

Lawsuits Imminent on Behalf of RMK Investors

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The Memphis Daily News - Lawyers from four firms across the U.S. are working together to investigate the management and performance of several Regions Morgan Keegan mutual funds.

As a result of that investigation, as many as a dozen complaints are expected to be filed in the near future on behalf of investors who've seen the value of their investments in those funds plummet dramatically. If other investigators and lawyers are looking into the funds too, still more complaints could be on the way.

Losses

Last month, an Indiana charity filed an arbitration claim with the Financial Industry Regulatory Authority against one of the funds. A federal lawsuit was filed by two investors last week in Memphis, according to The Daily News Online, www.memphisdailynews.com.

The lawsuit filed in U.S. District Court for the Western District of Tennessee last week seeks to become a class action covering investors who bought shares of the Regions Morgan Keegan Select Intermediate Bond Fund and Select High Income Fund between Dec. 6, 2004, and Oct. 3, 2007.

"We make it a policy not to comment on litigation matters," said Kathy Ridley, a spokeswoman for Morgan Keegan, responding to the suit Friday afternoon. "We just received a copy of the complaint today and our legal department is reviewing it."

Because of their exposure to the battered subprime mortgage market, many of the funds in question have lost at least half their net asset value this year. The funds are overseen by Morgan Asset Management, a Memphis-based arm of Morgan Keegan & Co.

The chief fixed income investment officer with Morgan Asset Management who manages the funds is Jim Kelsoe. For years, the funds managed by Kelsoe produced investment returns rivaled by few of their top-tier competitors.

"But they outperformed everything for a reason," said Thomas Hargett, an Indianapolis lawyer with Maddox Hargett & Caruso PC, one of the firms now investigating the battered Regions Morgan Keegan funds for allegedly glossing over their investment risks, among other reasons.

"This is one of the most important truths on Wall Street: When you outperform your peers, it means you're taking on more risk than they are."

Complaints coming

The four-firm legal team looking into the funds includes Aidikoff, Uhl & Bakhtiari of Beverly Hills, Calif.; Maddox, Hargett & Caruso, with offices in Indiana and New York; Page Perry LLC, of Atlanta; and David P. Meyer & Associates Co. LPA, of Columbus, Ohio.

"We've been retained by almost a dozen people to bring complaints, and a couple dozen other people are talking to us now about the same thing," Hargett said.

Ultimately, several class actions will be filed on behalf of investors in the troubled mutual funds, he added.

"A stockbroker, when you boil it all down, has two duties," Hargett said. "They need to assess what investments are appropriate for their clients, and they need to then select the investments that those requirements dictate.

"In that investment selection process, the law requires that you accurately and adequately explain the investment to those investors so they have the ability to make informed decisions. Where Regions Morgan Keegan unequivocally fell down is they did not describe to the public the risks associated with investments in these funds, period."

Lawrence Jones, an analyst with Chicago-based investment research firm Morningstar Inc., echoed that sentiment in an earlier interview with The Daily News.

"Regions Morgan Keegan has not been quite as open and forthcoming with information during this whole period as we would have liked them to be," he said. "This should be front and center. Investors want to know what's going on."

Judging by action taken so far and by the lawsuits soon to be filed, investors by and large either have been kept in the dark or generally were unaware of the types of risky securities and investments that made up a large part of the funds in question.

"I spoke to a gentleman last week who lost about \$600,000 in one of the closed-end funds, and that represented a good portion of his retirement savings," said attorney Ryan Bakhtiari, another member of the legal group investigating the Regions Morgan Keegan funds.

GRAPHIC: SUBPRIME LOSSES: Four law firms from across the country are cooperatively representing people who've lost money in investments that had exposure to the subprime mortgage market, including several Regions Morgan Keegan funds. A Web site that explains their work, shown above, can be viewed at www.subprimelosses.com.