

Credit Suisse First Boston has launched a first-ever external annual review of the firm's strategy designed to help the brokerage stay competitive amid rapid management reshuffles and falling market share. Brady Dougan, CEO, has hired McKinsey & Co. to review the firm's client focus, structure and compensation across businesses. It will report its findings to the strategic review group headed by Wilson Ervin. Results are scheduled to be announced at a shareholder

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For breaking news and updates during the week, check www.wallstreetletter.com

At Press Time

Schwab Names Compliance Chief

Charles Schwab Corp. has named **Bari Havlik** as new global head of compliance, replacing **Selwyn Notelovitz**, who resigned last month (WSL, 10/25). Havlik joined Schwab's compliance department as a senior v.p. earlier this year. She formerly worked for **Bank of America** as a compliance officer in Asia. Havlik's appointment was announced internally last Monday. She did not return calls.

Smells Like Trading Floor?

Designer Launches Street-Inspired Scent

Wall Street will have its own fragrance this week, thanks to **Laurice Rahme**, the New York designer at **Laurice & Co.**, who debuts the perfume as part of her **Bond No. 9** line of 21 NYC-inspired perfumes. It does not smell like money, but purchasers will feel it in their wallets: it's going for \$190 for a 3.4 oz. bottle.

The fragrance combines sea kale, cucumber and lavender to reflect the Street's proximity to the waterfront and the emergence of a residential neighborhood nearby, the designer said. Rahme did not want to create a "white-shirt, masculine scent," so she took her inspiration from the neighborhood itself, she said. Other perfumes include **Riverside Drive**, **Broadway Nite** and **Gramercy Park**. Her original perfumes are sold at 9 Bond Street in New York and online retailers.

Scaled-down SIA Confab To Focus On Election, Reform

The **Securities Industry Association** will hold its shortest-ever annual meeting at its usual venue, the **Boca Raton Resort & Club** in Boca Raton, Fla. this week. The meeting, which will run from Wednesday night till midday Friday, is shortened by a full day from previous years when the high-profile confab was held from Thursday through Saturday. **Don Kittel**, executive v.p. said "The attendance at last year's Friday night [event] was off, so we decided to move the Friday afternoon activities to Thursday night." Those activities include the board meeting and executive workshop. Thursday's will require endurance as the activities last for 12 hours.

The meeting's theme "Commitment to Clarity: United and Connected," will be heavily influenced by this week's Presidential election. The SIA has included political commentary in the program mix with **CNN Crossfire's** co-hosts **Paul Begala** and **Tucker Carlson** leading a discussion.

Big names from regulatory bodies and exchanges also figure on the forefront of the conference, with **Robert Glauber**, chairman and ceo of the **NASD** and **John Thain**, ceo of the **New York Stock Exchange**, on tap. "The industry focus right now is on reform, and that's the theme of this conference," Kittel said.

Tell Us What You Think!

Questions? Comments? Criticisms? Do you have something to say about a story that appeared in *WSL*? Or is there information you'd like to see published? Managing Editor **Jessica Sommar** can be reached at 212 224 3272 or jsommar@iinews.com.

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Boutique Expands Staff, Growth Coverage

Caris & Co., the New York-based investment bank, will add analysts in technology, biotech and retail sectors in the coming months. The company is shifting its focus to growth-oriented names and has pegged the three sectors as the most vibrant, said David Garrity, senior managing director and co-director of equity research. "In this growing marketplace, there are lots of large-picture shifts taking place that don't get as much attention as they deserve, so we are looking to capture the opportunities not seen by the rest of the Street," he added.

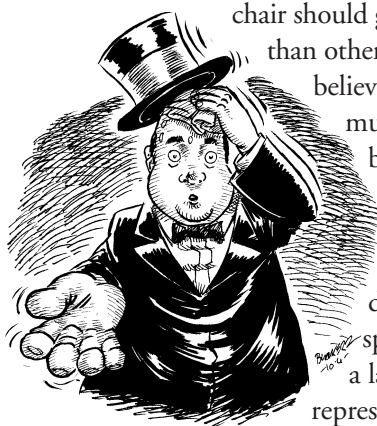
Last week, the company added biotechnology coverage on the heels of hiring Russell Gilbertson, senior v.p. and analyst, who joined from Roth Capital Partners last month. Gilbertson received the top ranking from Zack's All-Star Analyst Survey for stock-picking ability and accuracy last year.

The company will build the research department on the model of independent research boutiques such as SoundView Technology Group prior to its acquisition by Charles Schwab Corp. and Sanford Bernstein, Garrity said. He and his co-head Richard Whittington joined Caris & Co. from American Technology Research, the Connecticut-based boutique they co-founded with former SoundView execs Curtis Snyder and Richard Prati.

