

RETURN OF THE SWIPER

MARCH 2005

The *Wall Street Swipers* sure have been busy this past month. We have been working our tails off trying to keep up with all the exorbitant malfeasance. Here are a few of the stories...

EDWARD JONES PULLS A FAST ONE

The Edward Jones folksy advertising campaign gives me a laugh or two a week. However, their clients were not laughing after they found out that the firm received \$82.4 million in top-secret payments from seven different mutual-fund companies in the first 11 months of 2004. Edward Jones had a lopsided fee structure that in many cases gave the brokerage firm greater compensation for hawking poorly performing funds over stellar performers. This is so far the most detailed figures regarding the terrible industry practice of revenue sharing, where mutual fund companies will compensate brokerage firms more in order to induce them to sell their products. Currently, revenue sharing is legal, but federal and state regulators have argued that by not disclosing these payments to clients this may defraud investors by hiding another conflict of interest. Regulators allege that Edward Jones was pushing the majority of their clients into these “*preferred*” funds over better performers. Some of the most hideous performing fund families offered Jones the most lucrative of incentives.

BANK OF AMERICA STICKS IT TO FUND INVESTORS

Bank of America was forced into paying up \$375 million to settle charges of improper trading practices with mutual fund investors. They also agreed to strengthen internal compliance procedures, federal regulators stated. However, regulators did not see that management had its fingers crossed. The federal investigation found that BOA subsidiaries violated various securities laws entering into improper trading arrangements with certain *privileged* investors. If you were one of the *privileged*, you were allowed to utilize a BOA special order entry system that would allow you to place orders as late as 7:00 p.m. ET. There is nothing like a risk-free transaction for the *privileged*, at the expense of everyone else. Bank of America neither admitted nor denied wrongdoing.

GENTLEMEN START YOUR SHREDDERS

Regulators issued a parking ticket-like fine of \$2.1 million to J.P. Morgan for failing to retain e-mails and other documents that were linked to other investigations into conflicts of interest between Wall Street’s investment banking and research analyst practices. This being a brilliant diabolical move by the firm, in playing by the rules, they can literally destroy evidence of all their wrongdoing and only pay the maximum fine allowed for document retention issues. If only Wall Street had thought of this sooner, Henry Blodget would still be picking losers at Merrill and Jack Grubman would still be coked up touting

Global Crossing at Smith Barney. By the way, J.P. Morgan neither admitted nor denied wrongdoing.

MERRIL STICKS IT TO BOND INVESTORS

Merrill Lynch pulled the rug out from some New York City Bond investors, according to the *New York Post*. The move by Merrill Lynch wiped out tens of millions of dollars that many retirees and other small investors had been expecting to collect in future years from their tax-free bonds paying an 8% annual return tax-free. In an unusual surprise move, Merrill Lynch figured out a way to strip out the U.S. Treasury bonds, collapse the old bonds, and substitute them with new bonds that pay as low as 3 percent. Adding insult to injury the new bonds are taxable. In another classic example of a conflict of interest, the City of New York is obviously much more important than the small investors that bought the bonds, who subsequently get shafted.

RETURN OF DR. EVIL

According to Sylvia Ascarelli of the *Wall Street Journal*, a senior Citigroup/Smith Barney executive in London, told traders on his European government-bond desk that they were not making enough money for the firm and ordered them to immediately come up with new trading strategies. Two weeks later, six bond traders pushed the button on a huge bond trading strategy dubbed "*Dr. Evil*." The trades wrecked havoc in the European government bond markets and netted Citigroup/Smith Barney a cool quick 15 million euros. European regulators are currently investigating the matter for criminal violations. According to Professor Michael Levi, a specialist in economic crime at Cardiff University School of Social Sciences in Wales, "*It seemed like a plain example of the market being rigged. This seems like playing with a stacked deck of cards.*" We predict a fine coupled with neither admitting nor deny wrongdoing.

GLOBAL CROSSING PAYOFF

Citigroup/Smith Barney settled class-action litigation brought on behalf of purchasers of Global Crossing, but of course specifically denied any violation of law. The suit alleged that insiders sold artificially inflated Global Crossing stock while in possession of material, non-public information. While the *privileged* sold, Jack Grubman, Citigroup/Smith Barney's hotshot analyst, kept his buy recommendation on the stock until Global declared bankruptcy. Citigroup/Smith Barney said it was entering into the settlement "*solely to eliminate the uncertainties, burden and expense of further protracted litigation.*" Business as usual at the evil empire. Let me also note, Citigroup/Smith Barney will require mandatory ethics classes for all of its employees which we deem as a desperate attempt to reform its image. Trying to teach crooked Wall Street executives the differences between right and wrong is the ultimate exercise in futility. A tiger is a tiger, a crook is a crook.

