

DIRTY ROTTEN SCOUNDRELS

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Another Free Dinner Nightmare

Xerox and Eastman Kodak retirees have been victimized by another retire early, get rich quick scam similar to many others we have reported on over the past several years. About 100 former employees, all of whom claim that they were duped into retiring early only to have their life savings wiped out. Their claim has been filed on part of a class-action against Morgan Stanley. Employees were talked in to retiring early by Morgan Stanley brokers under the guise that they could make more money with brokers handling the money than working. Lawyers for the victims state Morgan Stanley targeted blue-collar workers with large accumulated stock positions that were not savvy enough to realize the risks.

Front Running

The Securities and Exchange Commission is investigating whether several current and former employees at Merrill Lynch improperly placed trades for the brokerage house's proprietary account ahead of client orders. This practice allows for the firm to step in front of large market moving orders from institutional clients and book an almost guaranteed profit knowing a market moving order is waiting.

South Florida Boiler Rooms Alive and Well

The Florida Attorney General's Office secured guilty pleas from four south Florida men who said were running a \$1 million boiler room operation. Each pleaded guilty to charges of racketeering and conspiracy to commit racketeering, grand theft, telemarketing without a license and fraudulent transactions. Using call centers in Pompano Beach, Georgia and Louisiana, they enticed people to invest in foreign currency options. They also advertised in *Investors Business Daily*, *USA Today* and *the Wall Street Journal*. This is an important point because investors often believe that if a company or advisor is advertising in a mainstream publication or broadcasting outlet they are legitimate, which is dangerously inaccurate. As it turns out, none of the victims funds were ever invested, they were stolen and laundered through foreign banks.

More on Annuities

The hottest products being sold on the free-lunch/dinner seminar circuit are equity indexed annuities. The Eighth U.S. Circuit Court of Appeals in St. Louis upheld the class action status of a lawsuit that covers more than 400,000 investors who bought equity indexed annuities. *"EIA's have emerged as the vehicle of choice for unscrupulous insurance agents,"* states Roxanne Rehm, assistant general counsel for the Florida Department of Financial Services. Older investors, she contends, *"don't realize they're long-term investments, and once they realize they can't access the funds, it's usually too late"*. For example: A 60-year-old man paid \$250,000 for an equity indexed annuity after hearing a radio infomercial. *"The protection of principal was a huge draw for me as was the \$25,000 bonus."* The man told him he could withdraw 10% of his initial investment each year for 10 years and then withdraw the balance. The reality was he could withdraw 10% a year for the first five years, although it would cut into gains. After that, unless he annuitizes the balance for 10 years he would lose the promised bonus and much of the interest earned, plus hefty surrender charges. *"That was news to me"* he stated.

UBS Fund Fraud

A broker and fund manager at UBS worked together in duping investors and taking them for \$14 million. The claimed that a new fund, the GLT Venture Fund, would use investor money to establish a portfolio of stocks and options seeking returns through long-term appreciation, and hedging strategies. They also lied to investors stating that the fund generated annual returns of 19% to 36%. What the fund turned out to be, was nothing more than another ponzi scheme, where over \$4.6 million of new investor money was used to pay off the old. \$1.7 million was actually used as petty cash for the manager, and the fund never turned a profit. The UBS broker involved in this case knew well that the fund was suffering enormous losses and monies were being misappropriated. But rather than blow the proverbial whistle, he made further misrepresentations to keep the scam going. He told one elderly investor that GLT had access to a very hot IPO's and was creating astronomical rates of return. The broker arranged for people to invest in GLT through UBS and executed thousands of trades. For example: The broker a \$4 million investment from a 90 year old individual by stating falsely that GLT would soon receive 27,500 shares of a highly sought after IPO.

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