'Frank Partnoy tells the story of Kreuger's rise and fall with great pace … anyone seeking insights into the recent cases of Bernard Madoff or Allen Stanford will find echoes in Frank Partnoy's fascinating account'
Times Literary Supplement

'Captivating' Christopher Silvester, *Spectator Business*

'An enthralling cautionary tale of the recurring excesses of global finance'
Financial Times

'This book opened my eyes to the world of a glamorous financial wizard with the ability to confuse experts in finance and accounting. It holds many parallels in present times. Our Minister for Finance could do worse than make this compulsory reading for anybody involved in the regulation of our financial sector in the future.' *Irish Times*

'Frank Partnoy commends Kreuger for his innovations in finance and he makes the world of international capitalism not just easy to understand but fascinating. The shadowy figure of Kreuger becomes a little less indistinct through Partnoy's gripping account of his life, gambles and downfall.' *Metro*

'Partnoy vividly recreates the turbulent Wall Street of the 1920s to tell the story of the Swedish magnate whose death precipitated the "Kreuger crash" of 1932. A powerful reminder that today's scandals had vast and destructive predecessors.' *Financial Times*

FRANK PARTNOY is the author of *Infectious Greed* and *Fiasco* which was shortlisted for the *Financial Times* business book of the year award. He has worked as an investment banker at Morgan Stanley and as a corporate lawyer and has testified as an expert before both the United States Senate and House of Representatives. A graduate of Yale Law School, he is currently the George E. Barrett Professor of law and finance at the University of San Diego.

Also by Frank Partnoy

F.I.A.S.C.O.
Infectious Greed

THE MATCH KING

IVAR KREUGER AND THE FINANCIAL SCANDAL OF THE CENTURY

FRANK PARTNOY

PROFILE BOOKS

This paperback edition published in 2010

First published in Great Britain in 2009 by
PROFILE BOOKS LTD
3A Exmouth House
Pine Street
London EC1R 0JH
www.profilebooks.com

1 3 5 7 9 10 8 6 4 2

Printed and bound in Great Britain by
Bookmarque, Croydon, Surrey

Typeset in Sabon by MacGuru Ltd
info@macguru.org.uk

A CIP catalogue record for this book is available from the British Library.

ISBN 978 1 86197 938 4
eISBN 978 1 84765 213 3

For Dad

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Frederic Whyte

"Boiler-room operators, peddlers of stocks in the imaginary Canadian mines, mutual-fund managers whose genius and imagination are unconstrained by integrity, as well as less exotic larcenists, should read about Kreuger. He was the Leonardo of their craft"
John Kenneth Galbraith

"Everything in life is founded on confidence"
Ivar Kreuger

PREFACE

By Thursday, October 24, every market in the world was in freefall: mortgages, stocks, bonds, and even derivatives that were supposed to act as insurance against losses. For most investors, it had been the worst week of the worst month of the worst year in financial history. Housing prices plunged. Lenders froze. Foreign markets crashed. By the time the closing bell rang at the New York Stock Exchange, many nest eggs were empty shells.

Officials at the Exchange announced that the markets would not reopen until Monday. Given the ferocious selling that afternoon, everyone needed some time to calm down. A record number of shares had traded on Thursday, and the market overall was down nearly 20 percent for the month. Prominent bankers and regulators scheduled closed-door meetings to discuss how they might stem the panic.

That evening, one of the world's wealthiest men stood at a precipice. He had been at the center of a seven-year stock market boom, and had pioneered many of the complex new instruments that had come to dominate modern finance. His securities were among the most widely held in the world, and, incredibly, even as the markets collapsed, investments in his companies were holding firm.

As this remarkable man surveyed the turmoil, he worried that investors might lose faith in him, just as they had turned on other companies. The markets were volatile, and when people abandoned an investment, they did so in herds. Voracious short sellers bet against securities, vaporizing their value within days, or even minutes, as bad news spread to worse. One day a firm was a healthy household name, known and respected throughout the world. The next day that firm teetered on the edge of bankruptcy and disrepute. The victims of the crisis already included several prominent institutions.

