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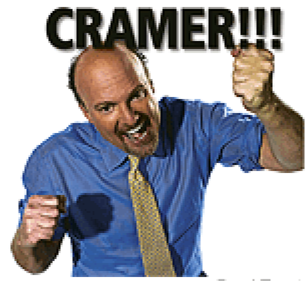

Brad Trent

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Shorting Cramer

By BILL ALPERT

THANKS TO HIS NIGHTLY CNBC SHOW *Mad Money*, Jim Cramer has become the chief cheerleader for the bull market, or what was the bull market until a few weeks ago. Last spring, he was giddily exhorting the Dow Jones Industrial Average toward 15,000, with no troubles in sight. Earlier this month, as the Dow tumbled in the direction of 13,000, he had an on-air meltdown, complete with screaming, sobs and predictions of financial doom. The clip quickly made the rounds on YouTube. Friday, after the Fed cut the discount rate, he said that the Dow's run to 14,500 had begun. With dramatic pronouncements like that, it's no wonder that more than 100,000 viewers tune in each weeknight for his antic mashup of sound effects, Streetwise advice and stock picks.

It's those stock picks that caught our attention. Cramer, by all accounts, had a stellar career as a hedge-fund manager. And he is held out by CNBC as the guy who can help viewers make big money. But a comprehensive and careful review of his stock picks by *Barron's* finds that his picks haven't beaten the market. Over the past two years, viewers holding Cramer's stocks would be up 12% while the Dow rose 22% and the S&P 500 16%, according to a record of 1,300 of the CNBC star's Buy recommendations compiled by YourMoneyWatch.com, a Website run by a retired stock analyst and loyal Cramer-watcher.

We also looked at a database of Cramer's *Mad Money* picks maintained by his Website, TheStreet.com. It covers only the past six months, but includes an astounding 3,458 stocks -- Buys mainly, punctuated by some Sells. These picks were flat to down in relation to the market. Count commissions and you would have been much better off in an index fund that simply tracks the market.

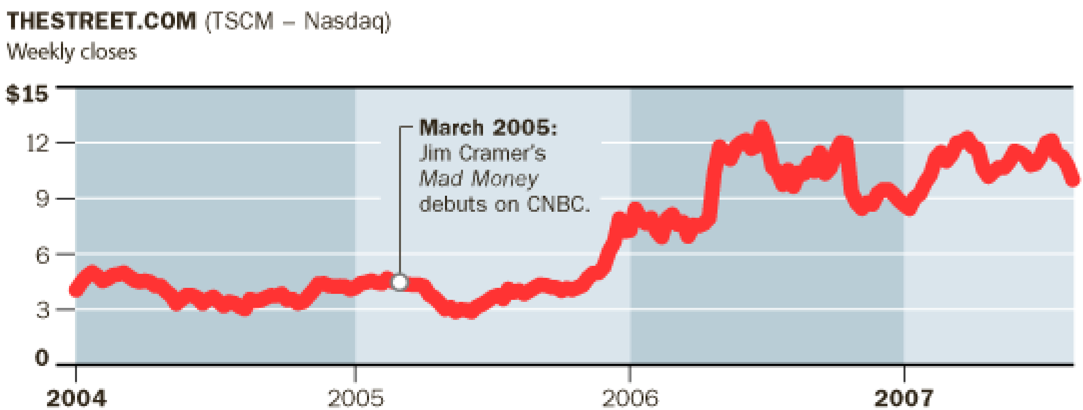
When we asked Cramer and CNBC for their own records of *Mad Money*'s stock-picking performance, they had more excuses than a Tour de France cyclist dodging a blood test.

They complained that the list from YourMoneyWatch.com contained some stocks from the program's "Lightning Round," in which Cramer gives a quick analysis and a buy or sell decision on stocks phoned in live by viewers. These, they argued, shouldn't count in our tally.

CNBC officials also said that viewers should buy Cramer's picks a week after they're aired. They said that the show is mainly educational, and not just about stock-picking. In the end, they said we should focus only on the tiny universe of stock selections -- about 12 a week -- that Cramer researches the most. And we should do it only for the issues picked this year. CNBC analyzed these stocks, and said that if held for one month, they beat the S&P by 0.8%, or 1.7% after two months. They offered no results for the year-to-date.

TheStreet.com Revives

Cramer's stock picks may not have been so good for his viewers' portfolios, but his repeated touting of his website, TheStreet.com, has been good for his wallet. Since the show started, TheStreet.com's share price has doubled to a recent $10, for a total market value of $297 million. Cramer, who now owns more than 12% of the company, has been selling all the way up.



Source: Thomson Financial/Baseline

We analyzed those stocks ourselves, and, as in all our calculations for this story, relied on Patrick Burns, a statistical-computing expert in London who consults for hedge funds and major investment firms.

