

ICELAND'S  
SECRET

# ICELAND'S SECRET

The Untold Story of the  
World's Biggest Con

JARED BIBLER



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*til þín, elskan mín*



## PROLOGUE

COULD have driven to the *Fjármálaeftirlitið* (FME)—the financial supervisory authority of Iceland—from my home in about 12 minutes. Instead I am sitting in an old minibus with nine seats and no muffler and at the top of the hill I'll need to change to a bigger bus to get taken to my new office.

The whole trip will take almost an hour. The transfer point at Hamraborg looks like a big deal on the transit map: lots of bus routes converge here. In another country it would have a kiosk with hot coffee and someone selling newspapers. But here in Iceland it's merely a wind- and rain-swept hilltop, with schedules for the unreliable connections fastened haphazardly to streetlight poles.

Transferring passengers hold our bodies against a steady barrage of wind and icy droplets of rain, our expressions grim. No shelters. The city buses that pull up to the curbside are a hodgepodge of cast-offs from other Nordic countries, seemingly no two vehicles alike, all painted in various shades of yellow, and clearly never designed for the aggressive and unplanned system of speed bumps that plague suburban Reykjavík. Once inside the larger bus, the diesel-soaked air, fogged windows, and near-constant jostling induce nausea.

I try to ignore the immediate surroundings and focus on the day ahead. This is an important day for me. It is the first working day of April 2009, nearly six months to the day since the collapse of Iceland's banks, its economy, and nearly the nation.

As I look out the window of this old workhorse heading towards



my new office, hearing the gnashing of the engine and the studded tires chewing Reykjavík's roadways beneath me, I feel grateful to have finally found paying work. But why did they choose me? Perhaps for the first time being an *útlendingur*—a foreigner—actually helped. I became an Icelandic citizen the year before, but nobody took *that* seriously. For most, I would remain a misfit. And maybe for this job they need someone who is a bit of an outsider.

Whatever the reason, I am grateful. The last few months have been tough. We have been running on fiscal fumes: only my fiancée Hulda's new job as office manager in a small law firm plus drawing down what was left of our meager savings allowed us to pay the bills each month. Slashed or zero incomes, frozen savings, a depleted stock market, ever-rising prices. The Icelandic crisis of 2008 was an earthquake that leveled the financial fortunes of a whole country.

The stock market has lost 97% of its value from its high in 2007, effectively a stunning reset of the whole market to zero. (By comparison the U.S. S&P 500 and German DAX indexes have each dropped around 55% in the same period: still big but not a wipeout.) The cause of the complete deletion of the Icelandic stock market is pretty clear: its value was more or less comprised of the shares of three collapsed banks. When these went bust, the entire market went with them. Unemployment has also surged in Iceland: from a handful of unemployed in 2007, by spring of 2009 the number of those without work has quintupled. (The U.S. media caterwauls about the terrible crisis in that country, where the number of unemployed doubled: a huge surge, to be sure, but nothing like five times.)<sup>1</sup>

I haven't worked for a paycheck the entire six months until this morning. Because I was the one to resign from the bank where I worked, rather than being fired, I haven't been eligible for unemployment benefits for most of the months I've been jobless. To keep myself from going crazy pacing our small apartment while Hulda worked and studied long days, I found unpaid employment at a start-up in January. I was developing a business plan for green

1 Sources: Hagstofa Íslands, U.S. Bureau of Labor Statistics.

energy plants. But I worked for free, on a gentlemen's agreement that they'd pay me when they got funding. They weren't gentlemen.

We have been through the very darkest of winters. Hulda and I have taken a fine-tooth comb to our household finances and looked for ways to save every possible *króna* in order to keep ourselves afloat. Hence my bus ride this morning instead of a convenient trip by car: we are limiting ourselves to one tank of fuel per month. Our misery even reaches onto our plates: finding affordable food becomes an issue. Trying to get creative, I took a Sunday trip to Kólaportið, the weekend flea market and farmers' market in Reykjavík, where I picked up *bjúgur*, horsemeat sausages, and brought them home. These may very well constitute the cheapest edible protein in the Land. Hulda knew how to prepare them from her childhood: boiled in water. Once done, I tried to smile across the dinner table at her, but the smell, the taste, and especially the texture of the giant white gobs of horse-fat that popped out of the sliced casing were too much. For me, this is the sign that we have hit the bottom of the barrel.