This was not a time to disappoint anyone. Yet during the next few days, this man would be at risk of disappointing everyone, including his closest advisors. For the first time, his accountants and investment bankers were seriously questioning some of his transactions. They especially wanted to know about the debts of some secret subsidiaries he had incorporated in Luxembourg. These debts, known as "off balance sheet obligations," didn't appear in any of his companies' financial statements, and his advisors wanted proof that there was money to repay them.

The man insisted there was no reason to worry. He promised that during the next few days he would close his biggest deal yet, a massive loan to a government that was hungry for cash. The markets would be closed Friday, and he was scheduled to meet with this country's finance minister on Saturday morning, to finalize the terms of the loan. This deal, he assured them, would erase any doubt about his finances. It would be front-page news in *The New York Times* and the *Wall Street Journal*. The editors at *Time* already were planning to put his face on their upcoming cover and to run a feature story about how he continued to defy the deepening financial crisis.

But in order for his plans to work, the man had to take one massive risk. Given the panic, he could not raise all of the cash needed to fund the loan right away. Instead, he would have to promise to cover the loan himself. Until the markets recovered, his entire fortune would be staked on that one foreign government loan. It was a stunning and unprecedented idea, but he was prepared personally to guarantee one of the largest loans in history.

On the Monday after he signed the loan, in October 1929, the markets crushed his hopes with the largest collapse in financial history, the events that people called the "Great Crash." Instead of soaring, as he had hoped and imagined, stocks fell by 25 percent in two days – days that came to be known as Black Monday and Tuesday.

This man became the symbol of the 1920s excesses. The congressional investigation into his companies led to the securities laws that govern today's markets. His colleagues and advisors were publicly humiliated. His once-prestigious investment bank fell into disgrace and then dissolved in bankruptcy. Regulators, who had welcomed the man as a financial savior of investors and a high priest of business, suddenly claimed he had been the world's greatest swindler.

Today, the need to understand this man's rise and fall is greater than ever. Financial markets leave most of us mystified and helpless. We have so many questions. Where should we put our money? Which investments are safe? Should we trust our brokers? Will the institutions we work for or invest in suddenly implode, like Bear Stearns or Enron or Lehman Brothers or Bernard L. Madoff Securities? When will the next crisis hit, and who will it hurt?

Most people cannot spot financial crises in advance. We buy just before the collapse, when in retrospect we realize that we should have sold. Then we sell at the bottom, when we should have bought. At the same time, we are spellbound by the people who outsmart the markets – Warren Buffett, George Soros, and the hundreds of hedge fund managers who somehow pocket nine- and ten-figure bonuses, even during times of panic and crisis.

What do they see that we do not? One view is that they understand the complexities of modern finance, including the $600 trillion derivatives market, which average investors cannot hope to penetrate. Indeed, the sharp contrast between bewildered masses and financial élite might seem unprecedented today. Even the language of modern finance sounds new: swaps, off balance sheet liabilities, offshore subsidiaries, complex corporate voting structures, hybrid securities, credit default swaps, and collateralized debt obligations.

But in truth not so much of this is new, and the new part is not why the savviest people make so much money. Warren Buffett and George Soros eschew derivatives. Hedge fund managers bet against the Wall Street banks that develop complex products. The best investors – today and yesterday – make money not because they understand abstruse mathematical models, but because they have a deep intuition about the timing and machinations of financial markets. Markets have been complex for a long time, and their ebbs and flows always have depended, not only on intricate disclosures about assets and liabilities, but also on human psychology. That has not changed since the 1920s.