It turns out that CNBC did its analysis incorrectly, and that the stocks beat the S&P by 0.4% in one month and 1.2% over two months. CNBC measured the stocks' performance against the average performance of the S&P year-to-date, instead of against the performance of the S&P from the date of each stock pick. Also, it included more than 100 recently recommended stocks that weren't held for the full one- or two-month holding period that CNBC claimed.

More important, the stocks fell short of the S&P by a statistically significant 2.2% through last week.

Our question is: How are viewers supposed to know that they should pay attention only to this subset of stock picks each week and ignore the thousands of others that Cramer makes on his show?

Then there's the day-after-pop phenomenon. Our analysis of Cramer's picks over the past two years, from YourMoneyWatch.com, showed that, on average, the stocks jumped 2% the day after he mentioned them. From there, they usually moved sideways or down for the following 30 trading days (see chart). This offered an opportunity to make money -- 5% to 30% a year -- by selling Cramer's selections short.

Cramer agrees that there is a shorting opportunity in the temporary effect he has on stocks -- a trade that he'd jump on if he still were at a hedge fund. "If you short the bump, you will do well," he said last week. "I've said it on the show many times."

There's no doubt that Cramer is trying diligently to make you money. His advice is generally smart, his knowledge of individual stocks amazingly detailed. But the credible evidence suggests that the telestockmeister's picks aren't beating the market. Did you really expect more from a call-in host who makes 7,000 stock picks a year?

THE 52-YEAR-OLD CRAMER HAS PROVEN HIMSELF a Renaissance man, if you don't mind applying that term to someone who goes on TV donning everything from Rasta wigs to football helmets, and, on a bad day, decapitates bobble-head dolls made in his own likeness. He struck it rich in the heyday of hedge funds, started a successful online media company and put up some of the best financial journalism in print and broadcast. Simultaneously.

He's written several books, including *Confessions of a Street Addict*, a wonderful memoir of his highs and lows as a trader and entrepreneur. It's peopled with the amazing Old Boy network that Cramer started building during his days as a student at Harvard: New York Gov. Eliot Spitzer, New Republic editor-in-chief Martin Peretz, Microsoft CEO Steve Ballmer. And, it turns out, the screaming, chair-throwing character that Cramer plays on TV is based on the real-life person he was, as he pursued success through any obstacle, including those of his own making. In the memoir, Cramer freely confesses to his screw-ups, as he continues to do on *Mad Money*. That self-flagellation makes him a lovable protagonist in a modern American success story.

Table: 10 Biggest Pops

After entering Wall Street as a Goldman Sachs broker, Cramer started his hedge fund in 1987. The market crashed, but he was in cash. His firm, Cramer Berkowitz, went on to rack up 24% annualized returns over the next decade or so, a performance for which Cramer generously shares credit with his former colleague, Jeff Berkowitz, and one of the firm's traders: his then-wife, Karen.

If *Mad Money* offers unconvincing proof of Cramer's long-term stock-picking prowess, so does his account of his hedge-fund activities. His memoir suggests that some of Cramer Berkowitz's profit came from clever trading. The $300 million fund might execute hundreds of trades a day, some of them a bit gimmicky. Cramer describes how they'd find a stock in which selling had petered out, then build a position. Next, they'd hunt up some bullish news on the company and feed it to sellside analysts and reporters. On the subsequent rise, Cramer could profit by selling out his position. "Buzz merchandising," his book calls it. Smart and effective, but definitely not in the fuddy-duddy style of Graham & Dodd.

In December, Cramer made a video for TheStreet.com describing the ways his hedge fund had used tricky trading techniques. He said hedge funds could pass negative rumors to "bozo" reporters. When the video circulated through Wall Street and caused an uproar. Cramer said that he'd only been talking hypothetically, to blow the whistle on the hedge-fund industry's bad actors.

Shorting Cramer -- Part II

Cover Story -- Part I

OF COURSE, **CRAMER DIDN'T NEED REPORTERS** to get out the story on his stocks. Early on in his hedge-fund career, he pioneered a new kind of participant journalism through his frequent magazine columns and television appearances. Cramer talked to his audience from the playing field, instead of from the distant press box where other financial journalists sat.

In outlets like SmartMoney, he often discussed stocks that his fund owned. That was a good thing, if Cramer imparted valuable information and didn't secretly trade against his recommendations. Over the years, regulators have frisked Cramer's trading records for duplicity. They've always found him clean.

In 1996, Cramer launched TheStreet.com, his own financial-media vehicle. Three years later, the mania for dot-com stocks was epidemic. At their initial offering, shares of TheStreet.com's (ticker: TSCM) were priced at $19, but opened at $60. For a short while, Cramer's stake was worth upward of $250 million. Then the dot-com bubble burst, driving the stock below a dollar by 2001.