The national political mood has also hit rock bottom during these past months. The politicians in power during the run-up to the crisis at first refused to step aside and call for new elections. The heads of the central bank and the FME itself similarly refused. But angry mobs gathered daily in the frigid cold of downtown Reykjavík all winter long. They banged loudly on pots and pans, carrying banners and chanting slogans in front of the *Alþingi* (parliament), every day for months. My friend Süßmann has his office in the old Apotek building overlooking this square. He's working to settle the estate of one of the banks with its foreign creditors, but his phone calls overseas are routinely interrupted by the clamor from the crowds.

One day he looked out the window to see that the national Christmas tree, a gift from Norway each year, was on fire. It did not last to see Christmas morning. Then, a New Year's TV broadcast, normally a staid roundtable discussion among a handful of top politicians, was interrupted when protesters clanged their way right into the live shoot. At last, we have new elections to look forward to

at the end of the month<sup>2</sup> and hopefully a chance to start over for our tumultuous nation.

At this point, six months after the onset of the crisis, I would have taken any work at all. But this new opportunity is not just any job. Not only is the salary decent by post-crisis Icelandic standards, but this one feels like the chance to do something positive for my new country and for the people around us who have been suffering as much as us. I am going to be one of the few tasked with investigating the banking crisis, the very thing that plunged our nation into this black hole.

I am going to be an investigator for the FME, the financial supervisor of the Land.

---

A few days into my new job, a lawyer shows up at my desk. It's our first interaction and I am not sure if he's my teammate or my boss. I know he's the senior attorney on the team, but we both report to the same boss. So he can't delegate work to me. Or can he? The lawyers do seem to have the run of the place here. In Iceland there is often a near complete lack of organizational hierarchy, meaning most tasks are negotiated peer-to-peer. He looks at me jovially: "Jared, can you have a look at this? None of us really knows what to do with it."

I grab the document: just a couple of stapled pages under the letterhead of the Icelandic stock exchange and addressed to us, the FME. I puzzle over the subject line, turning it over to see a series of data tables. I look up and the lawyer has already disappeared. I take it apart line by line. In short, the stock exchange noticed some strange trading patterns in the three days right before the banks collapsed and thought that we, the market regulator, should be made aware of it.

I can check this out, I think. After all, I worked in a Wall Street back office, and then became a fund manager, so I've executed and settled some trades in my day. This material shouldn't prove too difficult to verify.

2 25 April 2009.

The letter runs to just three printed pages, including the tables. Short and sweet. Yet as I probe into the substance of it, the content hits me like a thunderbolt. This is absolutely wild; well beyond anything I have come across in my career. Even all the hijinks I tried to stop at Landsbanki, the ones that ultimately led me to resign, have nothing on this material. If this is even half true, it is completely nuts.

The document lays it all out in plain Icelandic. During three crucial days—the days immediately preceding the nation’s collapse—the traders who buy and sell with the banks’ own money bought nearly every single one of the banks’ shares that crossed the public market. *At each bank!* Was this a coordinated effort to prop up the markets and make everyone think things were just fine? By that point it was far too late to stop the inevitable collapse, but that did not seem to matter to these guys. At a time when those three banks were running on fumes, barely able to pick up two *krónur* off the floor, they seem to be throwing everything they have left at buying up their own shares.

This activity is more than clearly illegal; it’s beyond the pale. I can’t believe these guys thought they would get away with it. Mumbling to myself in my cubicle, I pencil notes down the margins of the letter. Anyone with any knowledge at all of securities markets would be thunderstruck at the sight of this brazen buying. It’s so destructive that it is hard to come up with a real-world analogy to explain it. It would be something like as bad as if a supermarket owner, seeing that nobody is buying his well-rotted tomatoes, hired dozens of actors to queue outside his store, buying up his produce with the store’s own cash. But here we aren’t talking about tomatoes, we are talking about the former high-flying blue-chip shares of Iceland, the three gleaming giant banks that made up nearly *all* of the value of the country’s stock market. A market in which every one of us, rich and poor, had a good chunk of our retirement savings invested, via a legally mandated pension.

The letter raises far more questions for me than it answers. I list a few bullets for what I would like to understand better and walk down the hall to my new boss’ office late that afternoon. Back in my

Wall Street days, a colleague would often remind us to “go to the videotape”, by which he meant look at the actual data. Raw trades are what I really need to see. I realize halfway down the hallway that I have no idea how things work here. I just know that I am in possession of a potentially huge story.

Sigrún<sup>3</sup> is a careful woman who speaks in measured tones. In her fifties, always impeccably well dressed, she carries herself with confidence. She is in charge of all market regulation at the FME, and post-crisis, most of the investigations as well. She selected me for this new investigation role from nearly 200 applicants, so I know she has some confidence in me—and some expectations as well. I am happy to have found something so juicy so early in my new career as a regulator.

