

STOCKS | *Brokers Who Take the Money and Run*

# Cheated California investors get no satisfaction

In 1999, the persistent groan from his aching knees persuaded Karl Taylor to quit the job that had him sampling crude and trading concrete for 26 years at the Exxon refinery in Benicia.

He was only 55. But his frugal nature and stash of Exxon stock put Taylor in envious shape for spending his remaining days at leisure in Mendocino County.

His broker told him so. And "we counted on him knowing what he was talking about," explains Taylor, "because we didn't."

But rather than pursue the conservative investment plan he had outlined for Taylor, the broker sold Taylor's assets and bought shares of high-risk, high-tech issues.

You can guess what happened next.

Now living in a trailer on his

son's property, Taylor figures he has enough money to survive only through July.

His lawyer, San Francisco's Jeffrey Feldman, says Taylor also has a rock-solid case against the broker for choosing "unsuitable investments."

Unfortunately, there isn't a damn thing Taylor can do about it.

That's because Taylor, like thousands of California investors ruined by crooked brokers, have nowhere to go with their legal complaints.

The courts? Forget it. Virtually all investors sign away their constitutional right to sue in court when they open accounts with securities brokers.

Arbitration? You might think so. Brokers often force customers to resolve disputes through binding arbitration, a private system of



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justice run by the nation's two largest securities exchanges, the New York Stock Exchange and the National Association of Securities Dealers.

But the exchanges, in an act of political brinkmanship and contempt for California law, have denied investors even that crumb of legal redress.

The hang-up is a strict new

code of ethics the state imposed on arbitrators on July 1.

Part of the code requires arbitrators who deal with consumers to disclose any potential conflicts of interest, including, for example, any relationship between an arbitrator's family and parties to a dispute. If the parties don't like what they hear, they can boot the arbitrator.

The new rules are necessary because too many stockholders and other consumers have been forced into arbitration without knowing whether the arbitrator — the judge, in effect — is in their opponent's pocket.

But the stock exchanges don't like the new ethics code. They say they have their own rules that are perfectly acceptable in every other state, thank you very much, and where does California get off try-

ing to make the arbitration process fairer?

The exchanges dislike the code so much that they demanded to be exempted. When the state Legislature refused, the exchanges stopped appointing arbitrators to hear cases in California. On July 22, they sued to overturn the code, stranding the likes of Karl Taylor.

And where do the watchdogs at the Securities and Exchange Commission stand on this issue? Right behind the stock exchanges. They say the ethics rules "will unnecessarily burden" arbitrators, a remarkable statement from an agency so fond of touting its crackdown on shaky corporate ethics.

Meanwhile, Karl Taylor, unable to sleep, his wife racked with arthritis brought on by the stress of precarious finances, sits in a

trailer in Benicia, waiting for word of a hearing on his case.

So far, Taylor says, he is getting by. He works part-time at the Shell oil refinery in Martinez. He says he is better off than former co-workers, many over 65, who "lost practically everything" to the same broker and languish in arbitration limbo.

But what really gets Taylor, what makes no sense in this era of corporate malfeasance revealed, is the reluctance of regulators to embrace the honesty and transparency that allow capital markets to thrive.

"It would seem to me," he says quietly, "that the stock exchange should be willing to submit to a better ethics code."

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