Corporate Directors See More Risk, Want More Pay

Many directors on boards of public companies feel that increased time demands and higher risk since the advent of Sarbanes-Oxley calls for an increase in pay. At the top of the list for more pay are lead directors and audit chairs, a recent study of directors and ceos of the top 2,000 publicly traded companies showed. More than half of the respondents believe the lead director and audit chair should get 25% more compensation than other directors and almost one-third believe it should be increased as much as 50%. Sixty-eight percent believed their overall risk as a director has increased since Sarbox.

The increasing time demands on directors also spurred 71% of respondents—a large percentage of which represent companies in the financial



services industries—to say there should be a limit to the number of boards on which an outside director can serve. The unofficial title of "professional director" in which individuals sit on six or more boards is probably a thing of the past, the survey conducted by Corporate Board Member magazine and sponsored PricewaterhouseCoopers concluded. These results imply that search committees will have to cast a wider net to find qualified independent directors as many will be restricted to fewer boards.

Moreover, executive compensation and governance, while hot topics in the media, are not taking center stage in the board room, the study showed. Only 17% of respondents thought their boards need to spend more time on compensation issues, only 11% said they should devote more time to governance guidelines and only 8% said they want to discuss compliance and regulatory issues at any greater length.

What directors would like to spend more time on is strategic planning, succession planning, meeting key managers, visiting work sites and discussing the competition.

The largest concentration of respondents surveyed, about 14%, were from the banks and financial services companies. The next largest respondent industry was advanced technology.

Mid-Cap Boutique To Hire Healthcare, Industrial Analysts

CL King & Associates, the Albany, NY-based research boutique, will hire healthcare and industrial analysts in the coming months. The company is looking to expand its focus beyond the consumer sector, said Gary Giblen, senior v.p. and director of research. "We are looking to replace coverage in the industrial 'Rust Belt' area as we have a client base that is very interested in it," he explained. CL King had covered industrials several years ago before it switched focus to consumer and banking areas.

Giblen wants to hire in healthcare because of the growth in the sector. He may also hire a generalist and add analysts to the consumer and banking groups. The firm hires both senior and junior analysts with two to three years of experience. CL King trains associates by providing them with a platform to build their own coverage, Giblen said.

The firm focuses on companies with capitalizations between \$100 million and \$2.5 billion, as well as a few large-caps, and markets the research to hedge funds and idea shops. Giblen declined to disclose the number of analysts he wants to hire. "We have the budget and the desire to hire several people," he said. CL King is one of the first woman-owned broker-dealers, founded in 1972 by Candace King Weir, president and ceo.

was rash and you should hold your ground and were the Japanese playing fair. [We saw] none of that second guessing.

WSL: What does the Marsh & McLennan investigation mean for ceo liability?

JS: Basically what it says is that boards can't do what the **Computer Associates** board did for this past year—that is to wait for the judge and jury to make decisions of culpability before acting. They did not remove **Sanjay Kumar** [CA's ceo] despite seven indictments one year ago, and some confessions and years of massive investigations of fraud at Computer Associates. They did not even begin to talk about removing the ceo until April and he did not leave until July. That kind of wilting on the vine is not going to work. Marsh & McLennan is the first example we've seen of a prosecutor saying, 'hold it guys, I'm not going to deal with this guy [meaning the ceo].' [Marsh & McLennan's ceo **Jeffrey Greenberg** resigned last week.]

Ceos are responsible for their team even if they didn't do [anything]—they are negligent at a minimum. They have oversight. It's the responsibility of the board to see that the management in turn, as their agent, is providing that oversight. If they [ceos] fail to do it, they should be removed.

WSL: So can we expect to see ceo or other executive heads to roll every time there are regulatory problems at firms?

JS: If they are unwilling to engage and work with the regulators, then I think you can find many examples where [removing] people [will] unravel problems. You could add to your list what happened to **Phil Condit** at **Boeing**, too—his loss of credibility. Not that he himself did anything wrong, but it happened under his watch.

WSL: When is it appropriate for boards to battle back against the regulators?

JS: You can still challenge, in ways that are constructive confrontation, but the more you are abusive, insulting, circle the wagons, obstructive, you are just going to antagonize the regulator more and drive them into a public corner, so that it's an irretrievable situation. So stylistically I think it's never a good idea to start throwing grenades back.

WSL: Who do you feel is the smartest ceo on Wall Street?

Perhaps the smartest one and the most understated one could be **Dimon**. [**Henry Paulson** [of **Goldman Sachs**] is pretty savvy too, and I've got a lot of faith in what **O'Neal** [of **Merrill Lynch**] is going to pull off. If you ask a financial person, you know what they all tell me, almost all of them? **Dick Kovacevich** gets enormous respect from all parts of the financial world because of the focus and clarity he has brought to **Wells Fargo**. They don't get in trouble these days. They've had a very successful turnaround years ago.

