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INVESTOR "WATCHDOG" AGENCY STIFFS 99% OF MICROCAP STOCK VICTIMS, ENRICHES LAWYERS

WASHINGTON, D.C., July 20, 1999 – The Congressionally chartered Securities Investor Protection Corporation (SIPC) paid out $3.6 million in 1998 to outside attorneys to handle the denials of 99 percent of the claims filed by almost 3,500 investors who sought relief after the notorious microcap stock firm Stratton Oakmont went bankrupt, according to the nonprofit Public Investors Arbitration Bar Association (PIABA).

"It's time for American investors to learn the truth: the whole notion of SIPC 'protection' can be a cruel hoax," said PIABA President Mark Maddox, an Indianapolis attorney specializing in securities arbitration. **"In spite of its $1 billion in reserves, SIPC is being run like a for-profit insurance company, doing everything in its power to deny claims rather than protect investor assets. If a claimant gets over one of SIPC's arbitrary hurdles, they create another one to climb over, then another and another. It's time for Congress to shake up SIPC and get it back where it is supposed to be: on the side of the small investor."**

According to SIPC data reviewed by PIABA, more than 22,000 former customers of the notorious Stratton Oakmont microcap brokerage firm received notices of the bankruptcy and 3,368 responded with claims against the firm. Of those claimants, a mere **nine** (9) investors received cash or securities from SIPC totaling $393,896. By contrast, one law firm, acting as trustee for the Stratton Oakmont liquidation, has been paid more than $3.6 million to date, according to

SIPC data. This means that the SIPC rejection rate for Stratton Oakmont claims is more than 99 percent.

Maddox added: **"SIPC uses arbitrary, unfair and unworkable rules of its own creation that Congress never imagined in order to slam the door shut in the faces of small investors pursuing claims. The numbers speak for themselves: Wall Street attorneys hand-picked by SIPC are paid millions of dollars, while microcap stock fraud victims only get insult added to injury."**

ONE SIPC VICTIM'S STORY ...

One of the Stratton Oakmont customers who filed a claim was Fred Brown, 58, of Wyethville, Virginia. Like thousands of other unwary Stratton Oakmont clients, Brown was a victim of unauthorized trading. In the fall of 1996 while he was out of the country on a business trip, Stratton Oakmont brokers looted his account of nearly $160,000.

Like more than 3,300 other Stratton customers, Fred Brown filed a SIPC claim for his losses. SIPC denied Brown's claim -- **because he hadn't complained in writing to the firm within 10 days of the unauthorized trades!** Unfortunately, Brown had been out of the country when the trades took place and the firm was out of business when he next tried to contact them.

Brown said: "**That money was the price of going to college for me. I'm a lot smarter than I was before this happened. Now I know that I can't trust microcap stock brokerages and that SIPC is not on my side when things go bad."**

According to Maddox, who is a former Indiana Securities Commissioner: **"Stratton Oakmont was notorious among state, federal and industry regulators. They were the worst of the micro cap firms, responsible for some of the most blatant and egregious abuses of investors, including unauthorized trading. If SIPC refuses to make restitution when this kind of firm collapses, who exactly is it that they are sitting on their $1 billion reserves for anyway?"**

WHAT IS SIPC?

The Securities Investor Protection Act of 1970 [15 U.S.C.78aaa-111] was enacted by Congress to protect public investors from monetary losses due to failed brokerage houses. When a brokerage fails and the Securities and

Exchange Commission or SIPC has reason to believe that investors' assets need to be protected, SIPC intercedes by appointing attorneys that have responsibility for (1) liquidating the bankrupt firm's assets; (2) determining the legitimacy of investors' claims for financial losses; and (3) making restitution of those losses according to SIPC's charter and by laws.

If claims are deemed valid by the SIPC trustee, investors can receive back the value of their portfolio on the date bankruptcy was filed by the brokerage up to certain amounts. Limits for cash and securities are set at $500,000 per customer; cash-only claims are limited to $100,000 per account.

GETTING SIPC BACK ON THE SIDE OF SMALL INVESTORS

One reason for Congress to look at SIPC legislation is to address the changes in the investment market place -- changes that have been enormous in size and scope since 1970. According to research conducted for The Nasdaq Stock Market, only 10.4 percent of American households owned stock either directly or indirectly in 1965 (five years before SIPC was created). That number had doubled to 21.1 percent by 1990, then doubled again to 43 percent over the next seven years. PIABA points out that an insurance fund created to protect an elite group of well-heeled investors nearly 30 years ago may not do an adequate job of representing the millions of middle-income individuals now in the markets.

PIABA recommendations regarding SIPC include:

- Providing for additional non-industry, investor representation on the SIPC Board of Directors. In addition to Congressional oversight, the Corporation needs to be reminded who it is supposed to be protecting.
- Opening up the process of selecting trustees for liquidations. In one recent case, SIPC appointed one of its former general counsels to act as trustee in a microcap fraud case.
- Revising SIPC's current in-house procedure of determining customer remedies, so as not to further penalize victims of swindles.
- Developing a more specific definition of what constitutes conversion of funds and making the grounds for claim approval more inclusive.

ONE MICROCAP STORY: STRATTON-OAKMONT

According to those who have followed micro cap frauds, Stratton Oakmont was the worst of them all. Maddox explains that the firm **"regularly and**

intentionally practiced every kind of fraudulent sales practice. They weren't just unscrupulous, they were immoral."

The final days of Stratton Oakmont were in 1996 when the NASD expelled the firm from NASD membership. When they filed for bankruptcy, the firm had less than $100,000 in capital -- the assets of the company and their 22,000 customers were gone. According to a Dow Jones article last year, the SIPC trustee in the liquidation said that Stratton Oakmont managers bilked investors of more than $36 million.

A variety of legal and disciplinary actions were pursued against Stratton principals and employees, but for customers like Fred Brown, it was too late. Arbitration panels have awarded millions to former Stratton customers, but there are no assets to pay them. A number of Stratton's principals have been barred from the securities industry and at least two dozen employees were sanctioned by the NASD for sales practices violations. The former chairman and president of Stratton Oakmont have been indicted on criminal charges in several securities cases that include money laundering and smuggling millions of dollars from the U.S. to Switzerland. Additionally, Stratton Oakmont's attorney has pled guilty to fraud charges in connection with another penny stock brokerage firm he represented.

ABOUT PIABA AND MARK MADDOX

PIABA is the non-profit organization of attorneys representing individuals in investor arbitration claims. Headquartered in Norman, Oklahoma, PIABA has approximately 375 attorney members who represent investors in disputes with securities and commodities brokerage firms. Mark E. Maddox is president of PIABA and the senior partner of Maddox, Koeller, Hargett & Caruso, with offices in Indianapolis, Indiana and New York City. Maddox served as Indiana State Securities Commissioner from 1989 to 1991.

FOR A BACKGROUND REPORT ON WHAT NEEDS TO BE DONE TO REFORM SIPC,
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