

RICHES TO RAGS

After quitting their jobs and giving their retirement money to A.G. Edwards, Robinson (center) and other ex-P&G workers lost health benefits and much of their savings



WIPED OUT

BY DEAN FOUST

For years the work was back-breaking at the Procter & Gamble Co. detergent plant in Augusta, Ga. Ronald B. Robinson and other warehouse workers used to joke that P&G stood for "Push & Grunt Slave Camp." After the plant opened in 1962, they had to grab and stack hundreds of 42-pound cases of Tide, Bold, and Gain coming off the conveyor belt each hour, all in the sultry climate of eastern Georgia. "You'd go out in the afternoon and have sweat soaked all the way through your leather boots," he recalls. But Robinson, a burly bear of a man, persevered for nearly 30 years: The pay and benefits were among the best a blue-collar worker could find in Augusta and the job got easier as P&G automated the plant. After suffering a heart attack in 1995 at the age of 50, though, he began thinking about early retirement. "I just didn't think I could do it anymore."

The escape hatch: His company retirement account, flush with P&G stock, had soared beyond his wildest dreams. By late 1995, Robinson was sitting on \$788,000, so his brother-in-law introduced him to a church friend, William F. Gibbs Sr., a stockbroker who headed the Augusta office of A.G. Edwards & Sons Inc. Robinson says Gibbs

dazzled him with spreadsheets showing that if he quit and rolled over his account to Edwards, he might be able to earn a heady 21% a year by investing in undervalued blue-chip stocks. With returns like that, Robinson says Gibbs told him, he could pull out \$65,000 a year for living expenses—a 50% raise over his P&G salary—and still become a billionaire by age 90.

Robinson put his faith in Gibbs, cashed out from P&G, and set off on a course that would devastate not only his life but those of scores of other P&G workers. Gibbs became the Pied Piper of the P&G plant—eventually persuading as many as 90 of the 300 workers there to follow in Robinson's footsteps by quitting their jobs and transferring their nest eggs to Edwards. But when Gibbs's blue-chip strategy faltered, he began shifting the tens of millions he

managed for the retirees into tech stocks, then riskier Internet stocks, and finally into options on tech stocks—with increasingly disastrous results.

Now, with their jobs, their company health insurance, and most of their life savings gone, many of the ex-workers are struggling to ward off repo men and bill collectors—and fighting to win compensation from A.G. Edwards. They claim that Gibbs changed their portfolios without permission and put them into unsuitable stocks given their level of investment knowledge and their age. In June, the New York Stock Exchange is

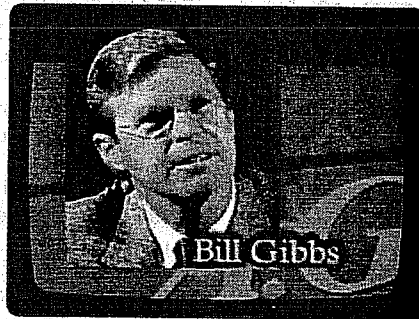
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scheduled to hear the first of what will be a long string of arbitration cases. "I went to P&G without a dime, and 25 years later I had a million dollars. Now I'm broke again," says one client, Kenneth Terry Shell, sitting at his dining-room table, his eyes welling. "There have been times if I could have reached for a gun, I would have."

In the long downside of the great bull market, stories abound of investors who were wiped out when the bubble burst, or of brokers who believed in a turnaround and refused pleas to cash out. But rarely has a tale from the late 1990s involved so many people from not just one town, but from one company. They were

blue-collar workers who, by dint of hard work and good luck, amassed fortunes and then lost them.

Over a 10-day period, *BusinessWeek* attempted to obtain responses from Edwards to the ex-workers' complaints. But Edwards declined, saying it can't comment on the specific allegations because the cases are in arbitration. A spokeswoman, though, did supply a written statement in which the firm says, "Unfortunately, the market suffered significant declines and is currently at levels we haven't seen since 1996... We believe these clients understood the risk of investing in the stock market." The statement adds: "We have adequate measures in place to ensure our branch managers adhere to company procedures, but do not discuss them publicly." Contacted by phone, Gibbs, who retired from the firm in January of



PIED PIPER

Gibbs persuaded as many as 90 of P&G's 300 workers in Augusta to invest with him.

They were blue-collar workers with fortunes in P&G stock. Then they put their faith in an A.G. Edwards broker

last year, declined to comment and referred all questions to Edwards.

