Taking Stock: Broker - MYOB with NYSE

by Malcolm_Berko

Dear Mr. Berko: Please don't use my name or my firm's name. I'm a broker with a large New York Stock Exchange firm and several times I tried to tell my superiors of the potential dangers of the subprime market and the danger of holding billions of dollars of those mortgages in the firm's portfolios. I was very nicely told to shut up. Two of my clients want to sue my firm because they have lost nearly 50 percent in the common stock of my firm and they've asked me to be a voluntary witness. I won't because I don't want to be fired. I've seen firms fire a broker for unauthorized trades (and rightly so) even though they actually made money for the clients. Yet my firm's irresponsible bond dealings cost clients billions of dollars in losses. Now one of my client's lawyers has threatened to depose me. I feel like I'm between a rock and a hard place. I don't want the publicity and I don't want to lose my job. If you have any experience with this or any other thought thoughts to help me I'd really appreciate it.

No-Name

Cleveland

Dear No-Name: If stockbrokers managed client portfolios with the same results UBS, Merrill, Morgan Stanley or Bear Stearns managed their bond portfolios, the New York Stock Exchange would demand a mass public hanging at high noon. Those birds at the NYSE would be all over you guys like bark on a tree, you'd be excoriated, indicted, ignominiously fired and a black mark so ominous would be branded on your personnel records that cockroaches wouldn't crawl in the same file cabinet. In fact, you wouldn't be able to get a job as a janitor in a hot pillow joint. That's how spiteful those NYSE noogies can be.

But it seems that the NYSE doesn't give a hoot in Hoboken how UBS, Morgan Stanley, Merrill, etc., manage their corporate capital. And that's criminal because a firm's capital determines the volume of business it can conduct, just like a bank's capital determines the volume of loans it can make. Basically, if a firm's capital declines below a specific level it could become a serious problem, potentially harmful to the safety of your client's assets. That's real scary which is why firms like Citicorp, UBS, Morgan Stanley, Merrill, etc. fell on their kneepads in panic begging and pleading to borrow billions from foreigners like Abu Dhabi, China and Singapore.

It's chilling to learn that Merrill, UBS, Morgan Stanley, ad nauseam, could be so wantonly careless and allow their bond departments to savagely cripple their balance sheets. And it's even more chilling to discover that the NYSE (the nexus of our nation's financial stability) remained publicly oblivious to the carnage.

Like the dot-com bloodbath, Merrill's shares plunged from $97 to $50, Bear Stearns crashed from $172 to $90, Morgan Stanly plummeted from $90 to $47 and UBS imploded from $66 to $44.

Perhaps the NYSE needs an oversight committee to make certain its noogies are protecting the investors. And while disaster was unfolding, John Thain, the ex-chief executive officer of the NYSE, sat on his duff, twiddled his thumbs and found a new job as CEO of Merrill. Some think John left the frying pan for the fire. You must be a smart lad if you saw this collateralized debt obligation and subprime debacle coming. I didn't! I made a gross mistake trusting the brilliance of Merrill, the genius of Citigroup, the brains at UBS and the acuity of Morgan Stanley. Their bond people even convinced Standard & Poor's as well as Moody's to assign triple-A ratings to those CDOs and their myriad tranches.

You can't prevent your clients from suing you or your brokerage for the collapse of its shares. But I suggest that you keep your nose out of it because you have nothing to gain and a lot to lose.

However, some believe the real blame rests with the NYSE, which didn't want to compromise the enormous fees it receives from Merrill, Citicorp, UBS, etc. Some observers suggest that a class action suit against the NYSE for failure to supervise would be a more promising alternative. They believe the NYSE is as duplicitous as the CIA, as crooked as the Russian Mafia and that a class action suit would expose a sordid underbelly which could explain why former CEO (Richard Grasso) received a $140 million retirement package in 2002 when the NYSE's net income for that year was just $18 million.

Keep you schnozzola out of it. If shove comes to push, your firm will hire counsel to help you deal with any potential legal problems.

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