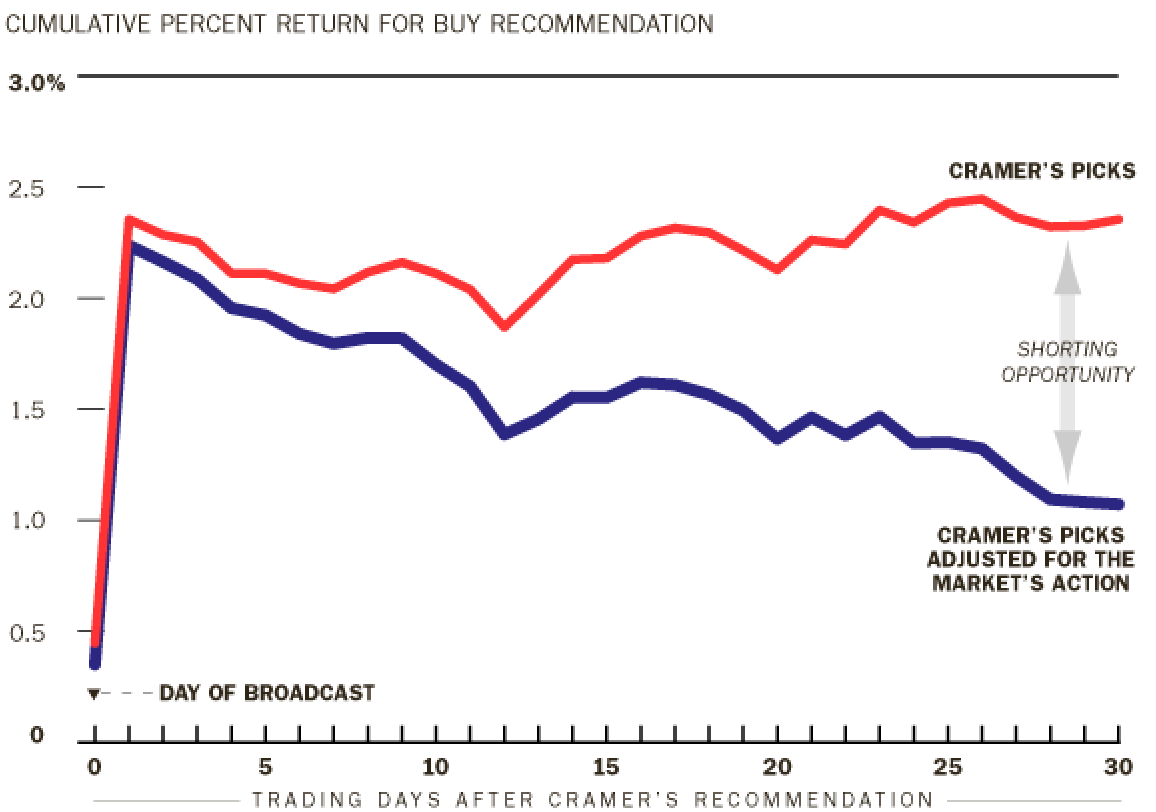
But the Website survived the shakeout, and the stock now is around $10. TheStreet.com has become a feisty competitor to other online financial news sites -- including those of Dow Jones (ticker: DJ), which publishes this magazine and is half-owner of Smart Money. Cramer has always been the site's main draw, but TheStreet.com has employed many other talented editors and reporters.

After retiring from his hedge fund in 2000, Cramer became a full-time journalist, writing for TheStreet.com and New York magazine. But he had the most fun on TV. For years, he'd pitched broadcasters, trying to get his own show. He finally succeeded with CNBC, the financial channel owned by the NBC Universal unit of General Electric (GE); first, with Kudlow & Cramer, and then, in March 2005, with *Mad Money*. (Dow Jones currently has an agreement to supply content to CNBC).

CNBC's evening schedule had been Desolation Row for years. *Mad Money* changed that, grabbing viewers with a combination of unequivocal stock picks and slapstick -- a concept that Cramer developed with the help of his nephew and co-writer Cliff Mason, as well as some talented CNBC producers. By cable-television standards, the show has been a hit, with its Nielsen ratings rising every year to a 2007 level of 134,000 homes -- many of them fairly affluent.

Spike and Fizzle

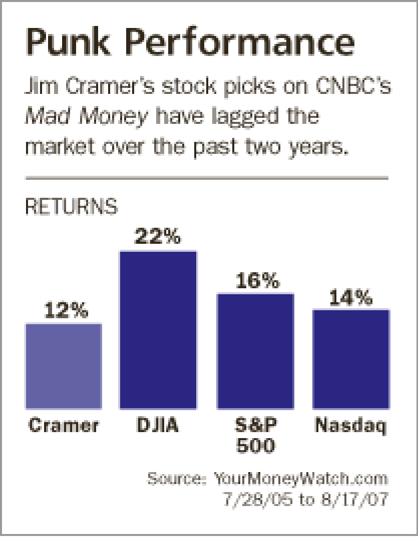
Cramer's picks surge an average of 2% the day following his evening broadcast, and that's after adjusting for overall market action. They move pretty much sideways from there for the next month (gray line). Subtract the effects of the rising market, and Cramer's picks trail by quite a bit (black line). One strategy would be to buy a Standard & Poor's 500 Index fund and short Cramer's picks the day after they air.



