

Wall Street Events Spur Wave of Investor Lawsuits

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SUMMARY OF ARTICLE

The financial wreck known as Wall Street has spurred a slew of new lawsuits from angry investors who say corporate excesses, bad business decisions and outright fraud on the part of investment banks and big lenders have obliterated their investment portfolios. Investment fraud attorneys cite a report from the Financial Industry Regulatory Authority, or FINRA, which shows its offices received more than 3,000 new arbitration requests as of the end of August - a increase of nearly 40% from just two years ago.

And the number is expected to only get bigger in the days ahead, according to financial analysts and legal experts.

“This isn’t the tip of the iceberg anymore,” said Philip M. Aidikoff, a lawyer at Aidikoff, Uhl & Bakhtiari in Beverly Hills, California, in a Sept. 17 commentary by Susan Antilla on Bloomberg.com. “Now the iceberg is out there - it’s big and everyone can see it.”

For lawyers like Aidikoff who specialize in securities arbitration disputes, the current financial market turmoil has exposed the uglier side of Wall Street. Poor risk management practices, outlandish CEO compensation packages, lax accounting rules, broker misconduct, inadequate federal oversight - all have contributed in one way or another to the financial crisis facing the country and to more investors taking legal action to hold investment banks and brokers responsible for their financial losses accountable.

Complaints by many of these investors focus on brokers who placed investors in unsuitable investments or misrepresented the true liquidity risks of their investments. On Sept. 15, Aidikoff says he reviewed account documents for one particular investor - a retiree - whose broker convinced him to use proceeds from a maturing certificate of deposit to purchase shares of Fannie and Freddie.

“The broker told him it’s government-backed,” says Aidikoff in the Bloomberg article. “He told him there was upside and no real downside.”

It turns out the downside was very significant. In the past year, shares in Fannie Mae and Freddie Mac have plummeted drastically, losing more than 90% of their value. On Sept. 7, the two mortgages giants were seized by the federal government, and placed under a conservatorship. In the process, as much as \$200 billion of taxpayers’ money was committed to the two companies.

At the time, the Fannie Mae-Freddie Mac bailout was the largest in U.S. history, and followed the government’s rescue of investment bank Bear Stearns, which was later sold to JPMorgan Chase in a deal engineered and backed by nearly \$30 billion in government financing.

Each of these deals pale in comparison, however, to the government’s latest \$85 billion rescue of American International Group (AIG), nation’s largest insurer.

For many investors, the idea of giving a helping hand to resuscitate companies mired in corporate scandals and mismanagement is a bitter pill to swallow. As the leaders of these companies repeatedly took reckless financial risks with investors' money, thousands of individuals saw their life savings vanish - which is the very reason many are now heading to court.

Our affiliation of securities lawyers is actively involved in advising individual and institutional investors in evaluating their legal options when confronted with subprime and other mortgage-related investment losses.