Tossing Good Money After Bad Advice

Retirees can be easy marks for fast-talking brokers

By Walt Duka
July-August 2004

For dozens of Procter & Gamble employees in Augusta, Ga., the nightmare began innocently, in lush surroundings.

The occasion was a retirement seminar at a country club where food, drink and dreams were served up free and in generous helpings. The host was William F. Gibbs, a stockbroker with the A.G. Edwards firm.

His message, delivered with folksy charm, was simple. He said he could make anyone's retirement savings grow up to 20 percent a year using a strategy involving blue-chip stocks.

Andrew Green, then 50, listened closely. He'd worked at the P&G detergent plant for more than 30 years and wasn't ready to retire. But several years before he'd suffered two heart attacks, and thanks to P&G's employee-stock program, his nest egg had grown to a phenomenal $1.3 million.

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Shortly after the seminar, Gibbs told Green he could make a bigger "salary" by retiring than by staying on the job—an offer Green couldn't refuse. So he put in his retirement papers in 1998 and rolled over his P&G account into an IRA with Gibbs, who replaced that stock with other equities. "I must have asked him 10 times," Green relates, " 'Is my principal going to be safe?' and Gibbs said, 'In five years you'll probably have four times your principal.' "

For almost two years, things went well. Then, Green and his wife, Vicki, watched with mounting horror as their account sank lower and lower, until it had lost about $1 million. "It was the most miserable time of my life," Green says. "I lost sleep, and I know it's been damaging to my health."

During the slide, Green and other clients complained repeatedly. But Gibbs, they say, told them it was merely a market correction. Gibbs then began shifting client money into risky tech stocks, which only accelerated the plunge. Millions of dollars in assets held by dozens of P&G workers went down the drain.

For many of them, however, a measure of relief came in late April when Georgia Secretary of State Cathy Cox announced a settlement with A.G. Edwards. The agreement provides $27 million in restitution for 119 investors, about half of them

P&G retirees. The largest securities settlement in Georgia history, it included payment of a $500,000 penalty by A.G. Edwards.

Margaret Welch, a spokeswoman for the Edwards company in St. Louis, called the Georgia case "an isolated incident involving one branch." The individuals involved are no longer employed by the firm, she said.

Green, now 56 and living in Lincolnton, Ga., says that although the restitution wasn't all he would have liked, "I can breathe again." But his dream retirement had come to a bitter halt in late 2000, when his stock losses forced him back to work. Today he works as a warehouse supervisor, earning about a third of what he made at P&G. He's not sure when his "next retirement" will take place but speculates, "I may be working until I'm 70."

Glen Johnson, of Augusta, was the plant engineer at P&G. He retired in 1996 and after becoming a Gibbs client the following year saw his investments climb, then crash. And at 60, he's now putting retirement behind and searching for a full-time job.

"It's been a very tough four or five years," he says. "I worked all my life with the thought, Hey, I'm going to work hard and when I accumulate enough money to be comfortable, I'm going to retire. … Now it's really hard to back up and kind of start over again."

Of Gibbs, he says, "We just had too much trust."

Charles Austin Jr., a Richmond, Va., lawyer and president of the Public Investors Arbitration Bar Association, says the Augusta case is no isolated instance. Such abuse, he says, is "a very big problem that goes on everywhere."

Older people, he says, "who may have had 40 years to save money," have always been favorites of the investment industry. But their attractiveness is increasing as their number and assets grow.

The Financial Research Corp. of Boston estimates, in fact, that a staggering $2.4 trillion will be rolled over from employee benefit plans into IRAs in the period 2003 to 2010. That, experts say, represents an irresistible target for people in the investment business.

"The majority of individuals working in the securities industry are honest and ethical," says Karen Tyler, the North Dakota Securities Commissioner, who heads the investor education section of the North American Securities Administrators Association. "But investors always have to operate from the standpoint of protecting themselves."

Two other recent cases, both in Ohio, bear an eerie resemblance to the Georgia episode and underline her point.

In both instances, veteran employees of big companies—East Ohio Gas and Rubbermaid—were persuaded by brokers to accept buyout offers and subsequently saw their nest eggs dwindle as the risky stocks they had been put into tanked. Arbitration panels recently ruled in favor of two of these employees, awarding $310,000 to a former client of a Merrill Lynch broker in Wooster and $299,000 to a client of a Prudential Securities broker in Akron.

Susan Wyderko, investor education director at the U.S. Securities and Exchange Commission (SEC), says people need to approach investing with a hard-nosed attitude. "It's healthy," she says, "for people to have a healthy skepticism and to view stockbrokers as salespeople."

To lure customers and boost sales, investment professionals (who go by various titles in addition to stockbroker, including financial adviser, financial consultant and investment specialist) use a sophisticated array of marketing tools, with retirement seminars topping the list.

Edward Dovin, partner in the Atlanta law firm that represented the P&G retirees, says flatly, "Retirement seminars are not meant to educate but to sell. If they give you a free meal and spout some free advice, it's worth what you pay for it."

Adds the SEC's Wyderko: "The more expensive the dinner and the more expensive the food, the more skeptical you should be."

In some cases, companies are believed to have provided the names of older employees to brokers hosting such events, and companies commonly allow investment firms to post announcements on company bulletin boards.

Dovin frowns on these practices. "When notices go up in a place of employment, people start getting the idea that this is the guy that all the people who retire from this company are supposed to go to." And that, he says, can spell trouble.

So what should people facing retirement do to protect their nest eggs?

To begin with, the SEC's Wyderko says, "It's very important to thoroughly explore the options you have before deciding what to do with your retirement nest egg." For example, many companies allow retirees to keep their assets in the company 401(k) plan, and she says if that plan has served you well, there may be no reason to roll over your assets into another plan.

Then, too, Jacob Zamansky, a New York lawyer who represented the Ohio retirees, says, "You have to ask the hard questions."

Wyderko emphasizes, "Don't quit asking questions if you don't understand the answers. If the salesperson can't explain it to your satisfaction … then you need to buy something else. Run, don't walk [away]."

Before long, Americans will hear a lot more about how to invest wisely. Last year, seven major Wall Street firms accused of inflating their research advice agreed to pay almost $1 billion to settle charges against them. Some $80 million of that was earmarked for investor education projects, which are being overseen by the nonprofit Investor Protection Trust.

But regulators and others say there's plenty of good information available right now and no need to wait.

As Andrew Green puts it, "You better do your homework, because these people will take your money, and when you call them they won't be there for you."