

Panel awards retirees millions

Money was placed in risky investments

By **CHAD CALDER**

Advocate business writer

Published: May 18, 2006

Thirty-two retirees from the ExxonMobil refinery and chemical plant in north Baton Rouge have been awarded \$22 million by an arbitration panel, part of a ruling from allegations that a local financial planner had put their money in risky investments.

The financial planner, David McFadden of Securities America, said he disagrees with and is disappointed by the ruling. He said he plans to ask the arbitration panel to vacate the award, which would kick it to federal court.

The decision was made by a three-member panel of the National Association of Securities Dealers.

Its \$3.5 million in punitive damages is one of the largest ever levied against a Wall Street firm, said Jim Swanson, one of the attorney's representing the retirees.

Swanson said the plaintiffs had claimed that McFadden would invite people to free dinner seminars about how to get ready for retirement, at which he would pitch one-on-one meetings to discuss individual portfolios.

When he had these meetings, Swanson said, McFadden told the retirees, who were then still employed, that they were ready to retire and that he could invest their retirement earnings in a way that would meet their financial needs.

But Swanson alleges McFadden steered the money into annuities and Class B share mutual funds, which he said are not appropriate for retirement income. Swanson said annuities are usually for tax-deferral purposes, and made no sense as an investment for the retirees because their money was tax deferred.

Annuities do, however, pay a large commission, he said.

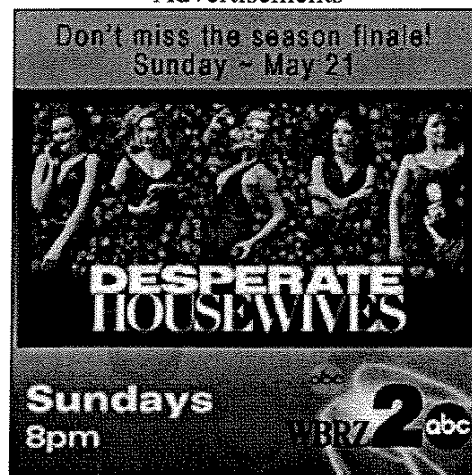
"Annuities are the highest commission product you can sell," Swanson said. "You get 6 percent on them."

Swanson and fellow attorney Joseph Peiffer pointed to a 1989 Forbes Magazine cover story called "Don't be a sucker: Variable annuities are a lousy investment."

"These products have been pretty controversial for some time," Swanson said.

As for the Class B share mutual funds, Swanson said they carry higher annual fees in exchange for no up-front sales charges, and are for people who would not buy very many shares.

Advertisements



“If you have the kind of money our people did, you should not be investing in B share mutual funds,” he said.

Swanson said the retirees, who were blue-collar workers ranging from pipefitters to low-level supervisors, had plenty of common sense but not the investment expertise to recognize that their money wasn't invested properly until it was too late.

“Within three or four years they had less than half of their money left,” he said, adding some were wiped out entirely.

Swanson alleged McFadden was making between a \$1 million and \$1.5 million during the years in question.

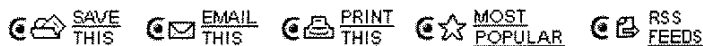
McFadden said he could not discuss any details of the case since he plans to ask the panel to vacate the award, but wanted to assure his customers and those of Securities America that the ruling would not affect their investments or financial well-being.

As for McFadden's plans to have the award vacated, Swanson said he and Peiffer have already filed a motion in federal court to confirm it.

Swanson said the amounts given to each plaintiff were based on what they lost, ranging between \$100,000 to \$3 million.

The Wall Street Journal reported that the award is one of only a handful of customer-related complaints to top the \$20 million mark. It includes \$11.6 million in compensatory damages, \$3.5 million in punitive damages, \$4.7 million in attorney's fees, interest currently totaling \$1.8 million and another \$453,000 in costs.

Securities America is owned by Ameriprise Financial Inc., which bought the company in 1998.



Ads by Google

Advertise on this site

Raise Money for Katrina

Raise more money for Katrina relief with free online fundraising pages.

www.firstgiving.com

Unique Home Designs

Innovative prefab circular homes. Hurricane and tornado resistant!

www.DeltechHomes.com

Hurricane Katrina

KHOU tracks Katrina's aftermath and the evacuation to Houston.

www.KHOU.com