

MY TWO CENTS

NOVEMBER 2005

In a painful reality check for victimized investors looking to recoup some of their losses via securities litigation, the U.S. Chamber of Commerce stated that forty percent of institutional investors reap gains as a result of securities fraud litigation, but undiversified small investors recover only **TWO CENTS** of every dollar lost to fraud.

Anjan V. Thakor, Finance Professor at the Olin School of Business at Washington University and author of *The Economic Reality of Securities Class Action Litigation* states in an interview with *Investment News* that *“The system was set up to deal with the small mom-and-pop investor where they lost their shirt, if you look at the actual evidence, that’s not the way the system is working.”* Sorry Professor. But, like many of your colleagues you are spending way too much time in the world of academia, it is time to venture off campus, the real world is a little different. There are no problems with the system; it is working just for lawyers and politicians. **Professor, you fail to realize that the system was NEVER designed to help investors**; it was designed by lawyers to benefit lawyers, all under the guise of helping mom-and-pop investors.

We have been doing all we can to track the billions of dollars that have been **“won”** in securities cases over the past five years, and just as we expected the **“winners”** have been lawyers and politicians. In one case we actually found out that money earmarked for small investors found its way into financing a campaign in Georgia. The only reason institutional investors fared better is due to their ability to finance campaigns and get people elected. Take a look at the Board of Directors of many institutions and you will always find a well-placed politician. Wealth transfer is what the system embodies, from small investors to lawyers and big government.

The Chamber of Commerce is looking to advance some changes dealing with securities litigation but sentiment within the Chamber feels that it is going to be an uphill battle. The areas that the Chamber is looking at are: how damages are calculated in securities class actions; stopping discovery proceedings while defendants motion to dismiss cases that are pending; requiring lead plaintiffs’ attorneys to bid competitively to be in order to be named lead council in class action lawsuits; as well as ways to better distribute funds to individual investors.

Call me skeptical, but I think we will see Rob Schneider win the Oscar for best actor for his work in Deuce Bigalow before we see any of these reforms passed into law. The Chamber went on the record and covered their derriere, hot air was expelled, case closed, the system lives.