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The Financial Decade in Review

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From disturbingly innovative financial scandals to the worst economic downturn since the Great Depression, the closing decade could down in the history books as the terrible 2000s. Here is a look at the highlights.

Dot-Com Bubble Peaks March 10, 2000

In 1990, no one knew what a dot-com was, but by March 2000, the dot-com bubble had grown so big it was about to pop. The Internet held so much — some would say too much — promise. Anyone who could build a web site or Internet-related company of any sort had the chance to make it big. Funding was aggressively pushed into start-ups through venture capital and initial public offering proceeds with the promise of profits that in most cases would never materialize.

In the year leading to the burst of the tech bubble, Federal Reserve Chairman Alan Greenspan raised the Fed's key rate several times. The Nasdaq more than doubled in a year, peaking on March 10, 2000, at 5132.5, before things reversed course.

On the Monday following the weekend of March 10, large sell orders in major tech stocks helped trigger a jolt in the Nasdaq. On top of that development, there were disappointing fourth-quarter results, a letdown after Y2K preparation spending and rising interest rates, all of which changed the environment rapidly.

Terrorists Strike World Trade Center Sept. 11, 2001

Nearly 3,000 lives were lost on Sept. 11, 2001, and in many ways Americans are still living in the shadow of that day — especially in the aftermath of a Nigerian man's plan to blow up an airline this year on Christmas. The impact of Sept. 11 was seen immediately in financial markets. The Dow Jones Industrial Average closed at 9,606 on Sept. 10 and dropped 685 points when markets reopened on Sept. 17 — the third-largest single-day drop in points in the index's history.

By Nov. 9, the Dow had climbed back to pre-attack levels, but the financial world also suffered in more lasting ways. Investment bank Cantor Fitzgerald lost 658 employees, the largest number of casualties suffered by any organization, including the New York Fire Department. More than 430 companies from 28 countries had offices in the World Trade Center, including Lehman Brothers, Morgan Stanley and many other financial institutions. Economists from the Federal Reserve Bank of New York estimated that New York City lost between \$3.6 billion and \$6.4 billion in jobs and work-hour reductions in the immediate aftermath of the attacks.

Enron Declares Bankruptcy Dec. 2, 2001

Unable to financially support itself amid an elaborate but collapsing scam, Enron filed for bankruptcy protection on Dec. 2, 2001. It became one of the largest companies to file for Chapter 11 in corporate history.

"While uncertainty during the past few weeks has severely impacted the market's confidence in Enron and its trading operations, we are taking the steps announced today to help preserve capital, stabilize our businesses, restore the confidence of our trading counterparties and enhance our ability to pay our creditors," said CEO Kenneth Lay in a statement that day.

It was no small shock. Twenty-one thousand people lost their jobs. Auditing practices were changed. And, eventually, the word Enron became synonymous with corporate fraud and white-collar crime.

Signs of the company's collapse started in mid-October, when Enron revised its assets by \$1.01 billion and froze its 401(k) retirement plan. Two days later, CFO Andrew Fastow was forced to leave. By Oct. 22, Enron had announced that the U.S. Securities and Exchange Commission had begun an inquiry into its accounting practices, and by Nov. 9, the company had announced that it overstated profits by \$586 million over five years. Nevertheless, Enron continued to reassure investors and employees alike that everything was OK.

Just how fooled was the world? Fortune had named Enron the most innovative company in America for six years straight, through 2000, a year before the web of lies began to suffocate Enron executives. In May of 2006, Lay, the former CEO, and Jeffrey Skilling, the former president, were both convicted in the case. Skilling is serving a 24-year, four-month sentence in federal prison in Colorado; the U.S. Supreme Court will review the case in early 2010. Lay died of a heart attack before he could be sentenced.

Sarbanes-Oxley Act Enacted July 30, 2002

Corporate fraud and white-collar crime stemming from the Enron, Tyco, Adelphia and WorldCom cases paved the way for new regulation of publicly traded companies.

Among the new folds of red tape was Sarbanes Oxley, or SOX, named after former Sen. Paul Sarbanes and Rep. Michael Oxley, passed on July 30, 2002.

"This law says to every American: There will not be a different ethical standard for corporate America than the standard that applies to everyone else," said President George Bush upon signing the act.

The first two of 11 titles in the law establish the Public Company Accounting Oversight Board, or PCAOB, which oversees accounting firms auditing public companies and require that public companies have external, independent

auditors who may not provide other services.

Other titles established accountability for reporting of all important financial events by key executives and auditors, and a code of conduct for securities analysts, and upped the penalties all around for corporate scandal.

The requirement for public companies and their external auditors to report on the company's internal controls over financial reporting in particular added to new expenses to comply with SOX. Some criticisms of SOX are that such related costs and red tape resulted in a migration of new listings to foreign exchanges as companies found it too onerous to be publicly traded in the U.S. Some expenses have sense been relieved by adjustments to the regulation.

Ben Bernanke Nominated Fed Chief Oct. 24, 2005

When President George W. Bush appointed a successor to the then-revered Alan Greenspan, soft-spoken Princeton professor Ben Bernanke was a low-key academic economist — highly respected and best known for his scholarly work on the Great Depression. That background came in pretty handy.