Source: *Barron's* analysis based on 1,100 Cramer picks since July 28, 2005 from YourMoneyWatch.com.

In the first part of the show, Cramer typically gives prepared recommendations on one or more stocks. Sometimes, he'll interview the CEO of a company whose stock he then endorses. All the while, he's donning sombreros, shoving toy bears in a meat grinder and sneaking in slyly erudite quips.

Then comes the show's truly distinctive feature: the Lightning Round. With no advance notice, Cramer takes calls from viewers who -- after shouting the obligatory "Booyah!" --



ask him about a stock. Within seconds, Cramer gives a curt Buy or Sell rationale. Then on to the next caller. It's dazzling -- a display of Cramer's freakish ability to remember something about thousands of stocks.

The show's popularity hasn't hurt TheStreet.com. Site traffic, ad sales and the share price have risen. Cramer, meanwhile, has been selling. Since 2005, he's sold $4.6 million worth of TheStreet.com shares through an automatic selling program.

Cramer is unapologetic about his self-promotion, but he acknowledges his bad calls, too. What he hasn't done is tell his viewers the overall score for his two-plus years of *Mad Money* picks. When he hits his "Buy Buy Buy" sound-effect button, can viewers expect market-walloping results?

In trying to figure that out, we came across YourMoneyWatch.com, a Website started by Michael McGown, a retired securities analyst who worked for several major brokerage firms. McGown started the site not long after the show started, and says Cramer sent a complimentary e-mail after noticing it. McGown counts only Cramer's clear and unconditional Buy recommendations, following a sensible set of rules. McGown tracks the stock until Cramer says sell. "As a person watching the show," says McGown, "I think it's a fair way to rate him."

Over two years, YourMoneyWatch has tracked 1,300 *Mad Money* picks. It's this tally that shows Cramer's stocks lagging behind the Dow and the S&P 500. This year, Cramer's done better. McGown's data show his picks up 3.2%, while the S&P is up 2%; the Dow, 4.9%; and the Nasdaq, 3.7%. CNBC says the YourMoneyWatch data, as well that of Cramer's *Mad Money* Website, are "not authoritative."

Hoping to get Cramer's advice on how to measure his *Mad Money* picks, I called him a few weeks ago. He tore into me. "I've never read a single article that I thought wasn't a massive distortion of what the show's all about," he said. When I said I just wanted to see *Mad Money*'s record, he replied: "I've never seen an analysis that I've regarded as honest, and I doubt yours is any different."

WHERE DID THOSE ANALYSES GO WRONG? They counted buys and sells from the Lightning Round segment, said Cramer, and they ignored his caveat against purchasing on the day after a broadcast -- a 24-hour rule he decreed in his *Mad Money* book. "I say buy it on Day Two," he explained. "I can show exact data, which says my picks are much better than the S&P."

Hearing that, I asked if I could see it. Cramer spelled out the e-mail address of someone at TheStreet.com. I spent the following days -- and weeks -- trying to get a response from that person, from Cramer, from CNBC. Meanwhile, I pored over his *Mad Money* book, including the two chapters that detail the importance of his Lightning Round advice. He writes that, by definition, Lightning Round recommendations are based on his previous knowledge of the stocks, not on fresh research. Yet he doesn't tell his viewers to ignore the call-in segment's Buys and Sells, concluding: "I still think you should listen to what I'm saying."

Readers respond:

See *Barron's* readers' letters to the Editor regarding this article in a special Mailbag.

While waiting for a response from Cramer, I made a happy find: http://MadMoney.TheStreet.com. It called itself an exact record of every recommendation in the show since January of this year. A personal note from Cramer likened the site to an audited record of his performance, outside of his control. "I am doing this because my personal reputation is at stake," said the words by Cramer's picture.

There were more than 3,400 recommendations in the database. Better still, it distinguished between stock picks made in the Lightning Round and those from other portions of the show. Our analysis of these stocks found no difference between the performance of the Lightning Round picks and the rest of the *Mad Money* recommendations.

Jim Cramer has defined himself as a financial journalist who gives you clear Buy and Sell recommendations to make you money. If he's serious about that mission, he or CNBC should publish a database that tracks all his picks from the show's launch date. Even cheerleaders need to be accountable.

E-mail comments to editors@barrons.com