



## Prudential Brokers Fired Amid Mutual Fund Probe

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October 2, 2003

The growing national scandal in the once squeaky-clean mutual fund industry has cost five New York-area Prudential Securities' brokers and a branch manager from the firm's Garden City office their jobs after an internal review found they had permitted questionable trading that favored big investors over small.



The forced resignations are just the latest twist in an unfolding series of investigations that has rattled the 95 million Americans who have nearly \$7 trillion invested. Already nervous amid the uproar over widespread fraud in corporate accounting and Wall Street stock research recommendations, their trust has been shaken.

The dismissals took place Monday after an internal review found they had also permitted clients to engage in market-timing in mutual funds.

Those losing their jobs according to sources include Garden City branch manager Marshall Dumont, a 22-year Prudential veteran. The brokers were not identified, nor was the Manhattan office where at least one of them worked.

Six employees in Boston, including branch manager Robert Shannon, were also dismissed. A spokesman for Wachovia, which purchased Prudential Securities in July, confirmed there were departures, but would not comment further. Wachovia has 12,000 brokers in 700 offices.

An attorney for the five Boston brokers acknowledged yesterday that his clients were market timing some high-yield, international and other funds, but that the practice was not against the rules at Prudential. A written policy issued at the firm in January said brokers had to adhere to the policies of the funds, and that some funds allowed market timing.

"My clients felt they were following the policy," said their attorney Michael Collora.

Prudential became the latest financial firm to be engulfed in the mutual fund trading scandal that has rocked the industry since New York Attorney General Eliot Spitzer charged four fund families with allowing pet food scion and hedge fund manager Edward Stern to market time their funds.

The brokerage firm is the second this week to take action against employees over trading practices. Alliance Capital Management on Tuesday suspended two employees because of market-timing.

The Prudential dismissals come a few months after Massachusetts Secretary of the Commonwealth William Galvin started investigating market-timing at the firm's Boston office. Meanwhile, Spitzer has requested information from the firm, and the Securities and Exchange Commission is also looking at the firm, as part of its review of mutual fund policies at the 80 largest fund complexes and 20 biggest brokerages.

People who engage in market-timing usually buy mutual funds whose prices don't accurately reflect their underlying investments, believing the price will likely go up or down the next day because of an event or announcement. They then sell the fund for a quick profit.

This often happens in international funds, where the markets close hours before the New York market, and small-cap funds, where the companies in the fund may not trade throughout the day. It may also occur in high-yield or municipal bond funds, which may not trade that frequently.

Though not illegal, many mutual funds discourage market timing because it hurts the other shareholders in the fund by reducing the value of their investments and increasing transaction costs. For instance, the funds may institute fees for short-term trades, which they state in their prospectuses.

"Any investor can be hurt by market timing because it dilutes the returns they would have earned," said Vijay Singal, chairman of the finance department at Virginia Tech in Blacksburg, Va.

Investors lost \$4.9 billion -- \$4.3 billion of that in international funds -- to market-timing in 2001, said Eric Zitzewitz, economics professor at Stanford Graduate School of Business. An investor who held \$10,000 in an international fund would have lost \$110 a year from the practice.

Because of the intense scrutiny on market-timing, Zitzewitz said future losses should be lower because companies will clamp down on such trading.

The Prudential affair is another blow to the mutual fund industry, which has maintained a carefully cultivated image of being pro-investor. Even as CEOs were caught pillaging from stockholders and stock brokerages were accused of fleecing their clients, the fund industry's missteps had been few and minor.

"Until a few weeks ago, this was pretty much a scandal-free industry," said Mercer Bullard, a securities law professor at the University of Mississippi School of Law and founder of Fund Democracy, a shareholder advocacy group. Those days, experts say, may be over. "Investors should be worried about what this says about how seriously their interests are taken," said Eric Zitzewitz, economics professor at Stanford Graduate School of Business.

Though the problem may not impact every mutual fund investor, the scandal is hurting the industry's reputation, said "More importantly is the perception by mutual fund investors that [the funds] are not looking out for their best interest," said John Chalmers, associate finance professor at University of Oregon.

Those who invest in mutual funds susceptible to market timing should check with their fund families to see what policies they have in place to prevent market timing and how they enforce it.

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