“Sigrún! I can’t believe what I’m seeing here,” I tell her. “I would like to see the detailed trading data. How can I get it?”

“We have a good relationship with the exchange,” she replies, unmoved. “Just give them a ring.”

At my desk I lift the phone and dial the contact on the letterhead and wait. The analysis is already a few months old but my counterpart remembers and says he can send some data related to these three trading days.

Then I wait. I go back to reading some auditor reports, thinking this request will take a few days. Within an hour, though, I get an email from the guy at the exchange. It has: guess what? An Excel file attached. Excel? *Really?* I think. I am not quite sure what I was expecting, but not a casual two-line email with an attached unlocked file filled with rows of trades. Maybe I shouldn’t be surprised by this point; all of the Land seems to run on handmade Excel files.

I am by no means an expert user of this software. Most of my experience with spreadsheets comes from the bank: trying to analyze by how much we’d gouged our investors on a faulty price calculation,

3 The events described in this book are true to the best of the author’s recollection and information. The following names have been changed and are fictive: Binni, Guðfinnur, Högni, Pétur, Siddi, Sigrún, Villi, and Waingro. Also changed from the original: Aurora Capital Management, Mike Shimrinmanson, and Zodiac Software.

or how many more days we had left until our pet hedge fund ran out of cash. So I'll need to figure out how to use Excel in a new way: to visualize trading flows across a whole market over many days. Studying the first graphs I generate, more than looking at rows of raw trades, helps me to begin to make sense of the story. I start with Kaupping, the biggest Icelandic bank. Once I put the pictures up on one of my two screens, the pattern appears clearly for anyone to see.

The price barely moves over a whole day and the ID for the buyer is always the same, on each and every exchange trade. This market only had one buyer? Yes, just as the letter laid out. But I still don't believe my eyes. I call the stock exchange again.

"Is this everything? Are all the trades in the document you sent over?" I ask.

"Sure," the employee says.

"But there's only one guy at the bank buying everything."

"That's right," he replies, like nothing abnormal was happening.

This craziness can't have taken place for more than a few trading days. I make a new request the day after.

"I have a new inquiry," I tell my new friend at the stock market. He doesn't sound too delighted.

"Go ahead."

"I need two more weeks of trading data, starting mid-September, up until the three days before the collapse."

Bothered as he seems, he fills the new request pretty quickly. Upon opening the latest Excel file, I begin to understand how naïve I have been. I thought I would be able to catch the beginning of this pattern with only a few weeks' data. But all the trading days in September 2008 are near carbon copies of each other. The prop desk of Kaupping would buy 90 to 100% of the market volume in KAUP shares all day and every day, gobbling up nearly every share that came across the exchange. And the same pattern holds for the other big banks, Landsbanki and Glitnir, in their own share issues.

Since the 1990s, many big banks developed prop desks, short for proprietary trading desks, and these three fast-growing Icelandic institutions wanted to be just like the big boys overseas. In a typical

bank, these operations effectively served as in-house hedge funds, placing bets with the bank's own money. They tried to earn profits through both intraday trading and longer-term positions. What is jumping off the page at me here is that in each major Icelandic bank, the prop desk seemed to be taking a large and unannounced position in that bank's own shares. How could they justify this clearly manipulative behavior?

The raw data show that each Icelandic bank had one or two traders who had access to the bank's own funds and performed the same mission: keeping the share price of their own employer high. But something else strikes me as odd here: how did Nasdaq OMX, the stock exchange, not detect this earlier? And not raise an alarm with more eagerness? Why wait until months after the crisis and then send a letter focused on only the final three days? I can't help but wonder about this lack of prompt action. Did they just not see it? Did they not want to see it? I decide to keep hunting.

In my next conversation with the exchange I see the effect that my digging is starting to have. My 'friend' still answers my requests, but he seems more and more reluctant. He takes his time, doesn't always pick up the phone, responds laconically. I get the feeling my questions are making some members of the small Nasdaq outpost nervous. They don't try to discourage me, at least not explicitly. Nevertheless, the tone is changing. They seem to hope I'll find a different bone to chew on.

