

SEC Chief's Valediction: Beware of the Investment World's Pitfalls

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In his last scheduled speech as Securities and Exchange Commission chief, Arthur Levitt took parting shots at the securities industry, warning investors to be on their guard against a raft of deceptive practices.

During his eight-year tenure as SEC chairman, Mr. Levitt said he has come across numerous "instances in which conflicts of interest cast doubt on the motivation of a broker, analyst or corporate manager; where hidden costs hurt an investor's bottom line; where 'spin' and 'hype' mask the true performance of a mutual fund; and where accounting tricks and sleight of hand dress up a company's financial results."

Mr. Levitt, a Democrat who announced he will step down within a month to make way for a Republican SEC chairman, blasted shady investment practices in the speech, delivered at one of his signature town-hall investor meetings in Philadelphia last night. He also warned investors that it is their obligation to use education as way to gird themselves against potential abuses.

He asked investors to say no to "trading systems or practices that favor brokers

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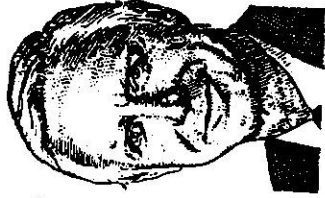
Some of SEC Chairman Levitt's warnings and advice to investors:

Watch Out, Investors!

- Investors are hurt by "spin" and "hype" (that) mask the true performance of a mutual fund." Say "No," warned Mr. Levitt, to:
 - "Companies that play games with their earnings, who practice balance sheet cosmetology."
 - "Analysts that never met a stock that they didn't like."

What Investors Should Do

- "The very first question that a person should ask his or her broker is 'How do you get paid?'"
- "CDs are no longer the safe, straightforward investment vehicle they once were. Brokered CDs now can have 20-year terms, and are often "callable." This means the bank—not you—can redeem them if interest rates fall.



the fund's name, he said.

With mutual funds, he also advised investors not to "get caught up in the past-performance hype" and to watch out for fund managers who inflate returns through portfolio pumping, well-timed stock selloffs that make returns appear better.

Mr. Levitt has been one of the most activist chairmen in SEC history, focusing on new protections for the burgeoning number of small investors. The decade-long bull market, the emergence of the Internet as a source of investment information and the growth of online trading opened the markets to individual investors as never before.

"His deeds matched his words," said Nancy Smith, former director of the SEC's education office and now vice president of investor education at FOLIOIn, a new online broker-dealer.

Mr. Levitt referred in the speech to several new regulations intended to make the markets more fair for all investors, including the controversial Regulation Fair Disclosure, which makes important corporate information more readily available to individual investors, and tougher auditor independence rules. At his urging, the SEC also now requires mutual-fund prospect-

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instead of their customers; to Internet fraudsters ... and those who prey on the elderly by hawking high-risk securities; to analysts that never met a stock that they didn't like; to regulators who take their eyes off the interests of investors, and politicians who care more about corporate interests than individual investors."

Discussing several questionable practices of mutual-fund companies, Mr. Levitt disclosed last night that the SEC recently adopted new rules to prevent firms from using misleading fund names.

Mutual funds with names that suggest the funds hold certain types of investments, such as health stocks or government securities, are now required to have at least 80% of their assets consistent with

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tuses to be written in plain English.

"I don't think anything has been more important than what he's done for individual investors," said Jay Perlman, associate general counsel of Motley Fool, an investment education and advice firm. "This all boils down to fairness. Doesn't the soccer mom investing for her kids' education deserve the same treatment as the Wall Street big shot in the \$900 suit with the bottle of Mylanta in his briefcase?"

Mr. Levitt was the first chairman to hold town-hall meetings as a way to meet regularly with investors outside Washington. During his tenure, he held 42 of these public sessions in more than two dozen cities, giving investors the chance to sound off during unscripted question-and-answer periods.

He irked some powerful Republican lawmakers when he expanded the SEC's office of investor education soon after he became chairman in mid-1993. The office, which employs about 30, created a number of new programs, including a Web site and education tools. One of the most popular investment aids—available on the SEC Web site—is a mutual-fund calculator that helps investors measure the cost and performance of funds.

At least two-thirds of the education-office staff responds full time to investor inquiries and complaints, which have ballooned from 43,000 five years ago to nearly 83,000 in fiscal 2000, ended Sept. 30. Complaints represented about a third of the total number of investor inquiries, most of which dealt with poor service from brokers and online-trading services. The complaint hotline also accounts for about 20% of the enforcement division's leads.

In 1995, a Senate budget-writing panel planned to eliminate the SEC's investor-education program in an effort to trim federal regulatory spending. Sen. Phil Gramm (R., Texas) was a leading proponent of cutting the office and redirecting the funds for improved enforcement of the Investment Adviser Act, a key law concerning securities professionals that advise consumers, mutual funds or others about investments. He believed that consumer-education functions could be handled by state regulators or by self-regulatory groups that oversee markets such as the New York Stock Exchange.

The plan was scuttled after other lawmakers and investor groups lobbied to keep the program. "The cuts were proposed at a time before we had trillion-dollar surpluses. It's not an issue now," said Christi Harlan, a spokeswoman for Mr. Gramm.

Senate and House Republicans recently have begun studying ways to deregulate the securities business. President-elect George W. Bush, who has not yet announced Mr. Levitt's successor, has identified business deregulation as a top priority.

A handful of candidates have made it to the short list for the SEC job, according to people close to the transition planning. The job is being held out as a possible consolation prize to Donald Marron, chair-

man of Wall Street's PaineWebber Group, which recently was taken over by UBS AG. Mr. Marron also had been considered for Treasury secretary.

Others being considered include Rep. Chris Cox (R., Calif.), a former securities lawyer; William Heyman, executive vice president of Citigroup Inc.'s Citigroup Investment Inc.; and Denise Voigt Crawford, the state of Texas's securities commissioner and adviser to Mr. Bush on securities matters.

James Doty, a former SEC general counsel and now a senior partner in Washington at law firm Baker Botts LLP, had been at the top of the list, but is no longer considered to be the leading candidate, according to people with knowledge of the situation.

All the candidates for the job declined to comment.



Journal Link: Read the full text of SEC Chairman Arthur Levitt's speech at a town-hall investor meeting in Philadelphia, in the online Journal at WSJ.com.

Nasdaq to Implement Switch to Decimals In 3 Stages by April

From Jones Newswires

NEW YORK—The Nasdaq Stock Market will take a more-measured approach with its transition to trading stocks in decimals, but it still expects to complete the shift by April.

Nasdaq will make decimalization, as the move away from trading stocks in fractions is called, a three-step process, first switching 10 to 15 of its stocks to decimals on March 12 and then adding more than 100 other stocks on March 26. Nasdaq, which is majority-owned by the National Association of Securities Dealers, will then go full-blast on April 9, the deadline set by the Securities and Exchange Commission for implementing decimal-based quotations.

Previously, Nasdaq was planning to make the jump to decimals in two steps, starting with a small batch of stocks before pushing ahead with the remainder.

But the intermediate March 26 stage was added to give more of Nasdaq's traders and dealers time to get accustomed to the new quotations. Since trading in decimals "takes some getting used to," making the switch in two steps "was not a good idea," said John Panchery, a vice president and the decimals project manager at the Securities Industry Association, Wall Street's main trade group.

A spokesman for Nasdaq said the market remains on schedule to complete decimalization by the SEC deadline.

Under decimalization, stock prices will be quoted in dollars and cents, such as \$10.25, instead of dollars and fractions, such as 10 $\frac{1}{4}$. Prices for stock options are also being converted to decimals.