

Carl-Eric Björkegren



-The lost millionaire

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Introduction

Carl-Eric Björkegren was one of Sweden's most wealthy persons, a director, business man and owner of one of Sweden's finest private art collections. At the peak of his wealth he was valued at 2.5 billion Swedish kronor. Anything he touched turned into gold and he successfully increased his assets on the three most flourishing markets during the 80's; Financial-, Real Estate- and Art and Antiques Market.

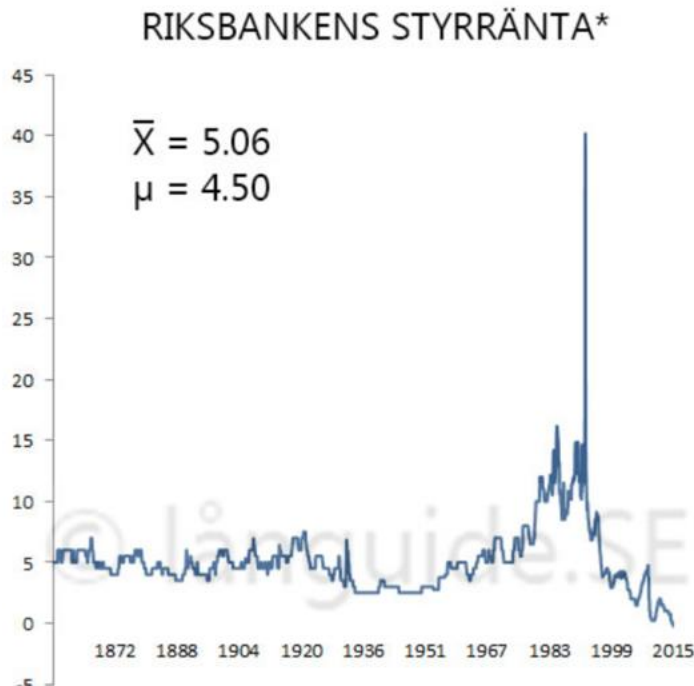
However, a sunny summer morning in June 1994 he vanished without a trace and has, 23 years later today, still not been found. Some suspect he ran away to escape the consequences of his high rolling game with finances, and some suspect a crime was committed. Perhaps the truth will never reach the surface, and all that is left is a thrilling story, and a big hole in the lives of the people who were close to him.

The Life of Carl-Eric Björkegren

After graduating from The Swedish Defense University as an Officer during the World War II Björkegren began studying at the School of Business, Economics and Law in Gothenburg. He received his diploma in 1949 at the age of 29 and started his career at Sandviken Jernverk AB. Working his way up within the company, with roles as chief accountant, intendent and CFO, Björkegren became deputy managing director in 1965. The reason for his success within Sandvik was mainly because of very effective cost calculations that managed to reduce the production unit cost significantly and kept Sandvik in the top of Swedish industry.

Björkegren got the opportunity to acquire shares of the Sandvik stocks through the company. Furthermore, he did not correctly report this possession to the authorities, and upon leaving Sandvik, for his retirement in 1981, he was the first man ever in Sweden to get convicted for insider trading. A crime for which he served his sentence, and did not stop him. On the contrary, it was only the beginning of his interest in the stock market.

Financial Market



This is what the prime rate of Swedish banks covering the entire 20th century looks like, which is the only timespan relevant for this report. The most interesting period of time for Björkegren begins at 1980 and ends around 1992, since that's around the time he went bankrupt. It's clear from the graph to say that this period is when the interest rate from the banks were the highest. This had a major impact on Björkegren since he had a lot of investments in stocks, which he had borrowed money to buy. The reason why the prime rate had a big impact on Björkegren is because the prime rate sets the interest rate, which leads to how willing people are to borrowing money. The lower the rate, the more money gets set in motion, affecting the economy.

The biggest reason why the finance market crashed the way it did had to do with a change in the loan rules made by Riksbanken, the central bank in Sweden, in 1985. This change removed a lot of the regulations on the banks, meaning they could basically accept loans with unlimited range. This of course led to people borrowing more and more which eventually led to a crash in many different markets, including the finance market. While the finance market radically fell in prices, Björkegren's stock value decreased enormously.