I need to keep up the charm offensive each time I place a call to the exchange. I next analyze all the way back to April 2008, a full six months before the crisis. But the daily buying by each bank is nearly the same over that whole period! So I go big, finally asking them to send a full five years of trading data. An Excel spreadsheet of gargantuan proportions, it is a file that my PC can barely open. Working inside it slows the machine to a crawl; these are nearly all the market trades done in Iceland over half a decade. Using my ever-improving Excel skills, I graph net purchases of shares by month as well as share price. And to my astonishment, I can trace the same pattern all the way back to the summer of 2004. This illegal buying

has been going on in each of the three banks over the whole time I've been living in Iceland.

There are variations in the data, to be sure. During some relatively calmer periods, the banks' traders did not amass so many of their own shares. However, the overall picture is crystal clear: as soon as the stock price of any one bank declines even a little bit, the bank's prop desk pounces on it. The visuals make this trend obvious. There are almost no months in all those long years—the years of the 'Icelandic miracle', the years of Range Rovers, private jets, and Elton John being flown in to play a private birthday party—when these bank traders did not buy a substantial amount of the shares issued by their own employer.

Starting out at this job as a new investigator, I knew the expectation was that we might find a handful of rogue trades and money wires in the few weeks before each bank's collapse. We could dig into these few events, write reports, and then close the case files. But a years-long fraud perpetrated on the entire stock market of our proud nation is a much bigger discovery than anyone bargained for. I know now that I am on an important but precarious mission. Yet, in many ways, I still can't believe my eyes. It seems incredible that these three giant institutions would control the markets for their own shares for so many years without catching attention. And a bigger mystery is also becoming obvious: what did they do with all the shares once they'd bought them? We must have missed something. Something bigger than this trading pattern. We miscounted somewhere, we left something out.

These are the thoughts churning in my head as I ride the faded yellow bus back home in the bright light of an early spring evening at the conclusion of a roller-coaster first week at the FME.

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The causes of the Icelandic financial crisis of 2006–08 are hardly understood and barely discussed either inside or outside the country even today. That is a mistake. This is a crisis that has clear relevance for every country that practices market capitalism. And these days, that's just about every country.



Iceland is a small nation, with only around 350,000 residents today. But it's still a country, with all of the trappings of larger places. Iceland is actually a perfect laboratory in which to view the forces at work in larger nations.

This crisis stands out in a couple of respects. First, by magnitude. The year 2008 saw a financial crisis spreading across nearly all of the Western world, but no country experienced the disaster the way Iceland did. Its three giant banks fell over in one week, quickly engulfing the whole economy. Icelanders who had savings in their stock portfolios had them no more: the stock market had lost all of its value. People who had their savings in cash fared no better: accounts and funds were frozen. Mortgage payments doubled almost overnight. The value of the currency dropped by half. The setback was not just huge, it was lasting; the country can still feel the crisis more than a decade later. The quick drop off in the currency kicked off a tourist invasion that, while initially providing a much-needed economic boost, has now reduced Iceland to a giant T-shirt shop. Meanwhile, those who lost their savings and their homes never got them back. Forced to start over from zero, many fled the country for better opportunities abroad.

Iceland also stands out in its response to this crisis. The magnitude of the crisis and the discontent of the Icelandic people were enough to trigger real, if short-lived, investigations into the responsibilities for the disaster. The financial supervisory authority, a special parliamentary commission, and the appointment of a special prosecutor whose team briefly counted over 100 staff made it possible to uncover at least some of the facts. These processes led to the criminal convictions of the heads of the three biggest banks, a handful of lower-level executives, and even the prime minister. This, again, is more than any other country managed to do after the 2008 financial crisis.

Was it enough? Have the lessons been properly learned? By no means. Despite the shocking depths of this crisis, today in Iceland almost nothing has changed in either the political or economic structures that underpin society. And the same can be said for the wider world as well.

## PROLOGUE

The Icelandic crisis is a cautionary tale for the world, a saga of the high level of crime that follows unregulated Wild West capitalism. Don't think your own country is any better or worse than Iceland.

This is the untold story of how it unfolded.



PART I—THE LAND



## LAVA FIELDS

THE journey that took me to the heart of the biggest financial fraud in history began in a parking lot next to a lava field.

It's November 2003 and I am standing outside a perfectly clean office building perched in the middle of jagged fields of lava on the outskirts of the city of Reykjavík. The fresh Icelandic air is cold in a way that penetrates to my bones. Standing next to me is a soft-spoken shaven-headed Viking. We are looking north across the ragged black expanse at a blue monstrosity, Iceland's largest shopping mall. He's just walked me downstairs and outside. His next words are unexpected: "Well, if you want a job here, it's yours."