The man whose life forms the basis of this book was a master of investor psychology, and his various schemes – legitimate and not – captured the imagination of shareholders in the 1920s in the same way dot.com internet ventures, auction rate securities, analyst stock tips, and derivatives backed by subprime mortgages have recently. We tend to think of these kinds of investments as scandalous because ultimately they caused so many people to lose money. But each of them also enriched those who understood what the schemes were designed to do, as well as the investors who knew when to buy and when to sell.

For better and worse, this man is the father of today's financial markets. Hedge fund managers and investment bankers employ many of the same techniques he invented. Major companies use the tools he pioneered. America's securities laws were a direct response to his spectacular collapse. He was, in many ways, the original Bernie Madoff.

Modern business leaders follow his footsteps and missteps. The chief executive officer today is an essentially political position, which requires men and women to assume public postures that often conflict with their true personalities. Many corporate executives who confront this tension become infected with hubris, as this man did. Like him, they come to believe they can overcome any skepticism and dig out of any financial hole, no matter how deep. Given the complexity of accounting, they, and their employees, manage reported earnings in a way that diverges from reality. Securities analysts and journalists entice them to repeat optimism so frequently that they come to believe it, just as he did. Some corporate officers become mentally unstable as the pressure mounts, especially at times of calamity. Many have unhappy endings.

Even the 2008 financial crisis followed a trail that was strikingly similar to this man's path: start with massive undisclosed risks on Wall Street; magnify those risks with excess leverage; pyramid that leverage with complex new financial instruments few people understand; pay bankers and accountants small fortunes to look the other way; and then watch helplessly as prices plunge and investors realize their savings are built on sand. The names and details change, but the cycles of mania, panic, and crash do not. Financial history repeats, and our rollercoaster markets trace directly back to one man.

By the end of his story, in 1932, he was on the front page of newspapers and magazines almost every day. His story was the subject of bestselling books and popular film. He was the most eligible bachelor in the world and the most sought after economic and political counselor. He was as comfortable advising President Herbert Hoover as he was dancing with Greta Garbo. He was as influential in art and architecture as he was in industry.

Yet memories of this man have faded, even more than the blue telex printing on the thousands of cables he sent from luxury liners and five-star hotels as he moved among offices in New York and throughout Europe. Many of those telegrams, along with decades of personal letters and financial statements, have sat virtually unexamined for years in a castle in Vadstena, Sweden. When I first saw the collection there, I was overwhelmed. Piled end to end, these documents would stretch for miles.

For the past six years, I have researched this man, and his doings and misdoings. This book distills the elements of his story that I have found most relevant to investing and business today. It also paints a picture of an extraordinary human being, a man who deserves to be known as more than "the best-liked crook that ever lived," as British writer Frederic Whyte put it. My hope here is to resurrect him for anyone who is interested in markets, or who worries that, left unattended, even the most compelling stories in the cycle of history can disappear.

This is the story of Ivar Kreuger.

1

COMING TO AMERICA

On a promising fall day in 1922, 42-year-old Ivar Kreuger boarded *Berengaria*, the German luxury liner, at Southampton.[1] He wore a charcoal suit, as he typically did in public, and carried his favorite hat, a gray Homburg with a black stripe. Photographs from the time show a man constantly in shadow, with a sharp nose and small eyes, deep-set and dark.[2] His receding hair was closely cropped and combed back to expose a smooth, prominent forehead. If Ivar had been chomping a cigar, a passenger might have mistaken him for a slimmed-down Al Capone.

Few of the Americans returning from travel in Europe recognized Ivar at this point – in 1922, he was not yet a household name – but everyone would have seen him hasten aboard at the last minute. He rushed through the reception line, carrying an elegant cane and a dispatch case stuffed with papers. Once aboard, he scanned the crowd, headed for the largest group of unattached women he could find, and introduced himself with a bow.

When he opened his mouth to speak, it was clear that this was no mere mafia don. He spoke in beautifully constructed paragraphs, the sentences forming patterns like the parallel zigzags and hooks embroidered in the medieval Viking tapestries that had become so popular in his native Sweden.[3] Did they know *Berengaria* was christened after the wife of Richard the Lionheart? Ivar's eyes twinkled as he remarked that the name was apt, was it not?

