

The Role of the Forensic Accountant in Calculating Damages using the “But If” Analysis in a Case of Internet Day Trader & Online Broker Misconduct Litigation

Avi Rushinek and Sara F. Rushinek*

University of Miami, Coral Gables, FL USA

This is a study of the role of the forensic accountant in calculating damages using the “but if” analysis in a case of Internet day trader and broker misconduct litigation. The day trader makes several claims that the forensic accountant can validate. For example, the trader claims that the broker pressures the trader to take excessive risk and focus on NASDAQ’s most risky Internet stock trades. The forensic accountant can quantify the risk of the different stock markets and sectors. For this purpose, the forensic accountant calculates the variance for the different stock markets and sectors, leading to the conclusion that indeed the NASDAQ is significantly more risky than other stock exchanges. Likewise, the Internet stocks are much more volatile than other sectors, and therefore, much more risky. Forensic accountants are better suited to deal with such cases when special accounting issues arise. These issues may include income taxes, trust accounting, money laundering, reconstructing financial statements as well as cash collection issues. Furthermore, the forensic accountant can deploy the “But If” analysis to show what would have happened had certain actions been avoided. In our case, what would have happened had the online broker not pulled the power plug on the PC (Personal Computer) of the day trader, forcing him to suspend his trade. The forensic accountant can calculate the profits that the trader would have earned had the broker allowed him to conclude his exit plan and cover his short position, before the stock market trend reversed itself.

INTRODUCTION

Problems with Online and Day Trading

Day traders differ from usual online traders, as they tend to make many trades per day, looking for what they *perceive* as imperfections in price. Rarely is anything held at the close, other than cash. Trades are made to make from as little as an eighth point profit anywhere

Additional appendices, tables, charts, and program code listings are available from the authors upon written request.