Many people caught the stock-market fever of the bubble years, but Gibbs may have had a deeper reason for relentlessly soliciting more customers: He was suffering from multiple sclerosis and anxious about his financial future. Friends say Gibbs, who was still in his mid-40s when he began soliciting the P&G workers, began to worry about how much longer he would be able to work. So even as his stamina slipped, his production accelerated, boosting his commissions and bonuses from \$231,226 in 1996, to \$550,268 in 1997, and \$856,505 in 1998 through Oct. 10, according to a mortgage application he submitted in

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1998. One friend, marveling at his ceaseless quest for more business, remembers Gibbs saying, "I don't have the luxury of time. I've got to do it."

The Augusta saga is an uncharacteristic black eye for the 116-year-old St. Louis-based Edwards, which has honed a reputation for being more conservative than its larger Wall Street brethren. The firm tied for first place in J.D. Power & Associates Inc.'s survey of customer satisfaction among full-service brokerage firms last year. But despite its wholesome Midwestern image, Edwards was slapped with one of the biggest fines ever levied by the NYSE—\$400,000—last October. The violations included failing to supervise adequately 21 branch managers and their assistant managers in 17 offices who handled their own customer accounts. This lack of oversight allowed the managers to be, in effect, their own compliance officers. Under its policy, the Big Board won't name the branches or say whether Augusta was one of them.

An Edwards spokeswoman says the firm was "glad to resolve these issues." Since the fine, she says, Edwards has been "working with an outside consultant to review our practices in these areas and will be implementing these suggestions as appropriate."

INTERNAL CLOCK

In a 1997 letter, Gibbs pushed hard for clients. He had MS and feared for his future, friends say

At the epicenter of the events in Augusta is Gibbs, a 6-foot-3-inch former Army sergeant who went to high school and college in Troy, Ala. Married with one son, he started at Edwards as a broker in Florida in 1990. In 1993, after a brief stint with First Union Brokerage Services Inc. in Atlanta, Edwards rehired him to open the firm's first office in Augusta. With his reddish-blond hair and athletic good looks, Gibbs projected an image of trustworthiness; he reminded one client's wife of actor David Caruso of *NYPD Blue* and *CSI: Miami* fame. On the other hand, he was no numbers guy. In his securities-registration forms, he said the subject he had enjoyed the least in college—and scored the lowest grades in—was math. But with his doggedness in pursuing new clients, Gibbs's career took off.

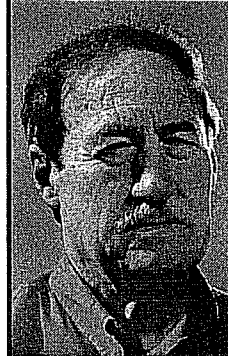
Gibbs had a persuasive pitch for new clients: He promised to use the time-honored Dogs of the Dow strategy, which calls for buying shares of the five companies in the 30-stock Dow Jones industrial average with the highest dividend yields at the beginning of each year and selling the ones from the year before. The high yields are often the by-product of a recent drop in the companies' stock prices. Given the staying power of these blue chips, investors are betting that they will rebound. Between 1973 and 1998, the Dogs returned more than 20% a year. In the early '90s, Edwards started promoting what it dubbed the Dow Dividend Strategy, sometimes expanding it to 10 Dogs, and even programming computers in its branches to display the Dogs of the day.

For Robinson, the first P&G retiree to enlist, the Dogs did great. In early '96, he opened a rollover Individual Retirement Account with Gibbs, who then sold the P&G stock and bought the five Dogs of the moment:

WILBER OWENS

Opening Balance \$676,185

Closing Balance \$230,682



The 63-year-old son of a sharecropper, Owens dropped out of school after fifth grade to help his mother make ends meet. He worked as a bicycle courier for an auto-parts shop before the then-new P&G plant hired him in his mid-20s for the warehouse. Having given up his P&G medical benefits, he worries he can't pay for his wife's growing problems with diabetes. He may go back to work—maybe as a courier for another auto-parts store.

Chevron, General Electric, General Motors, International Paper, and 3M. Robinson's account grew rapidly—his initial \$738,000 would peak at \$1.3 million in 1998, even as he drew \$5,500 a month for living expenses. In his free time, he says, "I did all the things Bill Gibbs told me to do: fish and play golf."

