

She had a plan to take care of her elderly mother. The plan seemed logical. The plan appeared to be conservative and financially sound.

She was wrong.

Linda Plank of Navarre wanted to be sure there was enough money to meet the healthcare needs of her 84-year-old mother, who is suffering from dementia. The doctors had said her mother needed to live in an assisted living facility. Linda wanted to be sure there was money available to make her mother's last days comfortable.

To pay for her mother's care and supplement what the social security checks couldn't cover, Linda sold her mother's home. She and her husband Don took the check from the proceeds of the sale, \$187,000, directly to the Morgan Keegan investment advisor who her mother had always used. The advisor put the money into the RMK Select Intermediate Bond Fund.

"My mother had an annuity with Morgan Keegan," says Linda. "We wanted to make another conservative investment. The whole idea was to subsidize her health care and pay for what her social security would not."

Linda and Don took notes when they met with the advisor. Referring to those notes, she says, "He told me that I shouldn't have any concerns about the investment at all. When I mentioned putting part of it in CDs, he kind of laughed at me. 'No, no, you don't want to do that,' he said."

"I really took his advice."

Less than 18 months later, when the Planks pulled out of their Morgan Keegan funds, that "safe, conservative" investment had lost nearly half its principal. The Planks had become victims,

along with hundreds, maybe even thousands, of investors who had bought into the high yield bond funds once run by Morgan Keegan's Jim Kelsoe; the manager at Morgan Keegan's asset management unit based in Memphis, Tenn.

SUPERSTAR KELSOE

Jim Kelsoe, 45, was the one of the nation's top-ranked bond fund managers from 2000 through 2006. The University of Alabama graduate worked for Morgan Asset Management, the investment advisory arm of Regions Financial Corporation. He started managing the Select High Income funds for Morgan Keegan in 1999. Regions bought Morgan Keegan in 2001.

Under Kelsoe's management, the funds rose 17 percent in 2000, 18 percent the following year and 11 percent in 2002, doing better than 99 percent of its competitors. From his Memphis office, Kelsoe watched his funds rise at an average of 12 percent each year, compared with 2.2 percent for the Standard & Poor's 500 Index of U.S. stocks.

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He was a superstar. While other managers of high yield bond funds concentrated in junk corporate bonds, Kelsoe built his success on bonds associated with subprime mortgages.

Subprime mortgages are loans made to borrowers with lower credit ratings that can't obtain a conventional mortgage because the borrower is viewed as having a larger-than-average risk of defaulting on the loan. Lending institutions often charge interest on subprime mortgages at 200 basis points higher than prime loans. The subprime loans are done with little or no down payment and have a high loan to property value ratio. In 2006, about 25 percent of all loans originated were subprime.

FINANCIAL METH LAB

Banks and lenders didn't keep these subprime mortgages on their books long. They bundled them up and sold them to investors in a process that some financial analysts have called a "financial meth lab."

Thousands of risky notes and mortgages were packaged together into Collateralized Debt Obligations (CDO), an unregulated type of security that is difficult to value and monitor because of its complexity. From 2003 to 2006, new issues of CDOs securities had increasing exposure to subprime mortgage bonds. In 2006, \$200 billion in CDOs were issued, with an average exposure to subprime bonds of 70 percent. As delinquencies and defaults on subprime mortgages rose to record levels, CDOs experi-

enced severe rating downgrades and huge losses.

In July 2007, two hedge funds managed by now-defunct Bear Stearns, once a top U.S. investment bank, faced cash or collateral calls from lenders that had accepted CDOs backed by subprime loans as loan collateral. Both lost nearly all their investors' capital, close to \$1.6 billion, and had to file for Chapter 15 bankruptcy.

On October 24, 2007, Merrill Lynch reported third quarter earnings that contained \$7.9 billion of losses on collateralized debt obligations. Six days later, Stan O'Neal, Merrill Lynch's CEO, resigned, reportedly due to his involvement in the CDO crash.

As mortgage defaults soared and the subprime mortgage crashed in 2007, the full impact of Kelsoe's intoxication with CDOs hit the seven funds that he managed. The hangover had set in. The funds lost 51 to 90 percent of their value. One, the Regions Morgan Keegan (RMK) Select High Income Fund, fell 60 percent in 2007 and was ranked last among all high yield funds, according to Morningstar. This year it has lost an additional 31 percent and remains last. In contrast, the average high yield fund rose 1.5 percent in 2007 and is up 0.4 percent this year.

The CDOs that were in the portfolio of the RMK Select Intermediate Bond Fund that were represented to be worth millions in early 2007 plummeted to values of a few thousand dollars in 2008. For example, a Palmer Square CDO was valued by the fund at \$7.84 million on June 30, 2007. It was revalued to only \$20,000 on March 31, 2008.

Kelsoe reportedly left Morgan Keegan in March. On July 29, fund shareholders voted to replace Morgan Keegan as the manager with Hyperion Brookfield Asset Management, a New York investor advisor with a strong background in asset-backed securities investing and that manages \$21 billion in fixed-income assets for pension funds, insurance companies and foundations. Hyperion will manage all seven funds that were once under Kelsoe's control: RMK Advantage Income Fund, RMK High Income Fund, RMK Multi-Sector High Income Fund, RMK Strategic Income Fund, RMK Select Short Term Bond Fund, RMK Select Intermediate Bond Fund and RMK Select High Income Fund.

