

FOLLOW UP'S AND SEE I TOLD YOU SO'S

SEPTEMBER 2006

ANNUITY SALES

In March of 2005 in our article *The Perfect Mark* we chronicled two cases of banks taking advantage of senior citizens through the use of local branches and tellers.

The scam perpetrated by Citizens Bank was as dubious as they come. Tellers at the bank earned compensation on a point system by referring depositors, particularly senior citizens who had maturing certificates of deposit, to their shark stockbrokers. For many senior citizens their weekly trip to the bank is a social event; they build up trust in certain tellers who can take advantage of them, as in this case. Let's also not forget the blood-sucking brokers working in the corner office looking to score another fat payday. One of the brokers at the South Yarmouth branch office had more than half of his variable annuity sales directed at senior citizens. Disgusting is one word that comes to mind.

Bank of America was forced to settle because they sold variable annuities to people with Alzheimer's disease and others who were unable to understand the investment risks. In both settlements nobody lost their jobs, no individual was even fined (personally I would have probably gone medieval on them). This is what you deal with as investors. The mess after the fact is what we deal with. Wall Street knows that elderly victims often die or lose the ability to testify before a case goes to trial: a perfect mark.

We have warned people of the ever growing push to get individuals into high commission products like variable annuities and their more evil twin, equity indexed annuities. This past month Investment News reported, "Life insurers are adopting a no annuity gets left behind strategy through bank branches according to industry marketing executives." Sales of variable annuities through banks were up 28% to \$11 billion. "Everyone may not have a broker, but just about everyone has a bank," said Paul Sylvester, head of annuity sales for MetLife. ***Be afraid...Be very afraid.***

FREE LUNCH WITH A CSA

I got invited out to dinner several times this past month with the most memorable coming in the form of an invitation that was *Oscar night*. This invite was printed on fancy card stock, it contained an insert with a biography on the esteemed presenter CSA, and two VIP tickets numbered 23428 and 23429. The topic for the entertaining and informative conference was of course annuities.

SARCASTIC INTERNAL DIALOGUE:

"Gee wiz, I didn't realize the Sarasota Ritz Carlton could hold so many VIP's. Their website says they can only accommodate 1,200, that's about big enough for a Greek wedding...Maybe they have some ultra-exclusive conference room for esteemed presenters with CSA designations. The invite did say that seating was limited; RSVP soon. I didn't realize so many people were in dire need of annuities...could it be that annuities are some of the highest commission products available...? Wait a minute; the esteemed presenter is a CSA. I read something about CSA's once...Back in the January 2006 edition of the Markowski Monthly..."

The CSA (Certified Senior Advisor) designation is obtained by forking over \$1,200, attending a three day workshop and completing a 150 question exam. You may also skip the workshops and look at the information online. This program is so grueling that they put "gold stars" on all who pass. Once again, the CSA gets a shiny, happy diploma. In an interview with the Dow Jones News Service in December 2005, Massachusetts Secretary of the Commonwealth, William Galvin states, "When Language is used to imply a special interest or designation, and it's just another marketing tool, it is a problem, it is a fuzzy feel-good term, but what does it all mean?" The North American Securities Administrators

Association, an organization that represents state securities regulators issued a notice in December urging older Americans “to carefully check the credentials of individuals holding themselves out as senior specialists.” In a press release NASAA President, Patricia Struck, states that individuals use the designation “to create a false level of comfort among seniors by implying a certain level of training on issues important to the elderly, but the training they receive is nothing more than marketing and selling techniques targeting the elderly,” and “the alphabet soup of letters after their names” can be confusing and deceptive.

SCRAPS FOR THE PEASANTS

In the November 2005 article *Call Center Hell*, I used the great renaissance poet Dante and his masterpiece The Divine Comedy to better articulate the treatment “lower-end clients” are receiving from wirehouse brokerage firms.

A little over five years ago Merrill Lynch instituted another crooked scheme to maximize their bottom line. Send all poor Mom-and-Pop clients with assets less than \$100,000 off to a call center, either in Hopewell, New Jersey or Jacksonville, Florida. In a 1999 memo we discovered, a district director for Merrill Lynch referred to the class of people being herded off to call centers as “poor people,” and said advising and helping them was nothing more than “charity work.” I bet they don’t highlight that policy on their brand new Total Merrill advertising campaign.

If you think it is bad enough to push people off to call centers where they will be handled by pimple-faced rookie “yes men” whose ink hasn’t even dried on their business cards, what happened to those “charity work” clients after arriving at one of Dante’s levels of hell was even worse. Those call centers turned out to be churn centers where investors’ portfolios were dumped into high commission, under-performing unsuitable investments all in a systematic attempt to boost firm profits and executives’ bonuses.

I would like to update everyone on Merrill’s progress. Kevin Burke of Registered Representative writes that Merrill Lynch this past month opened another “wealth management center” in New York as part of their effort to capture market share in the ultra high-net-worth advice business. The move is consistent with what is happening across the retail brokerage space, where the wirehouse firms are pushing lower-end clients to call centers and focusing on the lucrative ultra high-net worth market. This is their eighth center and they are planning to open another in Boston later this year. These offices are so exclusive one dare not set foot inside unless bearing an account of at least \$10 million. Feeling betrayed by the fact that you bought into Merrill’s soft and cuddly advertising pitch? Don’t worry, all of the peasant clients can take comfort in the fact that their commission dollars will be spent making these offices as swanky and posh as possible.

MORGAN’S MAKEOVER

The *New York Post* reported this past month that Morgan Stanley unveiled a redesigned logo that “returns the Wall Street giant to its white shoe investment banking roots.” The new logo looks like an exact replica of their old logo before they decided to purchase Dean Witter in 1997 and have them all purchase Morgan’s dotcom deals. It would seem logical that Morgan Stanley doesn’t want anyone to remember what they did to Dean Witter and their clients. This past year they also changed their ticker symbol from MWD to MS.

In my September 2005 column *Extreme Makeover* I detailed the reasons for all the recent changes.

Why would a firm go through the massive expense of changing everything; business cards, signs, letterhead, etc. unless they were really trying to hide from regulatory problems and poor past performance? We reported on how American Express Advisors were given dubious incentives like free leases on Mercedes Benz cars, vacations, and

monetary perks to push ill-performing mutual funds over others that better suited their clients. We also fought vehemently to no avail to allow Credit Suisse, a firm that refused to return property to holocaust survivors and their families to buy First Boston. For an encore, CSFB was a trailblazer in the use of stock manipulation and IPO laddering making a mint for themselves and insiders, while ripping off the public during the 1990's.

We are starting to see more and more marketing changes from Wall Street firms. I couldn't believe it last week when I saw Fidelity handing out Paul McCartney CD's for all new accounts. We can only hope the public will see through the shallow and deceptive marketing practices. Instead of changing the way one does business, starting with the simple idea that clients should be put first, Wall Street is banking on the public's short memory and new gimmicks. There hasn't been any fundamental change in how firms are doing business and treating clients. We are busier than ever chronicling new and cunning examples of fraud and manipulation. Despite the makeovers the fact remains that beauty is only skin deep.