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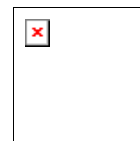
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### Commentary: Wrong!

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## Jack Grubman Follows Winstar to Shame

By [James J. Cramer](#)

4/25/01 12:25 PM ET

OK, let's put our cards on the table. I love Jack Grubman. He is a Philly guy. A total success. Understands the business like no other. Go way back. Heck, Jack was friends with my wife before I met her. Put her in **Sprint**. Made her firm millions. Subsequently made my firm millions. I have defended him innumerable times on television and in our columns. He's just a good guy. And he's **Salomon Smith Barney's** most renowned analyst.

But his work on **Winstar**, the now-bankrupt telephone company, was simply the worst work I have seen from an analyst whom I respect.

Here are the facts: On March 9, 2001, when Winstar was at \$9.94, Jack Grubman wrote a piece endorsing Winstar with a "1S," a ringing buy. In that report he wrote that "WCII is well funded into 2002" He mentioned that WCII "continues to perform superbly." He dismissed the work of **Asensio**, a well-known shortseller who predicted, almost to the day, Winstar's demise, as someone who "lacks an understanding of the CLEC industry." Asensio, it turns out, understood this industry far better than Grubman. In this fabled "1S" piece, Grubman wrote: "In contrast to the short (meaning Asensio) we believe (1) WCII has sufficient cash flow to cover its interest payments, (2) there are not serious default concerns on its bonds." Both statements were just plain wrong. Winstar was on the verge of bankruptcy at the time this recommendation was written.

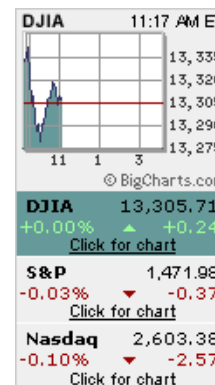
One month later, after the company went belly-up, Jack downgraded Winstar to a 4s. "We were wrong on this stock because we believed the business metrics were good; WCII has over 1 million local lines and 5,400 buildings connected. We were hopeful WCII would work something out with [**Lucent (LU:NYSE - news - boards)**], but that doesn't appear likely. WCII did a better job growing the business than it did managing the balance sheet and that came back to haunt WCII, especially with its overdependence on Lucent."

People lost billions on Winstar in part because Jack stuck his considerable credibility on the company's survival. When Jack wrote his first piece there was still \$1.7 billion in market cap. Now there is nothing.

Massive capital destruction.

Yet, when I search through Jack's research, including his last piece, Jack continually derided the default thesis. He continually emphasized not that it was unlikely -- that would have been fine -- but that it wasn't really possible that there could be a default. The stuff lacked even the caveats that one of the writers for *Motley Fool* put in a recent endorsement of **PSINet** before that company defaulted.

When we study this era and what went wrong, we must study this 1S piece by Grubman as exhibit A in hubris and lack of understanding of the true dynamics of



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how research must work if it is to have any credibility. We must integrate unbiased capital structure concerns with biased views of operational strength. We must recognize default risk and stop denying it. We must not minimize risks that were plain as day to this and many other observers. We must emphasize what can go wrong as well as right when the situation is as dreadful as Winstar's.

Or we must surrender the notion of credibility entirely.

I know that some of you would say "Of course Jack got it wrong, Winstar did banking with Salomon Smith Barney, as the legend says at the end of the Winstar research."

But that's not it at all. Jack Grubman is tenured. He didn't need to endorse Winstar like this. He would not "get in trouble" with Salomon Smith Barney. He's too big. He's one of the few guys who could stand up to the investment banking side and say "Hey, I am not sticking my neck out for these guys. I have a brand."

Now Jack's brand is tarnished and it is a darned crime. It will be awfully hard for me to defend Jack anymore to his critics after this fiasco. And it didn't have to be that way. Jack, you knew better. You knew that Winstar could go belly-up. Why didn't you help us more?

What a shame.

**Random musings:** See you on "Squawk" tomorrow when it is media day. Bet we will have a huge amount of fun with that one ... And don't forget to go to [streaming quotes](#) ... best on the Web, including all our competitors.

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*James J. Cramer is a director and co-founder of TheStreet.com. He contributes daily market commentary for TheStreet.com's sites and serves as an adviser to the company's CEO. Outside contributing columnists for TheStreet.com and RealMoney.com, including Cramer, may, from time to time, write about stocks in which they have a position. In such cases, appropriate disclosure is made. While he cannot provide personalized investment advice or recommendations, he invites you to send comments on his column to [jjcletters@thestreet.com](mailto:jjcletters@thestreet.com).*

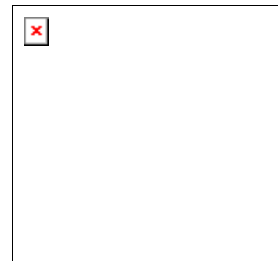
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
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