He turned from group to group, working the crowd, posing questions like an inquisitive teenage boy, and then answering himself with the sagacity and life experience of a man twice his age. Would this trip be safe? Of course. *Berengaria* was 5,000 tons heavier than *Titanic*, with a stronger, safer hull, and redesigned bulkheads that were high and watertight.[4] New maritime rules, enacted after *Titanic* sank a decade earlier, mandated that every cruise ship carry stacks of lifeboats. Wireless communications were now flawless. It was unimaginable that a ship, particularly one from the Cunard Line, could be stranded at sea without radio contact.

What about the first-class cabins? Ah yes, they were stunning, all 714 of them, resembling rooms in a fine German home, with covered verandahs stocked with live greenery. Those three towering funnels? Surprisingly, one was a dummy, just for show, or, as Ivar might have preferred to put it, for "aesthetic balance." The clean air on deck? The ship's two working funnels were technological marvels. Did they know *Berengaria* was the first luxury liner to burn oil instead of coal?

Although Ivar dominated every conversation, he did so with a modest, almost self-deprecating air. He seemed apologetic, even embarrassed, that he knew all these things. As he moved among the passengers, he left them feeling that they, not he, had been asking all the questions. Even as Ivar held forth, they wanted him to say more, not less.

Ivar interlaced snippets about art, architecture, film, and travel, and criss-crossed topics from the Dutch masters to Dreiser to winter gardens to the stunning teenage actress he had just discovered in Stockholm. When the Vikings stitched together strips of cloth, they built a continuous dramatic arc, from the top left of a tapestry to the bottom right. When Ivar began weaving a story, he created a similar effect. A listener had no choice but to follow him to the end.

Whatever the topic, though, Ivar always returned to business. He might quote a stanza of poetry or an excerpt from a political speech, in one of five languages he spoke fluently, but invariably he would next mention how it brought to mind a passage from a quarterly corporate report he recently had read, or an announcement by a leading firm. The thread of his argument would be surprisingly continuous, and it would become apparent that Ivar had been moving the conversation toward that business item from the beginning.

Even more striking than Ivar's flowing prose was his gaze. When he locked into one of the passengers, everyone else melted away. Even the strongest personalities were mesmerized by the fix of his stare. As one of Ivar's closest colleagues put it,

> There was an odd air of greatness about Ivar. I think he could get people to do anything. They fell for him, they couldn't resist his peculiar charm and

> magnetism. Above all, there was a look about him that made a difference. I saw J. P. Morgan's eyes many times in New York. They were like fire coals. But Ivar's eyes were not like that. They had another quality. Though small and narrow, they seemed capable, if he desired, of looking right through you.[5]

What the passengers aboard *Berengaria* did not know was that Ivar spent hours every day just preparing to talk. When Ivar knew he would be meeting a new group of people, he planned the first impression he hoped to make in advance: whom to meet first, which nuggets of information to drop, and where to move next. He always formed an exit plan. As *Berengaria* slid out to sea, Ivar could tell that this first impression had been a good one. Now, it was time to slip away, to let their views of him set, like a carefully baked soufflé. He excused himself, bowed again, and rushed to the ship's communications room. That concluded his opening act.

What kind of man, the passengers must have wondered, couldn't wait to finish a glass of champagne? Who couldn't even pause to take a breath before dashing off to send a cable from the ship's radio shack? This tornado of a man hadn't even told them his name.

About an hour after *Berengaria* left Southampton, a passenger headed to send a cable, and was surprised to see that the man who had rushed on board earlier was still there. The wireless officer politely turned that passenger away from the door, repeating the precise words Ivar had insisted he say: "I'm sorry, but Mr Ivar Kreuger has engaged the wires for his exclusive use."[6] Ivar had given the officer an absurdly large gratuity so he could have the room to himself. This was Act Two of his planned entrance.

