

ANDREW STOLTMANN UNWEAVES A 'TAPESTRY OF FRAUD'

THE FORMER BROKER FIGHTS BACK FOR VICTIMS OF BAD INVESTMENT ADVICE BY LAUREN PECK

After landing his J.D. and joining a securities law firm, former stockbroker Andrew Stoltmann was eager to publicize the widespread problems he'd seen while working in the financial industry, such as churned accounts and risky investment recommendations.

The problem was getting anyone to listen.

When Stoltmann—who would go on to win a \$1.46 million award against a brokerage for Chicago Bulls legend Horace Grant—went before the Financial Industry Regulatory Authority in those pre-financial meltdown days, he emphasized that fraudulent practices went beyond an individual broker or brokerage firm. They permeated the industry's model. But FINRA—which regulates the industry and manages arbitration in fraud cases—wasn't hearing him.

"They used to always argue, 'Oh, these are just micro-problems,'" Stoltmann says. "I said, 'It's bigger than that. It's lack of supervision; it's complete and utter greed. It's executives who don't care about the customer that are taking massive risks with other people's money.'"

Then, in 2008, the financial crisis hit. "All of a sudden people started saying, 'Wow, maybe Stoltmann wasn't as crazy as we thought he was!'"

Today, Stoltmann runs his own securities law firm, Stoltmann Law Offices, where he has advocated for victims of investment fraud since 2005. The Chicago attorney has taken on some of the biggest names in the business, including Morgan Stanley, Merrill Lynch and LPL Financial.

Stoltmann was drawn to investments in the early 1980s, when he saw his father fall prey to a real estate scam and lose \$80,000. "We came real close to losing our house; it had a devastating impact on our family," he says.

He decided to become a financial adviser. But after his stint as a broker left him disillusioned, Stoltmann turned to a career in law to help fraud victims.

"You think you're financially secure, and

then some broker recommends a fraudulent investment or carelessly recommends that too much of your money go into really risky investments. If that money is lost, the results are absolutely devastating," he says. "Getting those folks their money back, their retirement savings back, their life savings back, is an extraordinarily great feeling."

In 2008, Stoltmann represented Grant in an arbitration case against brokerage firm Morgan Keegan & Co. Grant had invested in supposedly safe mortgage-backed bond funds from the firm—which at the time owned the sports agency that represented Grant—but the funds lost much of their value in 2007 and 2008.

In September 2009, arbitrators ordered Morgan Keegan to pay Grant \$1.46 million, but the brokerage made the rare decision to challenge the award. Its motion to vacate failed, Morgan Keegan appealed, and the 9th Circuit upheld the arbitration award in October 2012.

"I think Morgan Keegan wanted to discourage other people from filing a claim, and what better way to do it than putting Horace Grant through the ringer like that?" says Stoltmann, who has filed some 100 cases against Morgan Keegan, recovering more than \$25 million.

Stoltmann says he relished the challenge of his arbitration cases, which included allegations of misclassifying the risks of securities and using marketing materials that contradicted warnings in investment prospectuses.

"What I argued to arbitration panels is there was a tapestry of fraud, and it was my responsibility ... [with] some of the most complicated investments possible, [to] break them down into bite-size pieces," he says. "There were few better feelings than seeing the light bulb go on over the head of the arbitrators after about the second day or third day of the arbitration hearing. Because once that light bulb went on, I knew Morgan Keegan's goose was cooked."

A growing part of Stoltmann Law's practice is devoted to representing



professional athletes in investment fraud lawsuits. "These athletes are 'taken' all the time," Stoltmann says. "You can't give a 21-year-old kid 10, 20, 50, a hundred million and expect them to be able to financially manage that when you have bad brokers, bad bankers, bad CPAs whispering in their ear what to do."

While investment fraud keeps him in business, Stoltmann worries about the problems he sees over and over again, including lack of due diligence and proper broker supervision from firms, and a business model that allows brokers to earn the highest commissions by selling riskier products.

"So long as you're producing, you're a hero," he says. "It's a massive conflict of interest. It would be like if a doctor got paid for recommending really risky surgery or really risky medication when there was a far safer, far less risky medicine."

He's frustrated that no bank or brokerage firm executives went to prison in the wake of the financial meltdown. "It's just absolutely stunning. The message that that sends to banks and brokerage firms is continue doing what you're doing," he says. "I feel like I'm in the movie *Groundhog Day*."

Stoltmann's solution? "One of the biggest things they could do is impose a mandatory absolute fiduciary duty on every single broker who recommends something to a client. ... And number two: just strict enforcement of the federal and state securities laws," he says. "There's nothing that gets the attention of rational, smart businessmen [like] the real prospect of a 10-foot-by-12-foot jail cell." [B](#)