I don't know how to answer. I met Pétur the evening before in Vegamót, a downtown bar, on the advice of some new friends. We talked securities software for an hour. I explained the vagaries of trade settlements in the U.S. mortgage-backed market as well as the Japanese system of *jikko* before the conversation took a more personal turn. We realized we really got along. And then this morning he picked me up at my hotel and brought me here for a follow-up. His deputy, a hard-driving woman the same age as me, gave me a reasonable grilling, and then he good-copped her and showed me a

presentation about his vision for his small software firm in a top-floor office. Now this: a job offer out of the blue.

In my surprise, I hesitate. It's true, I sent around 20 résumés out to companies in Iceland a few months before, a sort of Hail Mary pass to escape the increasingly oppressive world of mortgage-boom Wall Street where I'd been spending days, nights, and weekends for the better part of five years, but I never expected this kind of luck. Do I have a chance to uproot my life and move to Iceland? I'm suddenly scared.

So I tell him I will think it over and come back to him on Monday. It's a Saturday in November around noon. Which means the light is just about enough to see to walk in relative safety over the jagged rocks and pulverized black gravel that make up the parking lot. The Reykjavík sprawl does this, I'm learning: at its edges it stops abruptly and one is confronted with the harsh reality of life on the rock.

I make it to the mall entrance and my friend Heiða picks me up. It's my fourth time as a tourist in Iceland these past 18 months, and I have fallen in love with the place. I met Heiða and some of her friends on my first visit: a three-night stopover on my way home to Boston from Stockholm in May of 2002, courtesy of Icelandair's generous ticketing policies. The nearly endless light, the nearly endless late-night crowds on Laugavegur, and the nearly endless national soul all pretty much hooked me that first time.

Plus a drunken Icelandic sailor on shore leave came up to me in a bar, unbidden, took my hand in his coarse iron grip, and told me, "You are my brother. You are an Icelander."

Was he right? Could I really live here? Work here?

---

Nine months of wrangling with visas and paperwork later, it's the middle of August 2004 and I am finally in my first week of work at Zodiac, the small software company owned by Pétur. I wake up on the top floor of Heiða's family's house in Kópavogur. Last night I was up studying until midnight. My new Icelandic teacher handed me a CD yesterday and gave me her orders: "Listen to these dialogues

and follow along in the book until you understand every word. *Every word.*"

I followed her instructions to the letter. At first the conversations were impenetrable. One has a family sitting around the breakfast table, and the little boy Guðni doesn't want to eat anything. He reluctantly agrees after his *pabbi* tells him: "*Fótboltamenn verða nú líka að borða!*"—footballers have to eat something too! Wrapping my head around these new words—and all the others too—took me hours. And I had to be up again at six.

My new life is chaos and confusion, with nothing solid to grab onto. After many months of waiting offshore for all the employment and visa paperwork to come through, I finally touched down in the Land on 9 August. I need to settle on a new apartment, and I am still awaiting a small shipment of housewares and my mom's old car from the States. So for a few weeks, my friend Heiða and her family have given me an extra room to stay in.

I come downstairs and Heiða's mom has already laid out breakfast. I am so happy to have these wonderful people to host me, but everything is so foreign. There are a bunch of things laid out in the middle of the table: something labeled *smjör*, cheese, sliced cucumbers, and other mysterious things in plastic tubs.<sup>4</sup> By watching the others, I learn I should toast a slice of bread and then put all of these things on top of it. Even the milk tastes different. There is nothing familiar here. The announcer on the radio is speaking ultra-fast. The language feels hermetic, despite the studying.

Thankfully, Heiða and her family all speak excellent English after having lived and worked for many years in southern Massachusetts. But one of the conditions Pétur laid out for hiring me was that I would become fluent in Icelandic as quickly as possible. Zodiac, his company, are even paying for part of my lessons.

I have to hurry from breakfast because another friend will drive me to the university for my morning language lesson and I have to walk to meet him at his house. It's cold and raining lightly—autumn

4 All of these items thoroughly encapsulated by one great Icelandic word: *állegg*.



weather for me, though ten days ago I was in the midst of a muggy Boston summer. We crawl through the Reykjavík morning traffic to the university, and I hope I won't be late again.

The lesson lasts from 8 to 10 and my teacher Guðrún, in her early 40s with short steely blond hair, is tough as nails. She's the best friend of Pétur's wife, thus the connection, but her work and passion is teaching Icelandic to foreigners. This is still a pretty new idea, as is the idea of emigrating to Iceland at all. Guðrún is the best teacher of the Icelandic language in the whole country, she hints. I believe her. She pushes me hard: we are doing a chapter or two of a basic textbook each day. (She wrote it.) Even the coffee breaks are no break: she flips through the morning paper, but stops at each headline and teaches me the words.

