



Is NY  
Attorney  
General  
Eliot  
Spitzer  
really  
Mighty  
Mouse  
without his  
disguise?

## “Here I come to save the day! Mighty Mouse is on the way.”

The late great manic comedian Andy Kaufman used to do a wonderful “Mighty Mouse” bit in some of his more stable comic routines. It sometimes feels to us that watching the regulatory agencies such as SEC and NASD trying to control the wolves of Wall Street is similar to a Kaufman performance. Their brilliantly marketed efforts to convince the ordinary investor that stock-brokers are “trusted advisors” and not really in the business of buying & selling securities is aimed squarely at capturing the torrent of wealth about to pass from the “greatest generation” to the baby boomers. However, sometimes the forces of good really do prevail,

and this is one of those times. Is Eliot Spitzer really Mighty Mouse without his disguise?



The Securities and Exchange Commission handed mutual fund investors a huge victory late last year by requiring full disclosure of fund managers' investments in their own funds as well as their bonus structures. This information will be useful in helping us identify managers whose interests are aligned with their investors.

Fund managers will be required to disclose whether their investments in their own funds fall into one of a several ranges, with the top range being \$1 million and over. Fund companies will also have to disclose their structure for portfolio manager bonuses.

The SEC limited the disclosures to a fund's top five managers. As part of this, fund companies will have to disclose those managers' names and will no longer be able to list funds as being “team-managed.” The SEC will require that the fund companies disclose the other accounts run by the top five portfolio managers and the



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total dollar value of assets run in that style.

Mutual funds will also be required to describe the role served by each of the five managers with the greatest impact on a given fund. This disclosure will also benefit investors; in the past, fund companies were able to obscure manager turnover and the qualifications of management by simply listing management teams.

In addition, the SEC has banned the practice of directed-brokerage arrangements. Although directed brokerage has probably escaped the notice of most investors, this practice creates an unhealthy conflict of interest. In directed-brokerage arrangements, a fund

company agrees to steer its stock trades to a given brokerage firm; in exchange, the brokerage places that fund family's offerings on a "preferred list." Not only do such arrangements make it more likely that a fund firm will pay inflated commissions for its trades, but they also mean that a broker could have an incentive to sell a fund that isn't in his or her client's best inter-



ests. We would like to remind our clients that "financial advisors" at such places as American Express, Prudential Securities and Edward Jones were recently slapped down and fined

by the SEC for such practices. Maybe some good will come out of the mutual fund scandals after all. New York Attorney General Eliot Spitzer may appear to be a self-promoting pain, but his efforts will prove to be a blessing for the ordinary investor.

There are now over 50,000,000 such individual investors in the US.

Who knows - how does "Spitzer for President" sound?

