Sophisticated insider trader that no one could find, but…

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My passion is solving puzzles. I start with a massive, jumbled heap of data, and I analyze it to identify people to target. I cultivated my expertise in the daunting field of criminal intelligence, where I developed methods for targeting suspects.

Over the years I have been involved in remarkable cases. The challenges have been steep. But the methods I developed were proven. They helped make the world a safer place.

My colleagues and I have started to apply those methods in a very different field—marketing—so as to greatly improve ways to identify people who are best to target for marketing messages. The result is a huge lift in response rates—including sales, product inquiries, clicks, market share, and retention—and therefore marketing ROI.

The methods are based on SNA (social network analysis) and predictive analysis identifiers of who will do what next. The SNA underpinning means we look for connections in the data. We also predict connections and influence flows between people and things such as addresses, phone numbers, websites, locations, and timings. The methods are described elsewhere (see www.PeerAnalytics.com.au).

The analytical principles I developed and used to create SNA software is now used by TK TYPES OF COMPANIES. But before major companies began using it to effectively target customers, it was instrumental in solving an insider trading case. Identifying exactly who was responsible was a thorny and complex challenge.

Bank Director Found Guilty of Insider Trading

Imagine: You buy a large bundle of a company's stock options very cheaply (5 million options at 1 and 2 cents). In a matter of days you amass a $2 million profit.

That is a huge windfall: a 25x increase in value. But there's a catch. The computer systems at stock exchanges can pick that up easily as suspected insider trading.

Normally, insider trading is notoriously difficult to detect. That is, unless it's a rather clumsy attempt, such as in the example above.

But that's just the beginning of this story.

The case involved SNA-type software I had developed. The investigating agency, ASIC (the Australian Securities and Investment Commission), used it as their weapon to identify the perpetrator.

Simon Hannes

Simon Gautier Hannes was an Australian senior executive of Macquarie Bank convicted of insider trading over call options bought prior to the takeover of TNT by the Dutch postal service in 1996. Wikipedia

The team at ASIC, led by Tim Phillips, discovered quickly that the trades were made by “Mark Booth,” who was supposedly an overseas visitor with a Sydney address. That address turned out to be a fictitious post office box.

Hence the big question became: Who is Mark Booth, what is his true identity?

ASIC knew the jump in the call options’ value occurred because they were in a transport company called TNT that was about to be taken over by the Dutch postal service.

ASIC began investigating all the persons who could have known about the pending takeover directly or indirectly. That led to 160,000 names—plus 20,000 more who had withdrawn large amounts of money about the time (data courtesy of the cash transactions agency, Austrac), not to mention a broad range of other data fragments.

The team receiving the data worked long hours preparing and processing it via our software. The task was arduous. Whoever was responsible for the insider-trading job had cleverly hidden behind multiple layers of transactions, false identities, and third-party bank accounts.

After two weeks, the team was close to giving up. But before they could admit defeat, the software narrowed 180,000 cases to 65 possibilities. Then it narrowed the list to 17, two, and finally just one.

The person identified was Simon Hannes, an executive director of Macquarie Bank. Macquarie had been hired by TNT to advise on the deal. Hannes had privileged insider knowledge.

Police swooped in on Hannes’s home. They found the body of evidence they needed to charge him, including the hard drive of Hannes’s PC ,which yielded drafts of letters from someone called Mark Booth.

Later the ASIC chief said, “I remember seeing indentations of his handwritten notes about the trades on scraps of paper. Also, most interestingly, he had made a note to himself to consider handing himself in before we arrived.”

Who knows: If he had given himself up, he may have ended up with a much shorter prison sentence. But he decided not to, so the software did it for him.