In one of the papers, the Icelandic banks are starting to advertise mortgages. To me this doesn't seem out of the ordinary at all, but she shakes her head disapprovingly. I can't figure out why: it's yet another way everything here feels upside-down.<sup>5</sup> My only reprieve is when we go outside so she can huddle for a cigarette against the leeward side of the drab grey university building. But then she piles on the homework. Each night I am pulling three or four hours.

After the lesson I need to take a taxi all the way back out to Kópavogur, to my new job. The work is not at all what I expected: programming in a new language, one I feel slow and dumb at. And it's hardcore programming. On the Street I'd been both an analyst and a coder. Here it's all coding, all the time: eight hours or more a day. Staring at a screen: the development environment, the bug reporting system. No phone calls from crazed NY guys to break things up.

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I was warned that cars are super expensive in Iceland so I have schemed what I thought was a way around that. I bought my mom's trusty seven-year-old silver Toyota RAV4 and the day she handed

<sup>5</sup> Much later I'll learn why she was so cynical: they were making this whole new book of business at a loss, and directly competing with the Icelandic government's Housing Finance Fund in doing so. Trying to force the government itself out of business?

me the keys, I drove it to the docks in Everett, Massachusetts for shipment up to the Land. It is a reliable car, four-wheel drive, perfect for the harsh reality of Icelandic driving that I already learned a bit about in my tourist days.

What I don't quite realize is *why* cars are so expensive in the Land. It has to do with a combination of import duties, value-added tax, and steep registration fees, all on top of the shipping costs themselves. Even importing the old car costs me about as much again as I've already paid to buy it. It's also a real hassle involving an opaque bureaucracy spread across three entities: the shipping company, Icelandic customs, and the registry of motor vehicles.

At the shipping company, I've been going back and forth with a young girl, perhaps 20, who runs my customs paperwork. Today is my fifth visit to Reykjavík harbor to sort out delivery since the car was unloaded ten days ago. This girl seems to be a summer intern, and to not really know the importation process at all. She gives me the title to the car but then calls me at work to ask that I bring it back in. As I see her interact with the other ladies there, I realize that nobody else in this office seems to have a firm grasp of how to import a vehicle either. It seems like the very first time anyone there has imported a car.

We go back and forth again, papers stapled and unstapled, the girl conferring with her co-workers at each step. I pay them a fee from my new Icelandic debit card. Then they run some numbers again and tell me they need to refund part of the fee. The final invoice has charges they can't really explain. I'm legitimately surprised when the girl at last tells me, "OK, your car is waiting for you."

I stand by the back door of the low-slung office building, almost more of a trailer. The door beeps open and I'm looking out at a sea of yet-to-be-processed vehicles, parked haphazardly in rows. Yellow shipping cranes tower over us, dwarfing the tiny office.

The dock worker who greets me on the other side of the door is young and brash. He thrills at driving his pickup truck too fast down the unfinished dirt roads of the loading area. We enter a labyrinth of cars, maybe a thousand at least, sitting out in the sun. We blast down

a long row of vehicles, skidding to a stop behind my mom's familiar car. I smile to myself, sort of amazed to see it again after dropping it off an ocean away.

"Look at this piece of junk," the guy says. "You could at least have shipped a better car here from America. I thought you guys were supposed to be rich."

I am not really sure how to respond. But as I look around the vast lot it strikes me: all huge, expensive, brand new cars imported mostly from the U.S. by the looks of it. I see a dealer badge from a Long Island Jeep dealership on the car next to mine.

"I got to unload those Porsches up at the front last week," he says, gesturing at a 'king's row' of silver Carreras.

"Hey, I left my BMW back in the States," I say, rising to the bait. But since when is the trusty RAV4 considered a shitty car?

Status symbol or no, I'm happy to drive off the grubby lot on my own four wheels. *Ég á bíl!*—I have a car—and this will make all the difference in my new Icelandic life. Public transport in Iceland seems pretty abysmal, even after Boston (itself no Mecca). Out on the main road, an oncoming driver flashes me and I learn that Iceland is a headlights-always-on jurisdiction. One more stop: the inspection station, where I'll need to pay another giant fee. The inspector hands me a cordless drill and a piece of scrap wood and gestures at the floor. I kneel down on the rough concrete and drill my own mounting holes in brand-new TE-700 license plates that feature a bright blue and red Icelandic flag.