Word spread among the passengers about Mr Ivar Kreuger, exactly as he had intended, and others stopped by for a glimpse of this mysterious man. Through the small window they could watch Ivar send message after message, his shadowed eyes flicking across columns of numbers on the papers he had packed in his dispatch case. The wireless's new multiplexing technique, pioneered by the Radio Corporation of America, had the capacity to allow up to eight passengers to send cables at once. Yet Ivar monopolized the lines.

Ivar remained in the radio shack until the passengers finally tired of dropping by to see if he was still there sending cables. According to later reports, probably exaggerated, he sent messages continuously for twenty-four hours. In any event, he stayed long enough to create the impression he wanted. In the dénouement, Ivar slipped away to his first-class cabin, exhausted but satisfied.

Fortunately, Ivar's associates had laid out his state room just as he had instructed. The room was fragrant with the precise arrangements of fresh flowers Ivar preferred, including apple blossoms and pink roses from one of his pergolas in Stockholm. Everything was in order. In the morning, while Ivar slept, a few of his men would answer any questions the passengers might have. And now that Ivar had left the radio shack, the ship's wireless finally was available. The passengers aboard *Berengaria* could spread the news about the remarkable man who was coming to New York.

Ivar was sailing to America for one simple reason: that's where the money was. After a brief recession, a post-war boom had ignited the Roaring Twenties, and by 1922 the country was awash in cash. Investor mania had reached even middle-class families, who were spending record amounts on a range of new luxuries: not only shares and bonds, but radios, Mah Jong sets, movie tickets, and, of course, alcohol and cigarettes. The streets of American cities were jammed with new cars – Lexingtons, Maxwells, Briscoes, and Templars, along with Buicks, Dodges, and Fords – and the wealthiest families were buying vacation homes in Miami and California, and sailing to and from Europe on elegant passenger liners.

Optimism and affluence washed through the American economy, as investors began playing the stock market, many for the first time. The buzz inside smoky jazz clubs and behind the curtained grilles of speakeasies was as often about Anaconda or General Motors as it was about the new Atlantic City beauty pageant. At the New York Stock Exchange, where a seat cost more than $100,000 – a hundred times the average annual income – brokers traded shares of the most prestigious companies, such as American Telephone and General Electric.

Just outside the Stock Exchange, at the so-called "Curb Market," boys with telephones attached to their heads swung down from windows to relay buy and sell orders to the brokers trading stocks, rain or shine, on the curb of Broad Street below. A British journalist who had just arrived in New York wrote that "you could talk about Prohibition, or Hemingway, or air conditioning, or music, or horses, but in the end you had to talk about the stock market, and that was when the conversation became serious."[7]

A new business-friendly Treasury Secretary, Andrew Mellon, who had resigned from fifty-one corporate directorships to join President Warren G.

Harding's cabinet, pledged to reduce corporate taxes.[8] The Federal Reserve lowered interest rates, to spur lending and investment. The Stock Exchange, a private corporation, imposed few rules on investing, and there were no federal laws restricting the purchase or sale of securities. In these laissez-faire markets, investors were free to go wild.

And wild they went. The hottest two emerging industries were cars and radio. Annual car sales had doubled from two years earlier, and there were now more than 15 million cars on the road. Manufacturers introduced faster, safer, and cheaper models every year, and the only asset people wanted more than cars were securities issued by car companies. Anyone who bought shares of General Motors or Fisher Body or Yellow Cab expected to double or triple their money after just a few years.

Shareholders of the Radio Corporation of America, known as RCA, did even better. RCA enjoyed a wireless communications monopoly, thanks to Assistant Secretary of the Navy Franklin D. Roosevelt, who had engineered a "marriage of convenience" among the government, General Electric, and Westinghouse, which manufactured wireless devices.[9] RCA's superheterodyne receiver became the dominant technology. When Ivar or other passengers sent messages from *Berengaria*, they used a new RCA transmitter.

