technology will lead to big contracts with companies in the “aircraft, auto, and architecture industries.” He wrote that several major asset management firms were among REFR’s big investors. Once again,
Marcial’s sources pointed to licensing agreements with large companies (DuPont and Hitachi) to demonstrate REFR’s growth potential, facilitating a quick stock promotion for this 42 year old beauty.

Marcial’s July REFR column poses a danger to impressionable readers. Ultimately, BW is responsible for printing it. As it attempts to revitalize its layout, BW would do well to review the information it spreads through the financial world. The safety of investors is at stake. In the end, both retail and institutional investors, many of whom are responsible for managing taxpayer dollars and other public funds, will pay for relying on BW’s investment information.