

Finra, SEC and state regulators swarm Morgan Keegan with fraud charges

By Dan Jamieson

April 7, 2010

State and federal regulators teamed up today to file potentially devastating enforcement actions against Morgan Keegan & Co. Inc. and its asset management unit, Morgan Asset Management Inc., over the firms' management and sale of failed bond funds.

The Regions Morgan Keegan Select bond funds, which invested in risky mortgage-backed securities, lost most of their value in 2007 and 2008 — more than \$1 billion of investor assets, regulators estimated — following the collapse of the real estate market.

Regulators claim Morgan Keegan and its asset management unit misrepresented the funds to investors and brokers, manipulated the funds' net asset value, and failed to supervise the sale of the funds and due-diligence efforts.

The complaints paint a damning picture of Morgan Keegan, and could help bolster lawsuits by burned investors.

Regulators say they have evidence that the bond funds' head portfolio manager, James Kelsoe, was allowed to work with little supervision — and at one point stonewalled a due-diligence officer.


The actions taken by regulators today are "long overdue," said Scott Shewan, president of the Public Investors Arbitration Bar Association, which represents plaintiff's attorneys.

The plaintiff's bar has long urged regulators to take action against the firm.

Mr. Shewan, an attorney at Born Pape & Shewan LLP, said the trove of documents included in the multiple actions against Morgan Keegan should help more investors win arbitration claims against the firm.

"Morgan Keegan has not been forthcoming" with documents ordered produced by arbitration

InvestmentNews Reprints

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Reprints tool or the Reprints link at the top or bottom of any article, respectively.

- | [View reprint options](#)
- | [Order a reprint article now](#)

panels, he said.

Morgan Keegan spokesman Eric Bran said the firm will "vigorously refute" the charges.

"We are disappointed at the decision by these agencies and the states to bring charges which we believe are meritless and based upon erroneous hindsight analysis," he said in a statement.

The coordinated actions were brought by the Securities and Exchange Commission, the Financial Industry Regulatory Authority Inc., the Alabama Securities Commission, the Kentucky Department of Financial Institutions, the Mississippi Secretary of State's Office, and the South Carolina Office of the Attorney General.

In addition to the firms, regulators also targeted Mr. Kelsoe; Joseph Weller, head of the fund accounting department; Brian Sullivan, president and chief investment officer of Morgan Asset Management; Gary Stringer, director of investments for the Morgan Keegan's Wealth Management Services division; and Michele Wood, chief compliance officer of the funds.

The evidence includes allegations of willful misconduct among top managers at Morgan Keegan.

State regulators claim, for example, that Carter Anthony, president of Morgan Asset Management from 2001 through 2006, was told by Morgan Keegan president Doug Edwards and former president Allen Morgan not to supervise Mr. Kelsoe.

In an October 2009 deposition, attached to the states' complaint, Mr. Anthony testified:

"Time and time again I was told by [Mr.] Morgan and [Mr.] Edwards [to] leave [Mr.] Kelsoe alone, he's doing what we want him to do, he's also a little bit strange, he gets mad easy, leave him alone; and I left him alone. I did what I was told to do."

Mr. Anthony normally conducted performance reviews of all mutual fund managers, which included reviews of their portfolios and trading, the state complaint says.

A May 2007 email sent by Mr. Stringer, the head of the Wealth Management Services division, reads:

"What worries me about this [Regions Morgan Keegan Select Intermediate] bond fund is the tracking error and the potential risks associated with all that asset-backed exposure. Mr. & Mrs. Jones don't expect that kind of risk from their bond funds. The bond exposure is not supposed to be where you take risks. I'd bet that most of the people who hold that fund have no idea what's [sic] it's actually invested in. I'm just as sure that most of our FAs have no idea what's in that fund either."

The Wealth Management Services division develops asset allocation strategies and was responsible for performing due diligence on funds, state regulators said.


Mr. Stringer's "e-mail just kills [Morgan Keegan] to me. That's just shocking," said Craig McCann, president of Securities Litigation and Consulting Group Inc., an expert witness who

testifies for plaintiffs in Morgan Keegan arbitrations.


Regulators also claim that in the summer of 2007, Kim Escue, a fixed-income analyst for the Wealth Management Services division, was stonewalled by Mr. Kelsoe's group in her attempts to update the division's research on one of the bond funds.

"They have let me sit for nearly three weeks with no comments, feedback, or information that I have requested," Ms. Escue wrote in a July 2007 e-mail.

The WMS division "failed to notify the [Morgan Keegan] sales force or the ... compliance department of [the] refusal to cooperate," the state regulators' complaint says.



ENTER AN ATMOSPHERE OF BOUNDLESS POSSIBILITY



COMMONWEALTH *financial network*
commonwealth.com

Reproductions and distribution of the above news story are strictly prohibited. To order reprints and/or request permission to use the article in full or partial format please contact our Reprint Sales Manager at (732) 723-0569.