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Morgan Keegan fights tough against former fund investors

By Ted Evanoff

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Morgan Keegan & Co. changed hands in early April, but one policy hasn't changed for the old Memphis investment firm -- the fight against riled mutual fund clients.

Lawyers defending Morgan Keegan in arbitration hearings are waging what an opposing attorney calls a "scorched-earth policy."

It includes barring from the hearings any reference to the $210 million SEC fine levied last June, and appealing most setbacks in arbitration to federal court.

Several hundred arbitration requests were filed after the once-soaring funds plunged in value, costing Memphis investors alone an estimated $1 billion.

Officials at Morgan Keegan, which was purchased by Raymond James Financial Inc. on April 2, maintain the 2008 collapse of global financial markets ruined its mutual funds. Irked clients insist Morgan Keegan misled them by investing their money in toxic housing bonds.

Arbitrators have sided with the Memphis firm in four of six disputes settled in recent weeks, although an Atlanta-area couple prevailed on Friday.

Donald and Judith Hausfeld were awarded $402,101 plus eight years' worth of interest that would bring the total to about $523,000. The couple had sought $629,000, including $31,000 to pay their lawyers, the Florida law firm of Sonn & Erez.

Lawyers for the firm said they relied on testimony from an Alabama regulators' case against Morgan Keegan, but could not cite the U.S. Securities and Exchange Commission probe. That led to a settlement in which Morgan Keegan paid the fine and admitted no errors.

Arbitrators generally offer no explanation for a ruling, so it's not clear why one plaintiff wins and another loses.

Panelists are generally financial industry professionals chosen by the Financial Industry Regulatory Authority from a revolving pool of volunteers. FINRA is an organization in Washington created by the securities industry to police member firms.

Jeffrey Sonn, a partner at the Fort Lauderdale firm, said he expects Morgan Keegan will appeal the Hausfeld decision, as it has most such adverse rulings in the past.

"Morgan Keegan, unlike most banks on Wall Street, has sought to appeal virtually every decision that goes against them in arbitration," Sonn said. "We don't normally see this. They've been engaged in a scorched-earth policy."

Because appeals are made in federal court, some mutual fund clients and their lawyers have settled with Morgan Keegan rather than pursue the case and run up large legal bills.

Raymond James, based in St. Petersburg, Fla., has shown no signs it intends to amend the policy. Company officials were not available Monday for comment.

Prior owner Regions Financial Inc. agreed to shoulder ongoing legal costs once the Memphis firm was taken over. Regions, a bank based in Birmingham, earlier earmarked more than $300 million for Morgan Keegan legal bills, including a pair of class-action lawsuits pending in federal district court in Memphis.

Late last year, Morgan Keegan reported investors had tried or abandoned 331 arbitration cases seeking $165 million. Among the cases that were tried, about half the claims were rejected by arbitration panels.

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