As recently as 1920, only about 5,000 families had owned in-home radio sets, and RCA's share price was around a dollar then.[10] At that time, radio wasn't doing much better than other businesses suffering through the post-war recession. Then WBAY, a pioneering New York radio station, sold the first-ever advertising spot, a pitch for apartments in Jackson Heights – and the world changed overnight. Radio stations popped up in every major city, and radio sales soared, to $60 million in 1922. RCA's share price flew even higher than its sales. Anyone who held RCA shares during the 1920s earned an average annual return of 60 percent. All of that gain was from share price appreciation, not any periodic payments from the company. RCA did not even pay a dividend.

A few naysayers argued that shares of General Motors and RCA were over-valued, because actual profits were slim. Shares represented a claim to future dividend payments, so share prices should reflect the value of expected future dividends. The pessimists noted that RCA didn't pay a dividend, and claimed it never would, because it didn't make any money. Their point was simple: no profits, no dividends, no value. Without dividends, the share price couldn't keep going up.

But these shares were a bet on tomorrow, not today. If people thought the share price of General Motors would rise in the future, no one could prove them wrong now. And even though RCA didn't pay a dividend or earn much actual profit, the people who bet on that company were winners, year after year. RCA's share price rose because investors believed RCA eventually would make money and pay dividends. It was hard to argue with expectations, well grounded or not. The skeptics who bet against RCA were stepping in front of a speeding train.

American consumers and investors were in a buying mood. Ivar wanted – and needed – their dollars, and he had a plan to get them. By 1922, he had mastered the complexities of modern finance, and had created a web of related corporations and new financial instruments spanning the globe. But Ivar wasn't trying to sell anything complex. At least not at first. This time, his pitch involved a basic and essential product everyone used and could understand, something even more straightforward and common than cars or radio. That product was the safety match.

At the time matches were a staple, something the typical American needed almost as much as food, clothing, and shelter. People used matches to light kerosene lamps, gas heaters, stoves, and, of course, tobacco. When the sun set, they struck matches to light fires for cooking, candles for reading, and cigarettes for smoking. Everyone carried matches; everyone used them; everyone bought them.

Ivar told the story of the safety match to anyone who would listen. A German chemist had invented phosphorous matches in 1832, but the German matches had been too dangerous, both because the yellow phosphorous necessary to light the match was poisonous, and because the Germans had put the phosphorous in the match head, which was prone to light accidentally. The Swedes took the German invention and captured the market by emphasizing safety, simplicity, and innovation.

First, the Swedes developed a safer red phosphorous. Then they moved the phosphorous to a striking surface on the match box. Boxes were labeled "safety matches" and were printed with the slogan "Will Only Light on the Box." They were an instant hit. By 1922, Sweden was the leading exporter of matches, and Swedish Match Corporation made two-thirds of all matches used in the world.[11] Matches were Sweden's pride, and its most important export.

In the heady US markets, safety matches were the ideal new investment, and Ivar Kreuger was the perfect messenger. Matches, like cars and radio, were tangible products. They used new technology, and could be exported throughout the world. Antitrust regulators had declared monopolies illegal at home, but, by investing in Swedish Match, Americans could earn profits from a monopoly abroad. Ivar's sales pitch was compelling. An investor who heard him talk about Swedish Match for more than a few minutes invariably would pull out a checkbook.

Nearly every passenger on *Berengaria* used Swedish matches, and many would have heard of Swedish Match Corporation. By the time Ivar's henchmen briefed the passengers, they also would have known that Ivar controlled Swedish Match, and that his grand postwar plans were to establish a global match monopoly. By all appearances, he was well on the way.