The crash happened because of people's incapability to pay back their loans to the banks, meaning they ended up with basically no money. Since people took big loans, they had a lot of money in their possession, increasing the prices and demands (as with the real estates and arts). This led to Björkegren's fall, since he bought stocks when the demand was high and couldn't sell them when the demand fell without reducing the price a lot.

Real Estate Market

Björkegren's imperium came crashing down at the beginning of the 1990-ties but to understand that crisis a study of history need to be conducted.

During the seventies, most of the world economy went poorly. It was only Japan and other countries in Asia that had a good economic growth. One reason for Sweden's poor performance was the increase in salary that had been going on during the sixties and seventies this led to the competitive edge against other countries decreased. With the Swedish krona at a fixed exchange rate against some other currency the government had the opportunity to devalue the currency and with this make Sweden competitive again. At the same time the United States had run aggressive politics that kept the dollar at a high price. Those things led to a decrease in unemployment in Sweden and in turn office buildings become in demand. The price for commercial buildings sky-rocked. Many persons realized that there was big money to be made now, including Björkegren.

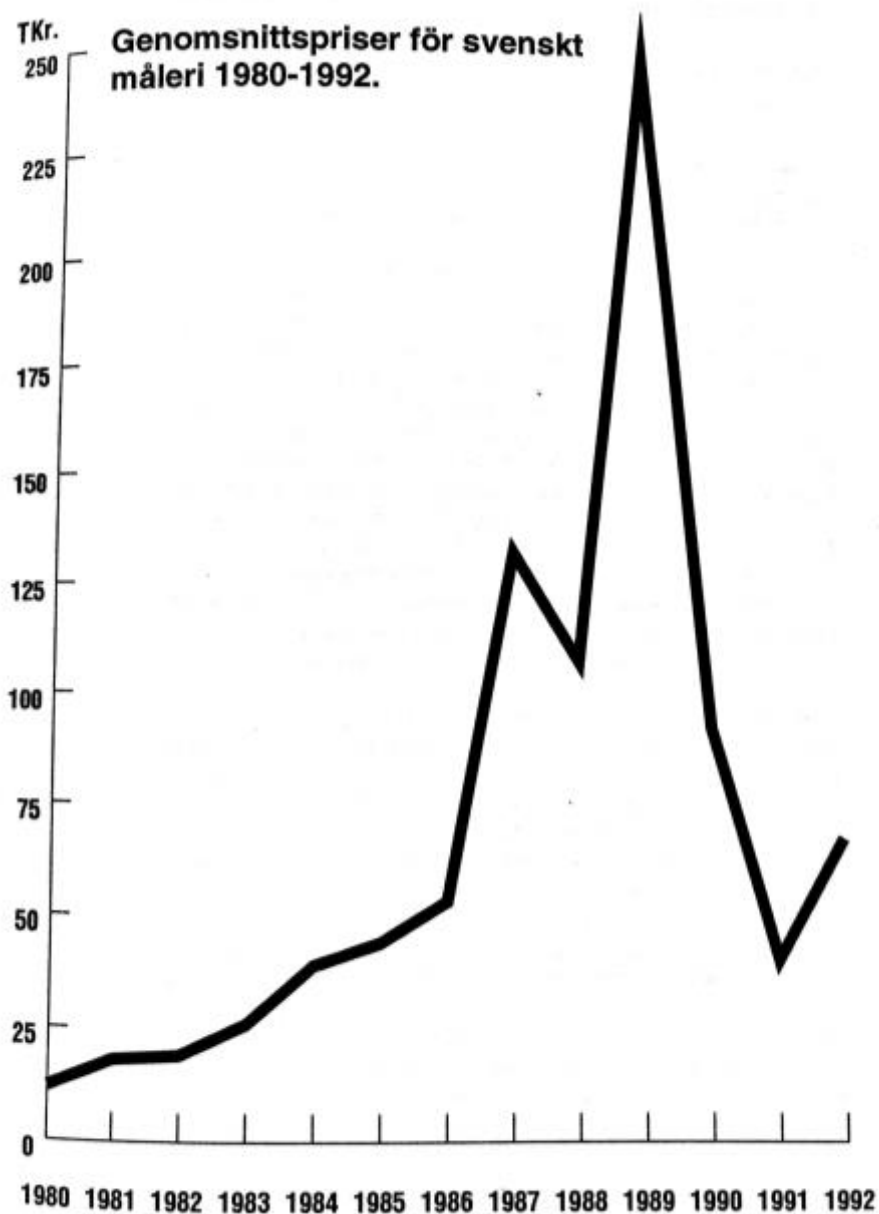
The ones buying and selling real estate didn't care about the rent or other incomes from owning the building, this was merely seen as a bonus. The real interest was the growth in value in a short time that happened during this time. The rent was in many cases insufficient for covering the interest rate, this made the investors dependent on the increased value. After a while in this time of constant, rapid, growth some of those persons, and not the least Björkegren, felt invincible. When Sweden felt too small they wanted to conquer Europe as well. Björkegren did two deals in Europe that considerably contributed to the fall of his business. Those two deals were in Spain and were estimated to give him a profit of half a billion Swedish kronor. But the buyers withdrawn and the short-term loans that he had started to stack up ending with him being 650 million Swedish kronor in debt.

