

## Week 4 discussion 1

Drawing on what you discovered in the e-Activity, discuss how instances of corporate mismanagement or fraud should be taken into account when assessing the risks associated with certain types of investments.

Information is the investor's best tool when it comes to investing wisely. Often, the lack of reliable, readily available, current information also opens the door to fraud. It is easier for the unscrupulous to spread false information and to manipulate a stock's price when accurate information about the company is scarce.

Source: <http://www.sec.gov/answers/infomatters.htm>

Enron has become a popular symbol of willful corporate fraud and corruption. The scandal also brought into question the accounting practices and activities of many corporations throughout the United States and was a factor in the creation of the Sarbanes-Oxley Act of 2002.

The US Sarbanes-Oxley Act was passed in the wake of a myriad of corporate scandals. What these scandals had in common was skewed reporting of selected financial transactions. For instance, companies such as Enron, WorldCom and Tyco covered up or misrepresented a variety of questionable transactions, resulting in huge losses to stakeholders and a crisis in investor confidence. How did Congress think the Act would address the problem? Sarbanes-Oxley aims to enhance corporate governance and strengthen corporate accountability. It does that by:

- formalizing and strengthening internal checks and balances within corporations
- instituting various new levels of control and sign-off designed to
- ensure that financial reporting exercises full disclosure
- corporate governance is transacted with full transparency.

Source: <http://www.sox-online.com/basics.html>

Based on the likes of Enron and World, an investor has to weigh the integrity of the company before investing large sums of capital. Profitability and earnings per share are only pieces of the puzzle that one needs to assess.