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AUGUST 20, 2004

Get Out Of Town!
WALL STREET PREPS FOR GOP MESS

Morgan Stanley, Credit Suisse First Boston, J.P. Morgan Securities, UBS and Nomura Securities are planning to execute contingency plans for some of their staff in the face of the upcoming Republican National Convention. The Grand Old Party's party begins later this week and promises to at least bring crippling gridlock to midtown New York--and possibly much worse.

Morgan Stanley plans to send many of its New York employees to work out of its recently completed Purchase, N.Y.-office, about 30 miles north of Manhattan, which it built after 9/11. Fixed-income professionals from the Times Square-area office will be joining the municipal and commodity groups, which have relocated permanently, during the convention. "Some professionals will be working from home and some will go to Westchester," said one Morgan Stanley official. However, the foreign exchange group will remain in New York during the convention.

THE WALL STREET JOURNAL

AUGUST 26, 2004

Wall Street Girds for Convention,
While Some Leave

The Republicans are coming, so Wall Street is getting ready. Which in some cases means getting out. The National Republican Convention hits New York City next week, bringing along thousands of people--delegates, protesters, hangers-on--as well as heightened security fears. While many financial professionals will be in vacation, those still in town are taking added precautions.

Commerzbank Securities, a unit Commerzbank AG located in midtown Manhattan, said it is planning to relocate 25 equity, fixed-income and alternative-investment-strategy personnel to its backup site in Rye, N.Y., for the entire week. "We felt it was an opportunity to test

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DOUGAN

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meeting on December 7, according to published reports.

And it's not just a one-time deal prompted by parent **Credit Suisse Group** and Dougan's increasingly hands-on boss, **Oswald Grubel**, who whacked **John Mack**, his former co-chief executive, just last June. Though the initial report from McKinsey may trigger changes for the coming year, Dougan will repeat it every year to monitor the success of any new implementation, according to a spokesman at CSFB.

"In the past few years, the question of whether CSFB has the capital to compete with the top [U.S.] firms has come to the forefront," said **Richard Bove**, analyst with **Punk, Ziegel & Co.** "An annual review will help the firm monitor the success of the programs that are put in place. They can make sure that those programs are appropriate and if they need to be adjusted further."

Some staffers are understandably concerned that major cost-cutting and/or job slashing could be in the offing. But at least one senior official isn't getting caught up in the hype. "McKinsey provides a richer context as to what's really going on in the market place— what competitors are doing and what strategies are best. I don't expect more reporting changes. They've already been done. It's about business strategy. It may be more subtle than people expect. The problem will be in managing expectations," he said.

—*Veronica Belitski, Jessica Sommar*

HERE COME

(continued from page 1)

expects baby boomers, many of whom are watching their parents get afflicted with these diseases, would be a core audience for these offerings.

WellSpring is looking at creating ETFs, rather than mutual funds, first because mutual funds do a lot of buying and selling which is not appropriate with such a small inventory of companies. Also, charging higher fees, like mutual funds do, does not make sense when the number of choices is limited. "I would suspect that an ETF would have the ability to return more on that potential than any other vehicle right now," Katz said.

The firm has spoken to a number of exchanges, including the **American Stock Exchange**, and hopes to roll out offerings by next summer. WellSpring is looking at active versus passive ETFs. The firm could also create an index for each disease and launch an ETF to mirror each index, Katz said.

Bob Tull, executive director of ETF services and v.p. of product development at the Amex, said the concept is a good one and he is interested to see how the products look when the details

get worked out. Tull said the Amex did not have the resources to work with WellSpring on the offerings and he referred Katz to **Gary Gastineau**, managing director of **ETF Consultants**. "We didn't have the bandwidth to work with them, but once they get past the details, we would be interested in the offering," he said.

One issue Tull said needed to get worked out is how would the funds meet the diversification requirements that mandate passively-managed ETFs be spread out among 13 stocks. Gastineau said that the diversification requirement would not be an issue because the fund could invest in nursing homes that specialize in certain diseases, as well as other areas. Katz added that the ETFs may also combine different diseases.

—*Jessica Toonkel*

NASD TARGETS

(continued from page 1)

as markups as high as 30% that regulators are seeing. Firms should have guiding principles in place to better comply with the NASD's guidelines in regards to fixed income, the official warned.

There are no NASD rules that specifically govern what is an adequate percent to charge for a markup in regards to fixed income, lawyers noted. However, markups are governed by the NASD's Rules of Fair Practice. The rules require brokerages to buy and sell securities at a fair price and provide a guideline of 5% or less.

The NASD is also interested in how brokerages track what they tell customers about commissions. Lawyers said there is a gray area there because the markup price is included with the investment amount. As a result, investors rarely know commission amounts unless they ask the firm.