INVESTORS UNAWARE

Morgan Keegan and its sales force aggressively sold the "high income" fixed income funds managed by Kelsoe. They emphasized the safety of the investment.

Sales materials, dated Sept. 30, 2006, on the RMK Select Intermediate Bond Fund that was provided by Morgan Keegan to prospective customers described the funds as being for an investor whose objective is "capital preservation and income." The materials state that the fund provides "a greater stability in principal value than long-term bonds" and "a diversified portfolio of investment grade debt instruments."

"This is simply not true," says Levin Papantonio attorney Peter Mougey, who plans to file 200 arbitration claims by area investors against Morgan Keegan. "The funds were anything but stable and had too much of their portfolios tied to the subprime market."

Mougey believes that Morgan Keegan's investment advisors targeted seniors and retirees.

MORGAN KEEGAN FUND MELTDOWN



"Morgan Keegan investment advisors made regular office visits to various Regions Bank branches in the area and would focus on customers with certificates of deposits or those who had come into reasonably large sum of money, like from selling property, and convince them to invest in the Regions Morgan Keegan funds run by Kelsoe.

"One advisor described the funds as being 'your grandmother's bond fund,' meaning there was little or no risk of the principal. Even after the crash of the bond funds had begun and the large institutional investors were selling off their shares, the advisors were telling the seniors and small investors not to worry and that the fund would regain its value."

Instead, many lost in the matter of a few months nearly everything that they had invested in the funds and that had taken decades to save.

"These are widows and retirees that have lost their safety nets," Mougey says. "They have no way to go out and earn the money to build back up what they lost. Their trust was betrayed by those who are required by law to only sell to their clients investments that meet their risk and income requirements."

"THESE THINGS HAPPEN"

The Planks bought into the RMK Select Intermediate Bond Fund in September 2006. At first, everything seemed fine. In fact, their investment advisor pushed them to liqui-

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date more of her mother's assets to put in the fund.

"He called and said that I should liquidate anything of mother's that was paying less than five percent," Linda says. "He believed that we would conservatively make at least six percent on her money if we put it with him. So we gave him \$18,000 at the end of 2006 and another \$18,000 in the beginning of 2007."

The Planks had no idea the fund's portfolio had anything to do with the subprime mortgage market. "We were told that they were Triple A-rated bonds," she says.

When the March 2007 statement from Morgan Keegan came in the mail, the Planks saw a drop in the value of their investment. The decreases continued month after month.

"I was concerned and called our investment advisor every month," she says. "I told him that I was worried that we wouldn't meet the goal of having money for my mother's health care. He continued to assure me that everything was fine. He told me, 'These things happen.'"

"One time he told me to stop being a worry wart."

Finally, in the fall of 2007, Linda got a call from a secretary in the local Morgan Keegan office telling her that they needed to immediately move their investment, which by that time was down to \$147,686, to another Morgan Keegan fund. She did, but that fund also continued to lose value.

"When I complained," she says "Our investment advisor told me that he had people who had lost a whole lot more money than me, which didn't make me feel any better."

By January 2008, the Planks had had enough and pulled out of Morgan Keegan entirely what was left of her mother's money, \$139,400. Linda visited with local officials of Morgan Keegan and tried to get resolution. She filled out the paperwork that they gave her. In June, she received a letter from an associate attorney of Morgan Keegan telling her that the company was denying her claim.

"Basically, they said that the investment advisor didn't

say any of the things in my letter to Morgan Keegan," she says. "That was very traumatic for me because I thought we would be alright as long as we dealt with the facts, but it was if they were saying that I was lying."

On the advice of her mother's attorney, the Planks sought the help of Mougey, who plans to file a claim on behalf of the Planks with the Financial Industry Regulatory Authority. They believe they were misled about the true risks of the fund in which they put her mother's money and hope to recover at least a portion of what was lost. A Morgan Keegan spokesman in the corporate headquarters declined comment, citing corporate policy not to discuss pending litigation.

Today, Linda Plank is uncertain how she and her husband will pay for her mother's care.

"There's a lot of emotion. I take care of everything for my mother, and I battle the feeling that I let my parent down."

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RMK Select Funds: (price per share)

Select High Income Fund (NYSE: MKHIX)

8/11/06 \$10.15

8/10/07 \$7.29

8/11/08 \$1.18

Select Intermediate Bond Fund (NYSE: MKIBX)

8/11/06 \$9.85

8/10/07 \$8.85

8/11/08 \$0.99

Select Short Term Bond Fund (NYSE: MSBIX)

8/11/06 \$10.01

8/10/07 \$9.84

8/11/08 \$4.36

RMK Funds:

RMK High Income Fund (NYSE: RMH)

8/11/06 \$17.45

8/10/07 \$9.58

8/11/08 \$1.73

RMK Advantage Income Fund (NYSE: RMA)

8/11/06 \$16.95

8/10/07 \$9.60

8/11/08 \$1.70

RMK Multi-Sector High Income Fund (NYSE: RHV)

8/11/06 \$16.85

8/10/07 \$10.43

8/11/08 \$1.38

RMK Strategic Income Fund (NYSE: RSF)

8/11/06 \$17.10

8/10/07 \$9.47

8/11/08 \$1.53