

## DOW JONES

April 9, 2009

### Morgan Keegan Brokers Were Misled On Funds

By Kristen McNamara

Securities regulators' actions against Morgan Keegan & Co. put its brokers in the same basic category as investors: duped.

In making public their allegations, the Financial Industry Regulatory Authority and several state regulators said separately Wednesday that the company hid the risks that existed in seven affiliated bond funds, which included shaky mortgage-backed securities but which were marketed as conservative investments. Brokers were misled along with investors, the regulators said.

Even lawyers who represent investors don't blame the brokers (although some clients may be less forgiving).

"I don't see any indication that brokers were told what the real risks of these funds were," said Brian Smiley, an Atlanta securities attorney who is representing investors in arbitration cases against Morgan Keegan. "What you assume is your firm is giving you good information."

The situation is reminiscent of charges filed two years ago against broker-dealers that promoted auction-rate securities as cash-like products, while knowing the market for these securities had dried up. In

both cases, brokerage firms, rather than brokers, were blamed.

Finra said Morgan Keegan, a subsidiary of Regions Financial Corp. (RF), failed to train its brokers about the risks of the funds, including the Regions Morgan Keegan Select Intermediate Bond Fund.

When Morgan Keegan became aware, beginning in early 2007, that the collapsing subprime mortgage market could hurt the funds, it reassured brokers rather than warned them, and didn't revise its sales material, Finra said. Investors lost more than \$1 billion, according to its complaint.

Marketing materials referred to Morgan Keegan's "exceptional due diligence," according to a separate notice from securities regulators in Alabama, Kentucky, Mississippi and South Carolina. But due-diligence reviews were allegedly cursory, obstructed by fund management's uncooperativeness and differed from promotional materials. Morgan Keegan characterized the Intermediate Fund in different ways at different times and made it appear more conservative than it was, the states said.

Gary Stringer, a Morgan Keegan executive overseeing investment product

due diligence, expressed concern in a May 2007 email about "the potential risks associated with all that asset-backed exposure" in the Intermediate Fund and said investors and financial advisers likely "have no idea" what investments it holds.

Morgan Keegan brokers and branch managers interviewed during the states' investigation said they didn't receive guidance from the company on appropriate concentrations of the funds to use within customers' brokerage accounts. As a result, investors held relatively large concentrations of funds, which magnified their risk and losses, the states said.

Employees who were interviewed say they relied on the funds' past track record, ratings from research firm Morningstar Inc. and James Kelsoe, the funds' manager, according to the states.

The regulators are seeking to revoke Morgan Keegan's registration in their states,

impose administrative penalties and bar several high-level employees, including Kelsoe and Stringer, from working in the securities industry within those states.

**"This is primarily a Morgan Keegan problem, and the brokers shouldn't be held responsible," says Jake Zamansky, a New York City attorney who represents both investors and financial advisers. "The brokers were a conduit for misinformation."**

Morgan Keegan said in a statement that it is disappointed in the filings by the states, Finra and the Securities and Exchange Commission, which charged the company with fraud Wednesday. It said the accusations are based on "erroneous analysis as to both the facts and the law," and that it intends to defend itself against the accusations.