

# SAME SCAM DIFFERENT SECURITY

JULY 2008

I wrote a column back in November of 2002 entitled Return of the Indulgence where I bemoaned the medieval Catholic practice of selling “*get out of hell and purgatory cards*” to the highest bidder. Back in 2002 the practice was being reintroduced by New York Attorney General Elliot Spitzer with his handling of all the unsavory practices that Wall Street had conducted in the 1990’s. Elliot collected his \$1 billion fine (*big deal Merrill Lynch has written down \$46 billion over the past year*); what he didn’t do is protect the citizens of New York and the rest of the country which I thought was the purpose of his office. (Perhaps, he was distracted by something or someone?) My conclusion was that allowing individuals of infinitesimal moral character to remain in their positions of power and influence is a recipe for disaster that will be repeated. Unfortunately, I was right.

Citigroup, UBS Paine Weber, Merrill Lynch, Bank Of America are all being sued, investigated, subpoenaed, or all of the above by the Securities and Exchange Commission, individual and corporate investors, and various state attorney generals in connection with it’s handling of sales in auction rate securities.

Yanping Cui, says she invested in auction rate bonds last year at the urging of a broker at UBS (*Just You and Us*). That very same month UBS was telling one of the issuers of those same securities that the \$330 billion market was in danger of failing. Cui stated, “*He said it it’s safe and as liquid as possible.*”

“*They were selling me their junk bonds knowing the market was going down,*” stated Jimmy Walker, who owns a doughnut business and who bought \$1 million of Bank of America/A.G. Edwards stuff/junk. “*It took a lot of doughnuts to get \$1 million in the bank. That’s my life savings. I’ll be dead by the time I collect.*”

*Bloomberg* reported this past month that four days before Merrill Lynch stopped supporting the auction-rate securities market and left thousands of individual investors stuck with securities they couldn’t sell, the firms analysts recommended they buy. “*Reports of the imminent demise of the auction rate market seem to be greatly exaggerated, again,*” analyst Kevin Conery wrote in a Feb 8 research note. “*We continue to be impressed by the auction market’s resiliency.*”

The remarks show Merrill’s researchers were “*co-opted*” during a seven-month drive by the New York based firm’s sales force to prevent a meltdown in the \$330 billion market, Massachusetts Secretary of State William Galvin alleged. As the sales desk pushed analysts to publish upbeat notes, managers used gallows humor to complain about a “*collapsing*” market and the end of \$2000 dinners. “*Come on down and visit us in the vomitorium!!*” the auction-rates desk’s managers director wrote to a co-worker. “*Market is collapsing,*” another executive stated. “*No more \$2000 dinners at CRU,*” a New York restaurant with a very pricy wine list.

***Lie on a research report. Fail to disclose risks to clients. Have I been here before?***

Selling clients the junk they did not want and needed to get rid of...Yogi Berra stated, “*It’s like déjà vu all over again.*” Well...I feel like I am back in the late 1990’s! Same firms, same scam, different securities.

These brokerage firms were so desperate to get rid of their toxic waste paper that they actually revved up their marketing machine to push it on their clients. Let me make this clear once again...

If you have an account with a publicly traded firm, YOU are not their priority! Next quarter's earnings are their priority. There are different levels of expendable at these big firms. For example, Morgan Stanley, a super shiny white shoe, *Bushwick Country Club/Judge Smalls* approved firm, purchased the lowly Dean Witter back in the 90's. Remember Dean Witter...the brokerage firm that had the audacity to work with everyone and actually had offices inside Sears stores. Morgan Stanley did that so they could get their big investors out of their lousy investment banking deals. This time around the big investors got thrown under the bus. It doesn't matter who you are, if you have an account at a big firm, you are a pawn in their game. Your advisor might be a nice guy; he may take you out to dinner or golf, but he has a master. If the master says buy this for your clients or else, he will, and you will pay the price.

Preston Darrell & McDonald Michael [Wall Street Sold Auction Rate to Investors as It Warned Issuers](#) *Bloomberg* 6/26/08

Antilla Susan [SEC Probes Vomitorium While More Patients Gag](#) *Bloomberg* 8/7/08

Scheer David Merrill [Co-Opted Analysts Backed Auction Rate Debt to the End](#) *Bloomberg* 8/1/08

Pollock Lauren [Massachusetts Charges Merrill Over Auction Rate Securities](#) *Wall Street Journal* 7/31/08

Herman Michael [UBS Faces Securities Lawsuit in New York](#) *Investment News*

Murti Bhattiprolu [Citigroup Gets Subpoenas Over Auction Rate Securities](#) *Wall Street Journal* 8/1/08