Bernanke, who had served as a member of the Board of Governors of the Federal Reserve System from 2002 to 2005, and was chairman of the President's Council of Economic Advisers, from June 2005 to January 2006, stepped in just as America's credit bubble was pricked by the subprime mortgage pin. As the financial crisis worsened, Bernanke would take unprecedented steps to shore up ailing financial institutions, often eliciting louder criticism than praise. And the following phrase would become a mantra in his speeches and statements: "The Federal Reserve will continue to use the tools at its disposal to improve market functioning and liquidity."

One of those tools was the Trouble Asset Relief Program, which facilitated heavy lending to rescue financial titans deemed too entrenched in the global financial system to be allowed to collapse — or "too big to fail."

Options Backdating Scandal Breaks June 12, 2006

Wall Street got another black eye in 2005-06, when attention shifted to the practice of options backdating, a tool used to offer executives additional compensation, and a practice shareholder advocates say victimizes the little guy.

Here's how it worked. Stock options were given to an employee, usually a top executive, at a certain price. By dating the options prior to lower price points, boards were effectively increasing their value when executives decided it was time to

sell the actual stock.

On June 12, 2006, The Wall Street Journal reported that the job search web site Monster.com had almost certainly dated stock options given to James J. Treacy, one of the company's top executives, in order to maximize profits. "A Wall Street Journal analysis puts the odds at about one in nine million that a pattern of grants as favorable or more favorable than Mr. Treacy's would have occurred if the dates were selected randomly, without regard to stock price," The Journal wrote. Andrew McKelvey, Monster's founder and chief executive accepted full responsibility for the misstep.

The SEC would investigate at least 130 companies for the practice; firms from Activision Blizzard to Zoran eventually restated their results, often causing stock prices to fall sharply. Former Apple Chief Financial Officer Fred Anderson and former Apple general counsel Nancy Heinen were two of the most visible executives investigated; founder Steve Jobs and Dell founder Michael Dell had their reputations tarnished in the fallout. About 50 executives were fired or resigned in the scandal's wake.

But it was the shareholders who were hurt, says Paul Hodgson, senior research analyst at the Corporate Library, an independent watchdog group. "They were the one who thought they held stocks at a certain value, that had made certain profits," he says. "But once it those were restated, they had lost value."

Dow Falls 778 Points in a Day Sept. 29, 2008

By late September 2008, dozens of mortgage lenders had failed, regular banks were floundering and Wall Street pillars like Bear Stearns and Lehman Brothers had become acquisition targets, trading at fractions of their year-ago values.

On Sept. 15-16, the Reserve Fund, a money-market fund, "broke the buck," as its shares dropped below \$1 while investors pulled their money out. About \$150 billion was pulled from U.S. money funds over two days, shaking confidence in the foundation of the financial system.

On Sept. 15, Lehman went down in flames, despite the desperate pleas of management for some form of rescue. On the same day, Bank of America said it would buy Merrill Lynch. On Sept. 26, Washington Mutual filed for bankruptcy.

Two days later, sellers sent the Dow Jones Industrial Average plummeting 778 points, the largest single-day loss in the history of the index. The Dow would bounce back a day later, but the uncertainty over the value of its components' assets remained. The index fell into a tailspin and has not yet fully recovered.

Barack Obama Elected President Nov. 4, 2008

Barack Obama was elected the 44th President of the United States on Nov. 4, 2008. The Dow Jones Industrial Average dropped 477 points the following day to close at 9,139 – but it will take more than a one-day blip to gauge the president's lasting impact on the financial world. During his acceptance speech in Chicago, the president struck a gently populist note when referring to the economic events that shaped the last months of his campaign: "If this financial crisis taught us anything, it's that we cannot have a thriving Wall Street while Main Street suffers," he said. More pointedly, in an interview with "60 Minutes" aired on Dec. 14, he said, "I did not run for office to be helping out a bunch of fat cat bankers on Wall Street."

Whether Obama's populist comments lead to long-term changes in the financial world remains to be seen. Legislation currently working its way through Congress may ultimately impose new capital and leverage requirements on large financial institutions and create a new Consumer Financial Protection Agency. For now, however, not much has changed, and "some people think there's more risk today than there was before," says Elliot Weissbluth, the CEO of HighTower Advisors. Systemic change takes time, however, and may yet be on the way, Weissbluth says.

Bernard Madoff Sentenced to Prison June 29, 2009

Confessed fraudster Bernard Madoff pled guilty on March 12, 2009, to 11 federal charges stemming from his \$65 billion Ponzi scheme — believed to be the biggest such fraud in history. On June 29, he was sentenced to 150 years in prison. The list of his victims included New York University, the Massachusetts state pension fund, Sen. Frank Lautenberg, actor Kevin Bacon, CNN host Larry King, and thousands of others.

Post-Madoff, the Securities and Exchange Commission has stepped up its efforts to investigate and prosecute Ponzi schemers. In 2007 and 2008 combined, the SEC brought 70 Ponzi scheme cases.

Will this cautionary tale have a long-term impact on other investors? "I think that investors have very short attention spans, so they forget well-learned lessons," HighTower's Weissbluth says. "If Madoff was the first Ponzi scheme of his kind, I would perhaps have a different opinion, but it's one of hundreds of Ponzi schemes that have resulted in people losing their investments."

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