In retrospect, it was surprising that Ivar had ended up in the match business in Sweden. As a child, he had watched his father, Ernst August, a fifth generation Swede, work in the small factory their ancestors had built near Kalmar, a city in the southeast, overlooking the Baltic Sea. Ernst August was a handsome man, with strong chiseled cheekbones and a high forehead. He was conservative and trustworthy, but he was not the family's leading mind. Ivar found his father's job as a factory manager uninspiring. Given the advances in technology, anyone could supervise the mechanized splint sorting, leveling, dipping, and packing of matches.

It was even more surprising that Ivar would return home. He had been the black sheep of a family dominated by his big-boned Scandinavian mother and his five blonde, fair-skinned sisters. His mother, Jenny, was as wild as Ernst August was stable. She had been born in Dutch South Africa, where her father had hurried in search of riches in the mines, just as the "forty-niners" were rushing for gold in America. There were hints of her family's history of mental illness in her sharp eyes, which darted in as many directions as her corkscrewed hair. Jenny's multicolored, multilayered outfits, and her elaborate bracelets and combinations of long necklaces and thick chokers, were a sharp contrast to Ernst August's simple dark suits and bowties.[12]

Jenny found it difficult to relate to her quiet, poker-faced boy, just as he found it difficult to relate to her. She was embarrassed when he repeated Sunday sermons verbatim or recited the scientific names of plants. He sat quietly, playing games in his head and planning his escape, while his mother and sisters frolicked in the family's middle-class flat in Kalmar and up and down East Sea Street. Ivar spent hours alone at nearby Kalmar Slott, the massive twelfth-century castle perched above the Baltic, where he saw the abandoned turrets as both an inspiration and a warning that even the strongest defenses ultimately could crumble. When his brother, Torsten, was born, Ivar shared the schemes he had concocted at Kalmar Slott, and kept secret from his mother: to stage a coup at the local school, to escape to Stockholm and then America, and to become a world leader and a wealthy businessman.

After Ivar left Kalmar and graduated from engineering school in Stockholm, his rise was surprisingly fast: he worked construction jobs throughout America and Mexico, formed a construction partnership in London, and then expanded into other industries, including film, real estate, and telecommunications. By the time of the world war, he was a millionaire and an industry leader. When he saw that his family's match business was struggling, he decided to return home, not just to help his family but also to exploit the enormous opportunity in matches.

While the factories of Europe worked overnight to produce war materials, Ivar quietly purchased match factories throughout Sweden.[13] He was a pioneer of vertical integration, buying timber tracts and chemical factories to secure the raw materials needed to make matches. Finally, he merged the leading Swedish competitors to form Swedish Match, a single dominant business with initial capital of about $10 million. Ivar owned half of Swedish Match, held all of the senior executive positions, and controlled the company's board.

Ivar was attracted to the match business, not for what it was, but for what it might become. In 1922 the industry was highly competitive. Profit margins were narrow. Swedish Match manufactured 20 billion boxes of matches per year, but its profits per box ranged from just a few cents down to a fraction of a penny.

Ivar's plan was to limit competition and increase profits by securing a monopoly on match sales throughout the world, mimicking the nineteenth-century oil, sugar, and steel trusts. Then, Swedish Match could raise prices without losing sales. According to Ivar's plan, now that the world war was over, he would make a fortune from the peace.

Swedish Match Corporation was just one part of Ivar's empire. He controlled ten other businesses through his public "holding" company, Kreuger & Toll, another Swedish corporation. In addition to its stake in Swedish Match, Kreuger & Toll also invested in banking, real estate, and the film industry. Ivar formed separate real estate companies to hold his properties,[14] and he used separate subsidiaries for each business, in order to avoid registration fees applicable to larger companies.[15]

One of his property holdings was Kvasten 6 Biblioteksgatan, where the well-known Stockholm cinema Röda Kvarn was located.[16] This purchase led Ivar to become involved in the film industry, and to meet prominent directors and actors, include a leading director in Sweden, Mauritz Stiller. Ivar formed Svenska Filmindustri, a company that dominated Swedish cinema and brought him great pleasure, though little money. SF, as the company was known, was at the center of the golden age of Swedish film, and made critically acclaimed movies based on novels by the country's leading writers. SF had an agreement to produce five novels by Selma Lagerlöf, who had won the Nobel Prize in 1909.[17] Unfortunately, the films were expensive and generated better reviews than revenue. In 1922, he restructured his film business and took losses of 80 percent.[18]

