

# **BROKEN CALCULATOR**

## **JANUARY 2007**

I am no mathematics expert, (I have made fun of my lack of talent on these pages and on the show) but at least I can do basic algebra. It turns out that *"the smartest guys in the room,"* some of Wall Street's biggest brokerage firms cannot even do that.

Judith Burns of the *Wall Street Journal* reported that dozens of brokerage firms have *"miscalculated refunds owed to customers they overcharged for mutual-fund purchases in 2001 and 2002."* The errors, which of course, favored the brokerage firm over the clients, involved the inability of the brokerage firm to recognize breakpoint discounted sales charges owed to the clients from mutual fund purchases.

The National Association of Securities Dealers ordered U.S. brokerage firms to do a *"self-assessment"* and provide rebates to investors who were overcharged (in 2004, 15 brokerage firms paid \$21.5 million to settle allegations that they failed to pass along the discounts to some customers). The NASD now is going back and is scrutinizing the firms for miscalculating the breakpoint rebates.

Emily Gordy, a Senior Vice President for enforcement at the NASD, stated to the *Wall Street Journal* that the NASD is wrapping up its review of the rebates and has uncovered a plethora of problems. Ms. Gordy said that all errors made favored the brokerage firms, all under payments; no over payments (I'm shocked!). She said that the NASD is not contemplating fraud charges against the firms, but she said it thinks some showed *"extreme carelessness."* In a related move this past month, the NASD settled with 15 firms including Bear Stearns, Lehman Brothers, Raymond James, UBS, and Wachovia for having higher-than-average incidences of overcharges and ordered those firms to pay fines and compensate their customers for damages.

Sorry but I am not buying it.

Carelessness is a charge that I can levy against my son when he does a lackluster job in cleaning his room. Multi-billion dollar organizations are careless for a reason, and that reason is always self-serving. Unlike the board game *"Monopoly"* there are no bank errors in the clients' favor on Wall Street. Travis Larson the spin-master for the Securities Industry and Financial Markets Association stated that while the Wall Street trade group doesn't comment on continuing investigations, *"our firms and our industry are committed to doing the right thing for our customers."*

Let's recap Travis...The firms overcharged their clients and were forced to repay sales charges, then failed to perform basic algebra and give them the rebates they deserved; and you are telling everyone that Wall Street is *"committed to doing the right thing for it's customers."* The tobacco lobby is on line two Travis, they have an opening and they want you. Travis, tell me their calculators' batteries were low, tell me that MBA programs don't require Math 101, tell me they were too busy calculating how to spend their 2005 bonus, but don't tell me they are looking out for their clients. You are insulting my intelligence.