Soon Gibbs lined up Robinson's help in hooking more clients. Robinson allowed Gibbs to show his monthly statements to other P&G workers. He also agreed to come and say grace at the dinners Gibbs began hosting at local country clubs to recruit P&G workers. According to a friend, Gibbs considered P&G workers "the perfect clients," thanks to their

hefty portfolios and a lack of investment experience that made them "low maintenance." In fact, none had ever bought a stock before, and few had even invested in a certificate of deposit at a local bank. "Bill Gibbs saw a goose with a golden egg," says Shell, an ex-worker-turned-client. "He knew P&G had one of the best [retirement] plans in town, and he jumped on it."

For the workers, the only apparent catch was that they had to quit their jobs.

PHOTOGRAPHS BY ANN STANLEY (3)

A.G. Edwards & Sons, Inc.
INVESTMENTS SINCE 1847

1237 Augusta West Parkway
Augusta, Georgia 30909
(706) 869-1061
Waller (800) 915-1061

Dear Al:

I have enclosed an unrealized gain/loss report on your account. I hope you are pleased with the overall results and will share your success with others you know.

Do you know anyone else at Procter & Gamble or retired from Procter & Gamble that needs to be in a solid investment program like yours? Don't we need to help them worry less and enjoy more of their retirement years?

Help me to help them! I have enclosed several of my business cards for you to share with a friend. I would also be happy to send them information on the Dow Strategy and invite them to a seminar if you will call me with their name and address.

Sincerely,

William F. Gibbs, Sr.
Branch Manager
Vice President-Investments



ANDREW GREEN

Opening Balance \$1.31 MILLION Closing Balance \$279,042

After two heart attacks in 1995, he was ready to cash out of P&G. But with his nest egg largely gone, his wife says the stress has brought them to the brink of divorce. Now 54, he was forced to go back to work as a salesman, putting 100,000 miles on his truck last year, earning only a fraction of his old P&G salary. In fact, P&G is one of his customers, making for some awkward sales calls. "It's embarrassing," he says.

MATTIE LUCHEY

Opening Balance \$811,405 Closing Balance \$131,099

Now 67, Luchey raised five children by herself after her husband died in 1966. In 1975, she became one of the first blacks at the plant when P&G hired her for the storeroom. She knows little about investing: When asked about one of the stocks she owned, eSoft Inc., she says, "Bill [Gibbs] said it was something to do with computers." Now, she's back at work—cleaning houses two days a week.



That was the only way they could switch their nest eggs from P&G. Although the workers thought P&G was an excellent employer, they were glad to leave the hard work behind. Wilber Owens recalls the early years spent unloading railcars of raw materials and being covered with powdery substances and drenched in sweat. "It was like having snot all over you. I wanted to quit every day. But I knew I had something I could not match anywhere else in Augusta."

Indeed, this hardscrabble city of 200,000 on the Savannah River, famous for its storied Augusta National Golf Club and the annual Masters Golf Tournament, is a far cry from its TV image of manicured greens and antebellum clubhouses. It lost much of its industrial base long ago and now frets over a nearby former weapons factory that could be a target of terrorism, while its downriver cousin on the Atlantic coast—Savannah—booms with tourism. The city is dotted with tiny '60s-era ranch houses with chain-link fences.

One by one, P&G workers not only followed Robinson to Edwards, but enthusiastically spread the gospel to others. At Gibbs's request, another worker-turned-client, Ronnie Chance, agreed to attach a giant copy of Gibbs's business card to the side of an antique Ford he drove. So successful were the recruiting efforts that P&G plant officials privately worried that the exodus of veteran workers was cutting the plant's productivity. "There was concern about a loss of the skilled employees that the plant needed," says a P&G spokeswoman.

And with a boost from Edwards com-

mercials on local TV, Gibbs didn't stop with P&G. At their peak, Gibbs and his assistant, Susan H. Saccone, who had started as a secretary in 1995 and worked her way up to broker, were managing as many as 1,000 accounts worth a total of \$200 million, including an account for the Presbyterian church Gibbs attended. As their client base swelled, Edwards began flying brokers in from as far as Pennsylvania and New Hampshire to learn from his Dow presentations.