But the financial difficulties of film were the exception for Ivar, and his other companies rolled on. Overall, Ivar's network of separately managed subsidiaries was incredibly profitable. Investors in Kreuger & Toll consistently made double-digit returns and Ivar had increased his holding company's dividend to a whopping 25 percent of "par value," the initial capital Ivar had raised. No American company came close to that.

Ivar controlled his holding company with a tight grip. Its board of directors was Ivar, Ivar's father, Ivar's partner Paul Toll, and two of Ivar's closest colleagues. As one of those colleagues later explained, annual meetings were perfunctory. Ivar would walk in briskly and deliver a quick monologue:

> Good morning, gentlemen. Will the secretary please read the minutes? It has been decided to increase the capital of Kreuger & Toll by twelve million kronor by issuing new shares at a rate of two hundred and forty percent of par. Do I hear any objections? Thank you, gentlemen. Good morning.[19]

Kreuger & Toll's annual financial statements contained no explanation as to how the company had made so much money. One of the largest profit entries was labeled simply "profits from other investments." Ivar's earlier investors, from outside America, hadn't seemed to mind the vagueness. Why worry about such details when the company paid a 25 percent cash dividend? Their investment would be returned in four years. And, on top of dividends, investors in Kreuger & Toll also made money as the value of their investments rose. Ivar already had made his investors quite wealthy. They saw no reason to ask probing questions about what Ivar's "profit from other investments" might be.

Before 1922, Ivar had raised most of his capital in Europe, particularly from Swedish banks. As Ivar watched the Americans enter a period of buying mania, he saw a new source of funds. Ivar had studied financial history and was aware of infamous periods of mania and later panic, such as the South Sea Bubble of 1720 and the infamous rise and collapse of Dutch tulip bulb trading in 1637.[20] In those cases, men became rich as they rode the wave of investors speculating on risky ventures. Ivar knew the timing was crucial; American optimism would not persist forever. When investors were manic, they would purchase just about anything. But during the panic that inevitably followed mania, the opposite was true: no one would buy. Anyone who bought into the South Sea Company or Dutch tulip bulbs, but held the investment for too long, lost everything when panic hit. It was important to strike, and then exit, early.

Anyone who remained skeptical about Ivar's businesses could look to the consistent track record of Kreuger & Toll, the parent company of Swedish Match, from as far back as 1907, when Ivar and Paul Toll formed the firm to do construction projects in Europe. Now Ivar's companies were poised to outperform even shares of RCA and General Motors. When investors learned about the dividends Kreuger & Toll had been paying, they simply went mad. These people were willing to buy shares of companies that, like RCA, did not pay any dividend. What would they think of a reputable company that paid *25 percent* a year? Plus a sizeable gain on the value of their investment? It was enough to make even the most conservative investors lose their minds.

As Ivar knew, the number of conservative investors in the United States – the people who might question how his companies could pay such large dividends – was dwindling. Instead, stock buying and selling was dominated by exuberant day traders, people who bought and sold shares of risky companies throughout the day, often holding positions for just a few minutes.[21] There was no securities regulator governing these people or the brokers who sold them shares. Nor were there government laws or warnings about rapid trading in and out of stocks. As a result, there were more day traders per capita during the early 1920s than at any other time in history.

Scattered throughout major cities were scores of unregulated "bucket shops," shady brokerage firms that encouraged aggressive trading, charged high fees, and sold highly volatile investments that seemed too good to be true, and often were. There were no actual "buckets" at these shops. The term derived from British beer swillers, who walked from pub to pub in London's