

The man who beat Macquarie Bank

Barrister Ross Goodridge's retirement strategy fell apart when his stocks drew margin calls.

Story Marsha Jacobs

Sydney barrister Ross Goodridge doesn't gamble on the stockmarket, in fact he is only invested in one stock, Macquarie Countrywide Trust. On February 23 last year he arrived home on a Monday evening after a long weekend at his Lake Macquarie holiday home and checked his emails. The news was not good.

Three crucial emails threatened his future. His Leveraged Equities account manager Jason Norval had emailed through two margin calls, and then told him he had 24 hours to meet the last call of \$190,201.

Goodridge had met margin calls before – earlier that day he'd paid \$165,000 on an earlier call, and was confident he could handle this one. That is, until the next day, when his deadline to meet the call was brought forward to midday. But Goodridge did not get that email until 2pm. By the end of the day, his entire holding worth \$2 million had been lost, and with it his retirement portfolio.

"All I know is that I was destroyed" he was to tell the Federal Court. Justice Steven Rares said his reaction was "understandable".

Last week Goodridge had some satisfaction. He won a court case he launched last April against Macquarie Bank and Bendigo Bank subsidiary Leveraged Equities.

So while he may not have been an expert investor, he certainly understands the legal system.

The employment and insurance barrister is credited with the establishment of drug courts in NSW, designed to help drug dependent offenders overcome their dependence.

Of his decision to fight for his shares through the court, Goodridge says: "I had the belief I was right, the legal knowledge, and a great deal of anger."

Asked how he feels now, he is circumspect. And still angry.

"I'm disappointed in having to go through what I did," Goodridge says. "I didn't win anything – I got some shares back, but I paid out a great deal of money and spent 70 to 80 per cent of my time for a year on this – it was an enormous amount of time and effort – it is a far lesser failure than having lost, but it shouldn't have happened in the first place."

His road to almost ruin started when he entered into a margin loan agreement with Macquarie Bank in 2003. Over the years he had gradually built up a portfolio of 5.6 million units in Macquarie Countrywide Trust (MCW). In early 2009 the financial markets were crashing and panic was rampant, but Goodridge was positive.

The market was close to its bottom, reached on March 6, he had recently paid down his debt with Macquarie from \$4 million to about \$700,000 and, like so many others, he was feeling the pressure of the global financial crisis.

His share portfolio, which had been worth as much as \$8 million, was now worth less than \$2 million. The stock, which had been trading

above \$2 in 2007 was rapidly falling, and in early February it was worth less than 20¢.

But Goodridge, who was getting a good income from the investment, saw the upside. At the start of February he'd bought over a million units in MCW, he liked the trust, which owns shopping centres, thought it was heavily undervalued, and saw it as taking him through retirement.

"I thought it was a good opportunity," Goodridge says. "Already I was getting a dividend income of \$600,000 to \$700,000 a year, so I was in a cash-flow rich position – to me, this was an opportunity to keep a level head and acquire more when I could."

The stock lost 45 per cent of its value in two days from February 19, hence the February 23 margin call.

He'd always had a good relationship with Norval, who began working for Leveraged Equities in January 2009 after Macquarie sold its \$1.5 billion margin loan book in what Justice Rares called a "Kafkaesque scenario".

Rares ruled the transfer of 18,500 margin loans worth \$3 billion from Macquarie to Leveraged Equities was "legally ineffective".

Macquarie had taken a positive view of MCW; in November 2008 Macquarie Equities had valued the stock at four times its then market price of 31¢.

However, Leveraged Equities didn't like it. Norval's boss, Paul Edwards, told Norval he considered it "a penny dreadful" and wanted to reduce exposure to Goodridge.

They did just that. Within a day of receiving the call on February 23, Goodridge's share account had a zero balance and he had lost everything he had worked

hard for. "Until that day I kept a level head but I was put under so much pressure and treated so abominably, I fell apart," he says.

"I'd acquired enough shares to fund my retirement, and through dividends and distributions, live more than comfortably – that was all gone in 24 hours."

By April, he had filed a claim with the Federal Court and so began a legal battle against the two banks that took the better part of a year.