The comments of the young punk at the docks are running in my head as I roll around the streets of the capital enjoying my regained freedom. Everywhere I look now I see big, shiny, new SUVs and luxury cars. How do people afford these on an Icelandic salary?

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My new street lies under the approach path for Reyjavík City airport and I see something I almost never saw back in my American life: a private jet streaking in to land nearly every time I go out for a walk. The incongruity isn't lost on me: I live in a neighborhood of modest

fishermen's houses, brightly painted and clad in corrugated metal against the weather. Meanwhile cream-colored Gulfstreams slice the sky overhead at approach speed.

For a guy from New England, it feels a bit like living in a small Maine fishing town that has its own fleet of private aircraft. My Icelandic friends are surprised when I point out how strange I find it to see so many private jets, after so few in 30 years of living near one of America's wealthiest cities. They say: "Really? But in the movies you see them all the time!" Has Iceland succeeded in creating a Hollywood version of an economic paradise in the far reaches of the cold North Atlantic Ocean?

Iceland occupies one of the world's largest islands, a land a little bigger than the island of Ireland, and slightly smaller than England. In the U.S., its size is sometimes compared to the state of Kentucky—though I'm not sure how helpful that is. I prefer to think of the place as a floating New England.

It is a large land mass for such a small population, but most of the middle of the country is a high desert: windswept, uninhabitable, and largely impassable, thanks to one of the largest deforestations in human history. The population has always lived on farms and in fishing villages dotted around the green coastline, but in the last 120 years nearly two-thirds have streamed into Reykjavík and its suburbs. Before that time, there were almost no roads in the country and the chief method of transportation was by ship, circumnavigating the coastline, and by horseback on small paths inland.

Since World War II, Icelandic standards of living have shot through the roof, compared to the sod farmhouses and horse paths of centuries past. Today Iceland has a standard of living comparable with the rest of Europe, with a lot of that development made possible by the wealth of the seas. Iceland offers its residents a Nordic basket of social goods: universal health care, nine months of paid leave for both parents to share, and a decent education system that produces a claimed 100% literacy rate.

Once one drives away from the Reykjavík area, the country can feel to the uninitiated like a vast, empty, and unexplored land. I decide

to take a long weekend road trip to the West Fjords, about five hours' drive from Reykjavík on a good day. One of my new friends cautions me about the wisdom of making such a journey. He warns me that the roads are not all paved and can suddenly become very slippery with rubble or slick with ice. He says that on many days of the year, much of that part of Iceland is impossible to access by road. And he calls me for updates a few times during the trip, to make sure I am OK.

I have purchased an Icelandic road atlas, which lists in detail the attractions on each little section of road. I am confused at first, because what the road atlas lists appears to my American eyes to be towns coming up. But actually each 'town' is just the name of a farm, and when I drive alongside, maybe that farm is only one building, and often that building is empty or even reduced to rubble after decades of absence. It is indicative of the Icelandic attitude toward places, even tiny clusters of buildings, that the word for town, *bær*, is the same as the word for farm. In a vast land with few inhabitants, every farm (and every farmer) takes on great importance.

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October 2005 finds me on a Sunday drive around Reykjavík and some of the suburbs and I notice just how many new apartments and houses are being built on the outskirts. In the town of Hafnarfjörður, for example, a vast area next to the Haukur athletic complex is sprouting a completely new neighborhood, growing seemingly straight out of the lava. It doesn't look like anyone is living there yet, but seems as though it could support thousands of people. Outside of Njarðvík, close to the international airport, a sign proclaims a planned development of over 800 new apartments. The city is also expanding rapidly by the start of Route 1 at Heiðmörk. The sheer number of towering yellow cranes in these brand new neighborhoods is unlike anything I have seen anywhere else in the world.

I can't help but wonder who exactly is going to live in all of these new places. Sure, Iceland is experiencing a baby boom, but most of these little tykes aren't going to be able to sign a mortgage application anytime soon. The government also does not seem to be in a hurry to

open the gates to lots of new immigrants. Could this be a speculative boom fueled by the Icelandic banks entering the mortgage market last year at cut rates, the thing that worried my teacher so much? House prices around the capital have hit record highs since then.

The combination of this building boom and the lofty stock market (the benchmark ICEX-15 index is up 37% this year alone) reminds me a lot of the good-old bubblicious days of the late 1990s in the U.S. It was a lovely time while it lasted—who can really say no to first-class flights to Asia and two-month bonuses?—but I remember how painful it was in the years following the bursting of the Nasdaq bubble.