It was obvious that people would lose money when the real-estate prices started to decrease because of, as previously stated, the incomes couldn't bear the interest cost. It's easy to say that the investment into real-estate was doomed from the beginning since the prices can't be expected to increase that much forever. The risk awareness was sometimes minimal and the quick money was more interesting than worrying about the future.

Art and Antiques Market

During the 80's big fortunes were created within both real estate, corporate businesses and the financial market. However, the largest and quickest growth were in the art & antiques market. The overall revenue increased with more than 1000% over a 10-year period. Some specific art pieces increased 10 to 20 times its value in just a couple of years.

Diagram 1. Average selling price for Swedish Paintings 1980-1992



Björkegren was one of Sweden's most frequent art buyers during this time. His interest for art, however, was something he had had for all of his life. With his earnings from his real estate affairs he upgraded his private collection with famous paintings such as:

- "Änkedrottningens begravning" - Nils Dardel (1.9 Mkr)
- "Trädet och flodkröken" - Carl Fredrik Hill (3.65 Mkr)
- "Kafferep vid Långsjön" - Bror Hjorth (4,2 Mkr)

There are typically two types of buyers at an art auction. One who buys for the pleasure of owning fine art, and the other who buys for the possibility of reselling it immediately at a higher price. The latter requires a lot of knowledge and precise timing in order to make a profit. More commonly the value of a painting increases over a period of a couple of years and the market is highly fluctuating. The reason for the great increase of prices was a combination of higher liquidity, clever marketing and an addiction for fame and acceptance.

When the real estate market crashed, less money could be used for art and wealth bragging, and as the interest dropped for the auctions, so did the prices. If there is no certainty of profit, no one wants to risk paying too much, and therefore the turnover of art is also declining.

After Björkegren's personal bankruptcy his private collection was sold out at a public auction in Stockholm. He was only allowed to keep three paintings. All of them he had painted himself.

The Disappearing

He disappeared on the second of July in 1994 when he was supposed to meet his son in Stockholm. It seems like a classical detective story, because the butler was for some time the main suspect. The butler was one of the last, if not the last, to have seen Björkegren alive.

At first the police thought that Björkegren had disappeared to escape his personal bankruptcy and there were multiple reports of him being abroad at different locations. Even though all the sightings turned out to be false.

After he had disappeared, the police found some accounts in Switzerland where he had been hiding money so he could continue to live a life that he was accustomed to. The police monitored those accounts to see if he would show up somewhere but they remained untouched and therefore the conclusion could be made that he was probably murdered.

Conclusions

Financial Market

As a private investor it's important to try and not place all your money in the same stocks. To spread your assets to different markets you become less exposed to potential risks. To inform about the risks in the financial market so that information isn't manipulated or biased. Not to lend money to private investors without enough security of capital.

Real Estate Market

Don't rely on constant value growth. Nothing lasts forever. Knowledge about other markets before entering them. The Government can use regulations to prevent huge price increases in popular areas such as big cities. Create incentives for new buildings and make larger supply.

Art and Antiques Market

Auction firms should always present correct information to their buyers and not exaggerate value or other specifics. Use different sources for information for more unbiased valuations. Manipulate biddings with false bidders just to raise prices should not be allowed.

References

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Further Reading

All the references are good in-depth information about Björkegren's connection to this crisis. The documentary about his life is mostly a good ground to understand why his actions ended in the way it did. The other references describe the financial situation in Sweden at the time and why Björkegren lost against the risks.