

Congress of the United States
House of Representatives
Washington, DC

November 16, 2011

Ms. Linda K. Zecher
President and Chief Executive Officer
Houghton Mifflin Harcourt
Corporate Headquarters
222 Berkeley Street
Boston, MA 02116-3760

Dear Ms. Zecher,

Your company has published a book, Throw Them All Out by Peter Schweizer, which I have just now had the opportunity to review as it was released yesterday. I am writing to inform you there are several major and serious untruths and outright factual errors about me in this book.

The book is absolutely false and factually incorrect when it states that I “shorted General Electric options” and did so “four times in a single day”. The truth is I bought call options on General Electric stock, which is an investment made when one thinks a stock will rise. The claim in the book is I shorted GE because I obtained “inside information” that GE was having difficulty and its stock would likely go down. The truth is demonstrably the exact opposite, as can be learned from publicly available information which the author apparently reviewed in writing his book. If I somehow had “inside information” that GE was in dire straits, why on earth would I have purchased call options in the hope that the company’s stock price would increase? Not only does it make no sense but the contrived concoction in the book is patently false.

In addition, the book contends that I bought options in a SPDR fund on July 14, 2008 “representing the entire financial sector” of the stock market. This, too, is absolutely false and incorrect. The options I purchased were in the energy sector, as were subsequent options I purchased on August 15 and 22. I have a personal policy of not investing in financial companies under the jurisdiction of the Financial Services Committee and it is unfair and untrue for the book to insinuate or claim otherwise.

These are just a few of a disturbing number of factual errors in this book. Others, briefly, include an incorrect statement that a meeting was held on September 4, 2008 to discuss “how to proceed with legislation to rescue Fannie and Freddie” when, in fact, that legislation was signed into law on July 30; and the use of a 14-year-old quote from a staffer in a way that makes it appear the staffer is responding to an inquiry from the author – not to mention the careless reference to me as “Baucus.”

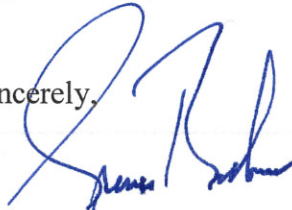
But above all, the book's insidious allegation that I personally profited from non-public information is a total lie. The author dramatically refers to a "secretive" meeting on September 18, 2008 I attended along with several other members of Congress and alleges I used information from that meeting in making investments the next day. This meeting was so "secretive" that members of the press knew about it beforehand, were waiting outside the door, and a press conference was held immediately after the meeting to inform the public about what we discussed. The idea that I or anyone else needed this meeting to know our financial markets were in trouble is just laughable. You would have had to be living under a rock not to know by September 18, 2008 that the economy was in bad shape. As Holman Jenkins writes in today's Wall Street Journal in an opinion column criticizing this book:

"In reality, who on Sept. 19, 2008 wasn't warning of a financial meltdown? Look at the papers from that day—news of what Messrs. Bernanke and Paulson said was everywhere long before the markets opened."

In case you missed it, I have attached Mr. Jenkins's insightful column for your review.

There is nothing a Member of Congress can do that is more important than uphold the public trust, and that is what I have done throughout my service in Congress. That is why it is so disappointing and disturbing to have my character impugned so recklessly and falsely as this book does.

Sincerely,

A handwritten signature in blue ink, appearing to read "Spencer Bachus", written over a faint, larger signature.

Spencer Bachus
Member of Congress

STB/SB
Enclosure

NOVEMBER 16, 2011

Congress's Insider-Trading Non-Scandal

By Holman W. Jenkins, Jr.

It may or may not have been said by Samuel Johnson, so we're going to butcher the famous quote for our own purposes. To wit: There are few ways in which a congressman can be more innocently employed than in day trading.

To the extent our legislators are trading on their own unique political knowledge, at least they are thinking about the impact of their policies on productive businesses. To the extent they make a quick profit, at least they are paying the top personal tax rate, so helping to finance the spending they inflict on the rest of us. After all, the real scandal isn't what they do with their own money, but what they do with ours.

What's right about the furor over congressional "insider trading" is the sense that congressmen let themselves behave in ways they wouldn't permit for the rest of us, indeed would denounce as greedy.

That said, put us in the category of the nonplussed to mildly contemptuous over the newest fuss. Congressmen and their staffs aren't insiders in the classic sense, working for companies and holding a fiduciary duty to shareholders. Years ago, Fidelity's Peter Lynch advised investors to keep their eyes open for investment opportunities as they go about their daily lives. Isn't that what legislators and their staffs are doing?

True, Mr. Lynch would today rephrase his advice with numerous caveats. Take this case: Workers in a rail yard see men in suits prowling around. Rumors fly the company is being sold. One worker buys call options on his employer's stock and, because the rumors turn out to be right, is hauled up on insider-trading charges. Had the rumors been wrong, had the worker lost money, had the men in suits been federal railroad inspectors, think the feds would have filed a case?

In Sunday's now-famous "60 Minutes" report, based on a book by the Hoover Institution's Peter Schweizer, the term "insider information" is used even more loosely. With apologies to our friends at CNBC, we'll call it the CNBC effect. Spencer Bachus, a House Republican from Alabama, is one of those under scrutiny. He turns out to be a busy trader and, on Sept. 19, 2008, a day after briefings with Ben Bernanke and Hank Paulson on the parlous state of the financial system, ran out and shorted the stock market.

Uh huh. If Mr. Bernanke looks at his watch and confidentially announces that it's 3 p.m., some will flog this as market-moving news. In reality, who on Sept. 19, 2008 wasn't warning of a

financial meltdown? Look at the papers from that day—news of what Messrs. Bernanke and Paulson said was everywhere long before the markets opened.

Nancy Pelosi is metaphorically handcuffed and tossed into a paddy wagon because her broker procured an allocation of shares in Visa's initial public offering. We might indeed be miffed if Visa's bankers awarded her IPO shares because she was House Speaker. But CBS and Mr. Schweizer give themselves a stress fracture with their eyebrow-raising over the fact that a bill had been introduced unfavorable to Visa, and went nowhere.

CBS and Mr. Schweizer are taking excessive advantage of the audience's naiveté. The holy war between merchants and credit-card companies over "swipe fees" has been a staple of every legislative session. When have bills not been introduced? Last year, merchants (aka Wal-Mart) finally succeeded in capping debit-card fees via Dodd-Frank. Think lobbyists aren't already sharpening their lances for the rematch?

Then there's the case of John Kerry's family trust, accused of trading in and out of health-care stocks during the debate over the 2003 Medicare overhaul. Don't insult the man. Mr. Kerry doesn't need to stoop to making money. He married it. His wife is worth an estimated \$1 billion.

Long ago, insider-trading enforcement made a wrong turn when it began behaving as if the goal were to keep valuable information out of stock prices rather than merely to police betrayals of trust by true fiduciaries. The SEC has come to treat stock investing as a kind of sporting event, in which information ideally should be disseminated simultaneously to all traders so the one with the fastest fingers can profit.

A huge industry now exists to generate stock movements based on something said on TV, as if the world's stock of valuable information is being expanded every minute the business news channels are on the air. It isn't. Congressmen, like many victims of the stock-trading industry, may believe they are trading on unique information not already reflected in stock prices. They aren't.

A few studies purport to show that Senate and House Members earn more than average on their stock investments, but the results are unconvincing. More persuasive is recent work suggesting that congressmen underperform the market for all the reasons that most active traders do. They buy high, sell low, and waste money on trading commissions.

Link: http://online.wsj.com/article/business_world.html