Gowex conquerer Gotham City shrouded in mystery

July 16 2014, by Prune Perromat, Juliette Michel

Gotham City Research has claimed to be the "the Batman of the finance world", shown here is a statue of the superhero at Warner Bros. in California on June 26, 2014

Gotham City Research lists no physical address or telephone number, never signs its reports and does not identify any personnel.

Yet the shadowy research firm, practitioners of a controversial practice known as short selling that places downward bets on stocks, has claimed

to be a kind of Batman of finance, fighting lies and fraud.

Its latest victory, which seems to buttress those claims? Successfully weeding out chicanery at former tech highflyer Let's Gowex of Spain.

Driving the future?

"Question: Who is to expose the misdeeds of such fraudsters?" Gotham City asks on its website. "Answer: Short sellers, as the Gowex case clearly demonstrates."

"Auditors, regulators, lawyers, investment bankers, and others rarely detect fraud. Insiders and [short sellers](#) do."

Yet an aura of impropriety also invariably surrounds short sellers—avowed mudslingers of the financial world who profit by driving stock prices lower. Critics say the practice can be manipulated.

"They often get a bad reputation as people who spread negative news," said James Angel, professor of finance at Georgetown University.

Angel and other market watchers regard Gotham City's rhetoric on the heroism of short selling as fanciful.

A picture taken on July 3, 2014 shows an advertisement for wifi provider Gowex on a news kiosk in Madrid

Yet they concede Gotham and its peers provide a counterpoint to the market's many voices who tirelessly—and sometimes dishonestly—talk up stocks.

"The short sellers are really our first line of defense against companies that are overhyped, the so-called pump-and-dump artists," Angel said.

Gotham's brand of short selling rests on correctly calling instances where stocks have soared on a shaky financial foundation. The short seller borrows the stock, sells it, buys it back at a lower price and then returns the stock to the owner, booking a profit.

"People ask: Are short sellers really informed of what is happening in the future, or are they manipulating the price so they can profit for

themselves?" asked Xiaoyan Zhang, professor of finance at Purdue University.

"The truth is a mixture of both."

Mystery cloak

A certain amount of suspicion is inevitable for short sellers, but particularly with firms like Gotham that are not transparent.

Disgraced ex-boss of Spanish wifi provider Let's Gowex Jenaro Garcia Martin leaves the courthouse in Madrid in July 2014

Gotham did not respond to numerous AFP requests for comment. The

firm's Twitter feed, a key means of diffusing its research, follows just three accounts—the pope and two other religious leaders.

The firm was founded by Daniel Yu, a Massachusetts Institute of Technology graduate and a former hedge fund analyst, according to the Wall Street Journal.

Gotham's crusade against Gowex follows campaigns against insurance software company Ebix, specialty stone tile retailer the Tile Shop and British software company Quindell.

In each case, Gotham published a damning report that immediately sent shares lower.

Shares of Gowex plummeted more than 46 percent on July 1 to 9.20 euros after Gotham called Gowex a "charade" that overstated its revenues by 90 percent or more.

Five days later, Gowex said it would file for bankruptcy following a stunning fraud admission by president Jenaro Garcia Martin.

© 2014 AFP