The NASD official said brokerages should have taken notice of the July settlements against **Citigroup**, **Goldman Sachs**, **Deutsche Bank** and **Miller Tabak Roberts Securities**, which in part alleged markups ranging 9-30%. Inadequate record-keeping and deficient supervision were part of the charges, which were all settled without admission or denial.

Lawyers were surprised that more cases are coming. **Roger Blanc**, partner at **Wilkie Farr & Gallagher** said because there are no rules and just NASD guidelines, the exact specifics of what is adequate to charge for a markup still raises questions for brokerages. **Martin Kaplan**, partner at **Gusrae, Kaplan & Bruno** in New York, however, said the real problem with fixed-income markups is that the NASD's methodology is wrong in how it determines if a firm has overcharged an investor. Kaplan said the NASD uses simple equity standards to apply to more complex debt securities, thus limiting what it reviews. Kaplan said the NASD should be determining market flow and interest rates before deeming certain

markups inadequate. "It's a perfect illustration of the NASD not doing anything but rule making and trying to make rules by disciplinary actions," he said.

—*Michael Balale*

REGULATORS HANDING

(continued from page 1)

doubt that the fines have gone up in the last few years. If we had **Enron**, **WorldCom**, **Adelphia** and mutual fund scandals and the regulators did nothing about fines that would be surprising. Moreover, once you've increased the fine you can't go backward; we've set a new bar," said **Michael Perino**, professor of securities law at **St. John's University**.

Just last week the NASD levied a record \$250,000 fine against a unit of **Citigroup** for distributing "inappropriate" marketing literature. That's the largest fine ever imposed by the NASD over hedge fund broker conduct. Other fines for similar actions reported this year by the NASD include \$85,000 against **UBS AG**, \$100,000 against **Turner Investment Distributors** and \$175,000 against **Altegris Investments**.

Also last month, the NASD imposed fines of more than \$1.2 million on 18 firms for order audit trail (OATS) violations. "The information reported to OATS enables NASD to recreate the life cycle of an order, substantially enhancing the Nasdaq audit trail and ensuring NASD's ability to conduct effective market surveillance," said **Mary Schapiro**, NASD vice chairman. "The Citigroup action was a much larger order of magnitude, the number of times that they broke the rule," pointed out a NASD spokesman. "We were within our sanction guidelines."

"It is true that the penalties are at an all time high level. That's because the offenses that we've seen have been all time both in terms of seriousness and investor harm," said **John Nester**, a Securities and Exchange Commission spokesman. The SEC has

filed 679 more enforcement actions in the previous fiscal year than in any year on record and obtained penalties and disgorgement orders for more than \$2.2 billion as of Oct. 1, **William Donaldson**, chairman of the SEC said recently.

"Of course, the more you pay the more it matters. The question really is, whether the fines have increased enough given the size of Wall Street firms to really get their attention," said Perino. If fines are much higher that in itself will send a message about the regulator's seriousness, he added. The flip side is even if they're extremely expensive fines they are still a drop in the bucket to a large firm. But it's not just the size of the fines, but the publicity associated with the fines too. A large multi-million dollar settlement with a regulator contains a strong public relations hit that may be more significant than the fine itself, he noted.

—*J.S.*

Quote Of The Week

"It's a perfect illustration of the NASD not doing anything but rule making and trying to make rules by disciplinary actions"—**Martin Kaplan**, partner at **Gusrae, Kaplan & Bruno** on the NASD's methodology regarding fixed-income markups (see story, page 1).

One Year Ago In Wall Street Letter

American Stock Exchange chairman **Salvatore Sodano** created a strategic planning group to analyze business initiatives, costs and prioritize projects in an attempt to make the exchange more competitive.

Five Years Ago

Richard Harriton, former president of **Bear Stearns Securities**, who left after being charged for fraud by the **Securities and Exchange Commission** for his involvement in the **A.R. Baron** clearing scandal, was preparing to launch a hedge fund consulting shop.

Ten Years Ago

The **Nasdaq Stock Market** was launching an advertising campaign of op-ed pieces for the major financial dailies as part of an effort to counter publicity generated by recent news of price-fixing and collusion at the exchange.

Twenty-Five Years Ago

Anti-nuclear power demonstrators planned to block the entrances to the **New York Stock Exchange** to protest against nuclear power companies raising money by going public and listing on the NYSE.

Last Week's Question

Charles In Charge

Citigroup's CEO Charles Prince fired three senior executives close to chairman and former ceo Sandy Weill over a scandal that shut down its private bank in Japan. Is Prince using the Japan crisis for a personal crusade to show the bank who's boss?

Yes. By ridding the top ranks of Weill's cronies, Prince puts an indelible stamp on the global bank.

73%

No. Prince is trying to put out a fire in Japan that threatens to spread to other parts of Asia.

27%

The poll was accepting votes at wallstreetletter.com until Thursday. Here are the results as of last Friday morning.

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