What will happen to our little Icelandic economy if this bubble pops?

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I go for my first solo meeting with a Zodiac Asset Manager client in early March 2006. I arrive at the main office of a savings bank in one of the drab industrial ghettos of Reykjavík and take an elevator up to the reception area. I have made real progress: speaking in Icelandic, I tell the receptionist my name, my company name, and the name of the person I am meeting, the head of wealth management. Understanding, she puts on her headset, calls upstairs and says, “Veistu hvar Jón er? Ég er með útlendingi hér.”—“Do you know where John is? I have a foreigner here.”

I understand her perfectly, but it seems like in the time between speaking to me and punching in the number she has forgotten I am even here. To me what she said feels like: “John! The foreigner is here to see you! Iceland’s only foreigner!”

Later that same day we have a presentation at work on the growing equality of the sexes in Iceland on family matters. The presenter seems to take great pride in how family life is becoming more balanced in Iceland. He appears a fair-minded man. But at one point, to illustrate something, he says, “It’s not as though we’re all barbarians like in Turkey and Albania!”

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Icelanders have a saying about the country: *'best í heimi'*, meaning 'best in the world'. It is an expression that is often said tongue-in-cheek, with reference to Iceland's widely felt inferiority complex, but at another level there is almost always some genuine feeling behind it. In a historical sense, there are many reasons to be proud to be an Icelander.

Iceland was founded by disgruntled landholders from Norway, who bristled at the consolidation of the land under its first king and dreamed of a free place where they could farm to their hearts' content. These wealthy landowners fitted up longships, became known as Vikings, and began their migration west. The first settler arrived in Iceland around 874 AD. Previously, there had been no permanent human inhabitants in Iceland. Over the decades that followed, more farmers migrated west from Norway to this new promised land, often taking with them Celtic slaves captured in Ireland. (Explaining the presence of redheads and freckles in many Icelanders today.)

Just over 50 years later, in 930 AD, the need for some kind of government of this new land was evident, and the heads of each Icelandic estate began meeting once a year for several weeks in the height of summer in an assembly called the Alþing. This was effectively the first representative government since ancient times. This parliament has been meeting almost continually to this day.

A few centuries later, the early tales of settlement had grown into oral legends, and one man decided to write many of them down on parchment. These became the Icelandic sagas—an Icelandic word roughly equivalent to 'old saw'. Today most of what we know of Norse mythology is thanks to the work of one man, Snorri Sturluson, whose transcription of oral traditions onto sheepskin has survived the centuries. These sagas are the prose stories describing the settlement and early conflicts in Iceland, and they represent the oldest prose literature in the West. With our modern eyes, we expect them to read like novels, but the novel wasn't invented until more than 500 years later. Instead, they read as a straightforward recall of sometimes extraordinary events:

"They ran to the door but there was no easy escape there, because of both the piled wood blocking the door and Egill

guarding it. He killed them in the doorway and just outside. It was only moments before the main room flared up and caved in. Everyone else was inside and trapped, while Egill went back to the woods and rejoined his companions.”

The tone used to describe a vengeful murderous rampage can seem almost ho-hum to the modern reader, and therein lies a lot of the charm. These are great works of early literature.

Icelanders survived some horrible centuries of their own under Danish rule, subsisting on rotten grain sent over late by Danish ships in exchange for all the top-quality wool and fish they could hand over. Finally, in 1918, enough was enough: Iceland achieved home rule for the first time in more than 700 years. Then, in 1944, an occupied Denmark was unable to keep Iceland from achieving the full independence it had long sought.

Despite the best efforts of the Danes over the centuries, who mandated all official business be transacted in their guttural tongue, the Icelandic language survived mostly intact in its ancient form. The language itself is the western variant of Old Norse, and is from the Germanic family of languages, like English. Icelandic is in many ways a time capsule of the languages of that period, 1,200 years ago, and its grammar and vocabulary are very close to Old English. That modern Icelanders can read the old sagas and understand most of them with minimal footnotes is a tribute to the way a language can be preserved for a long time in isolation, and also a source of great pride for the country.

J.R.R. Tolkien, author of *The Lord of the Rings*, was an Oxford professor and scholar of Icelandic language and literature. He prescribed that any student of English literature who really wanted to understand ‘the roots’ should become fluent in Icelandic and read the sagas in their original form. As a native English speaker who has learned Icelandic, I tend to agree. The language is a giant, and I never learned English so well as when I began to learn Icelandic.