

THE REAL MORGAN STANLEY

NOVEMBER 2005

I usually get a kick out of the ridiculous advertising and marketing Wall Street uses to lure unsuspecting victims in. However, the ad campaign used by Morgan Stanley over the past two years makes my skin crawl. Whether it is...the ad with the actor playing the advisor who gives the ridiculous speech at his client's daughters wedding or the actor playing the advisor who speaks with the Chancellor at his client's daughter's commencement. That one really makes me nauseous. (Ever notice that the actors playing advisors are the same ones that show up in erectile dysfunction ads.) I was pleasantly surprised when *Saturday Night Live* got it right when they spoofed these commercials when they had a Morgan Stanley advisor threaten to steal a client's kid's college fund and blow it on a boat. Talk about art imitating real life. Back to reality, our dear old friends at Morgan Stanley have been busy again this past month.

Fee Based Rip-Off

The NASD announced that it has fined Morgan Stanley \$1.5 million and has ordered the firm to pay more than \$4.6 million in restitution for using its fee-based brokerage account business to reap ill-gotten gains. Fee-based brokerage accounts are an excellent alternative to traditional commission based accounts for certain circumstances. But they are not for everyone.

The Securities and Exchange Commission issued a report in 1995 noting that fee-based accounts are appropriate for investor's who are building assets in their accounts. But it also noted that because of the imposed annual fee, small and low trading activity accounts with no financial planning would end up paying a higher cost than a commission based account and would therefore be unsuitable.

In an act similar to a bully stealing an underclassman's lunch money, the NASD found that Morgan Stanley brokers were using their fee-based brokerage account program entitled "Choice" to target both investors with less than \$50,000 in assets and buy and hold customers who would be unsuitable for fee-based accounts. Between 2001-2003 all Morgan Stanley Choice accounts regardless of size paid a minimum of \$1,000 just to be enrolled. The NASD found that thousands of Morgan Stanley Choice accounts had either assets of less than \$25,000 and or the accounts had no trades conducted for at least two consecutive years.

IPO Manipulation

Morgan Stanley and eleven other brokerage firms including Merrill Lynch, Smith Barney and Bank of America have been told that they must defend a lawsuit claiming that they engineered an industry wide scheme to rig initial public offerings. The suit was filed on behalf of investors who were sold shares in as many as 800 Internet companies after they went public. The big brokerage firms conspiring to manipulate IPO's for their own advantage is a story we have been talking about for over five years now. The process is called "laddering." Brokerage firms get their biggest and best clients in at the IPO price and trick other investors into buying the IPO after it goes public at much higher prices. They tend to give small amounts of IPO shares to these clients to make them feel more comfortable. The after-market shares that they have their smaller clients buy was always substantially higher than the IPO price. What was happening was the smaller clients were taking out the larger preferred clients (in many cases insiders and family members of the firm) out of the stock at a large profit. Big guys score big, little guys pay the price.

Release the Hounds

In the literal equivalent of allowing Libya, Sudan and Iran to head up the United Nations Committee on Human Rights** Morgan Stanley has named Drew Hawkins to head up the recruiting of new brokers.

Drew Hawkins recently settled charges that he directed a sordid sales promotion program that hurt Morgan Stanley clients. The New York Post reported that Mr. Hawkins ran a sales program called "*Wildcats*" that gave very handsome commissions to brokers who sold Morgan Stanley's underperforming mutual funds to unsuspecting clients. This program was a Morgan Stanley Drew Hawkins initiative to generate an additional \$84 million in commissions for his division. According to William Galvin Massachusetts chief securities regulator, Morgan Stanley customers were not told that the mutual funds sold were part of a sales program that paid brokers a higher commission. E-Mails posted on the Massachusetts securities regulators website show that Drew Hawkins knew exactly what he was doing.

"DO NOT put anything in writing via e-mail or fax on the promotional part of our current sales campaign. Walk your team members through this information VERBALLY."

A Morgan Stanley spokesman has stood by the Hawkins promotion telling *The New York Post*...

"Drew Hawkins is a highly regarded employee who is well-suited for this new assignment."

For once, I have to agree with Morgan Stanley. Drew Hawkins is a perfect fit for Morgan Stanley. I am sure he will bring in the highest commission churning brokers available. Everyone and anyone that has had an ethical bypass at birth will be banging down the doors to work for them.

**These three countries do head up the U.N. committee on Human Rights.