Last week Goodridge emerged victorious and the banks were ordered to buy back his 5.6 million units on market.

On Friday these were worth 56¢, meaning the banks will have to spend \$3.1 million buying them back.

Goodridge's problems began on Tuesday the 24th – the day after he received Norval's emails. As he was

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in court he did not check his emails until 2 o'clock. At 10.05 that morning, Norval wrote to him saying he had until midday to satisfy his call. His entire holding would be sold if he couldn't pay.

Goodridge immediately called Norval, who told him he was "in luck" and no shares had yet been sold but they would be that day if he didn't come up with the money.

Goodridge immediately rang two "wealthy" friends offering to sell three beachfront properties he owned, and made an appointment to see a third wealthy friend,

solicitor Stephen Firth, the next morning, but couldn't come up with the money that afternoon.

Norval sold a million units at 10.5¢ and told Goodridge he would sell the rest the next day.

In the words of Justice Rares: "By now Mr Goodridge was emotionally overwrought. He felt under great pressure and was bursting into tears. He had difficulty sleeping.

"I am satisfied that he was not able to think clearly and felt devastated by the turn of events and pressure which the peremptory demands for large payments had placed on him," Justice Rares said.

When Goodridge logged into his account the next day he saw a balance of zero shares. His entire holding was sold for between 10.5¢ and 11.5¢. The lowest MCW shares reached was 10¢.

Last Friday, Justice Rares ruled that Leveraged Equities had acted unconscionably by giving Goodridge less than the three days stipulated in his contract to come up with the cash to meet his call.

Justice Rares also ruled that the transfer of Goodridge's margin loan from Macquarie and Leveraged Equities in January 2009 was "legally ineffective".

There wasn't anything unique about the way Goodridge's loan was transferred, meaning not only his but 18,500 other margin loans transferred are now in question.

Justice Rares said that because Firth would have lent him the money, Goodridge would have made the call, and because Goodridge was planning to retire off the shares, he was a long-term holder, therefore the banks must buy him back his 5.6 million shares and give him more than \$300,000 for dividends he missed.

Earlier this week, Bendigo Bank acknowledged it does not know whether more than 18,500 margin loan accounts with subsidiary Leveraged Equities have been rendered invalid by the decision.

Anyone who had a Macquarie account transferred to Leveraged Equities and then received a margin call and had shares sold out from under them is now arguably entitled to have their stock bought back for them on market.

Many people could be in this position. Leveraged Equities bought the loans portfolio in January, two months before the market hit bottom.

Litigation funder IMF's John Walker says he is looking at the case and has already been contacted by people in Goodridge's position.

Even if Macquarie and Leveraged Equities need to pay out potentially hundreds of millions to buy stock it sold on market at current prices, one can't imagine they will remain out of pocket for long.

Two big law firms created the sale contracts: Allens Arthur Robinson and Piper Alderman.

Logically, if Macquarie and Leveraged Equities are forced to compensate clients, they can then turn around and sue the legal advisers who drafted the contracts.

Of course, Macquarie is likely to appeal against the decision but Goodridge says he is confident of holding onto Justice Rares' judgement.

So will he think about a margin loan again?

He pauses before answering. "No... I don't think so."

WHAT THEY SAY

"All I know is that I was destroyed."

Ross Goodridge on the sale of his 5.6m MCW shares.

"By now Mr Goodridge was emotionally overwrought. He felt under great pressure and was bursting into tears. He had difficulty sleeping. I am satisfied that he was not able to think clearly and felt devastated by the turn of events and pressure which the peremptory demands for large payments had placed on him. These feelings were compounded by his learning of the forced sale of the 1 million units in the investment he had spent much effort to accumulate."

Justice Steven Rares of Mr Goodridge on February 24, after his holding started being sold.

"It seems from Rares's judgement that the right that Mr Goodridge has... to seek the return of his security will be the same right that people have who were sold up by Leveraged Equities."

IMF Australia CEO John Walker.

"I imagine Leveraged Equities made a number of margin calls – this period coincided with a low point in the market. There could be far-flung implications."

Mr Goodridge's lawyer Stephen Firth.



Ross Goodridge
Photo Michele Mossop