**Year of the tech grifter: will Silicon Valley ever learn from its mistakes?**

The tech industry’s hype machine always trumpets a fresh new ‘genius’ – and it still hasn’t learned its lesson

It was a month of eerie parallels.

On 12 December, the disgraced crypto founder Sam Bankman-Fried was arrested on fraud charges in the Bahamas, marking a dramatic end to his reign as the head of the now defunct cryptocurrency exchange FTX.

His arrest came just weeks after the former Theranos founder Elizabeth Holmes was sentenced to more than 11 years in prison for similar charges. Many pointed out the obvious similarities: each founder was considered a Silicon Valley wunderkind and attracted media acclaim and millions of dollars in investments before a spectacular fall from grace.

The collapse of FTX was yet another indictment of the hype machine that has long fueled the rise of tech superstars and their companies. But even in 2022, the question remains: will Silicon Valley ever learn from its mistakes?

Seven years separated the downfall of FTX and Theranos, but the forces underpinning their ascent are familiar. After the success of early tech founders like Mark Zuckerberg of Meta and Jack Dorsey of Twitter, investors are often looking for the next big name to get behind, leading to a “culture of genius-worshipping”, said Yesha Yadav, a law professor at Vanderbilt University.

But with FTX marking yet another blow to founder worship, the industry faces another reckoning.

“It is going to be very difficult now for Silicon Valley to continue justifying this cult of personality, which fuels the ability for people to fake it until they make it because it allows for basic checks and balances to not be present,” Yadav said.

Historically there has been a culture of “fear of missing out” in Silicon Valley, where investors are quick to jump on board to support buzzy companies without necessarily doing their due diligence. This is true in many industries but particularly accelerated in the tech space, where investors often don’t fully understand the core products of such companies, said Stanford economics professor Nicholas A Bloom. The phenomenon was “turbo-charged” in the past year as the climate for interest rates left investors desperate for returns, pushing them into quick deals, he added.

“It is like buying a house sight unseen in a hot market – you can get a good deal and you can get a lemon,” he said. “If investors had done proper diligence they would have discovered the issues, but crypto was seen as hot so investors rushed in while they could. Turns out it was a lemon.”

Many investors have acknowledged their naivety in throwing money at companies without researching in the aftermath of these fallouts. After the sentencing of Holmes, the Theranos investor and media mogul Rupert Murdoch said his dealings with the company were a “total embarrassment”. The venture capital firm Sequoia has formally apologized to its investors for the FTX losses and promised more caution in the future.

Investor scrutiny will only increase in the current financial climate, experts say. As the federal reserve raises interest rates and the tech industry at large faces a downward slump, there will be “far fewer cases of fraud”, said Richard Smith, co-founder of the investment analytics platform Finaic.

“One of the biggest enablers of this spectacular level of fraud has been the fact that there’s been so much money sloshing around in the system and there was really not much scrutiny around where the money was ending up,” he said. “Now, the days of easy money are behind us.”

The severity of the charges brought against Holmes and Bankman-Fried may also underscore a new era in enforcement. Bankman-Fried’s downfall was even more swift and severe than that of Holmes – while it took more than two years after the fall of Theranos for Holmes to be formally charged, Bankman-Fried was charged within a month.

As enforcement tightens up, founders may take note. While in the past entrepreneurs could make broad promises during fundraising periods with little to back it up, they may have to be more careful now, said Jack Sharman, an expert in white-collar criminal defense at Lightfoot, Franklin & White LLC.

“Tech entrepreneurs are accustomed to the reins of regulation being held loosely and thus faced manageable risk for imprudent or inaccurate statements,” he said. “Previously, those statements might have been considered aggressive predictions or thoughtless ‘puffery’. That landscape is changing and not in their favor.”