Initially, the P&G retirees were in clover: Gibbs arranged for most of them to receive annual distributions—which he called salaries—of 9% of their initial account balances. Shell used his checks to splurge on a \$23,000 bass boat, and then, out of gratitude, drove to Gibbs's office to present him with his first catch. Mattie H. Luchey, 67, treated herself to a vacation in Alaska. And after years of serving as a part-time pastor of a small church, Bennie Holmes took an unpaid post across the river in South Carolina as senior minister at Silver Bluff Missionary Baptist Church, one of the country's oldest black Baptist churches. Meanwhile, Edwards made

At his peak, Gibbs was in charge of 1,000 accounts worth \$200 million, including one for his own church

BENNIE HOLMES

Opening Balance \$737,977

Closing Balance \$131,228

He used his early retirement to become the full-time minister of one of the oldest black Baptist churches in the country. The position is unpaid, but he receives a "love offering"



from the small, mostly poor congregation every few weeks. Holmes, 57, now faces the prospect of giving up the position to find paying work. He remembers discussing the Scriptures with Bill Gibbs in their first meeting.

Gibbs an associate vice-president in 1999—and rewarded him with trips to the Mediterranean and to the Serengeti Plain game reserve in East Africa.

But for all Gibbs's professional success, the onetime scratch golfer and avid hunter was wrestling with health problems. Years earlier, after temporarily losing his eyesight while out jogging one day, Gibbs was diagnosed with MS, according to friend and ex-client Glen W. Johnson. After a brief remission, the disease was taking a toll by the mid-1990s, but he did his best to soldier on. "He realized it was catching up to him," says Johnson. "Bill said, 'I may have to get in a wheelchair pretty soon, but I'm trying to put it off as long as I can.'"

Then in 1999, Gibbs suddenly had another worry: Just as he was enjoying his biggest success in winning new business, the Dogs went astray. After returning 20.5% in 1997, the five Dogs earned just 12.3% in 1998—and lost 4.5% in 1999, a year in which the Dow itself surged 26.9% and the tech-heavy Nasdaq soared 86%. More important, the returns weren't enough to cover the "salaries" that the P&G clients received, so their funds began draining away. In any case, Gibbs hadn't been that faithful to the Dogs, often substituting other Dow stocks, according to clients' monthly statements. By that November, Gibbs began dropping Dow stocks altogether and buying tech stocks such as Intel, Cisco Systems, and Sun Microsystems.

The problem for Gibbs is that he was putting the retirees in stocks that were far too risky. The ex-workers were classified as "growth conservative" investors

The retirees were "growth conservative" clients, but they say Gibbs put them in risky stocks as NASDAQ peaked

when they opened their accounts, but Gibbs was now buying them "growth aggressive" stocks. Nearly all the accounts were nondiscretionary, meaning Gibbs had to ask permission by letter or phone or in person to buy stocks outside his mandate, but the clients say this wasn't always done.

And unfortunately for his clients, Gibbs moved away from the Dogs just before the tech bust. Four days before Nasdaq peaked on Mar. 10, 2000, he spent \$11 million to buy nearly 190,000 shares of PSINet; the stock quickly began plunging. Clients, suddenly worried, say Gibbs assured them a relative who worked at PSINet was promising that the now-bankrupt Internet provider's future was bright. "Susan [Gibbs's assistant] said, 'Don't worry. Bill just talked to his brother-in-law. They're hiring people to handle all the business they were going to get,'" says Shell. Saccone, who still works for Edwards in Augusta, declined comment.

As their portfolios began crumbling, the ex-P&G workers began angrily confronting Gibbs. In some instances, he went on the offensive, sometimes challenging clients who questioned his judgment by threatening to cut them loose. He told some clients, "If you're going to have a problem with me making you money, then we've got problems," recalls one former friend. In other cases, Gibbs responded by invoking the words of retail magnate Sam Walton—that you don't lose money until you sell. When Robinson, whose account had fallen to \$1 million, asked him to liquidate losing tech stocks, he says Gibbs replied, "If you sell now, you've lost \$300,000." And

threatening bodily harm to Bill Gibbs," recalls Robinson. Some began pointing fingers at Robinson for recommending Gibbs. "It got bad," he recalls. "A lot of them blame me because they feel like I opened the door to something bad."

All the while, Gibbs was wrestling with his disease. He began walking with a cane and Johnson, the friend, says Gibbs was so frustrated by the lack of success he was having with conventional treatments that he began contemplating radical treatments, including bee-sting therapy. As 2001 rolled on, Gibbs became less and less available to his

the stress of seeing his savings disappear. Two other ex-clients have filed for bankruptcy. Shell had his boat repossessed, and handed his mobile home—and payments—to his mother so he wouldn't lose his only residence. His truck disappeared from his front yard one day—repossessed—until his uncle "bailed me out," he says. And with his savings now down to \$65,000, Bennie Holmes may have to give up his full-time ministry at Silver Bluff to return to work. "It has affected my teaching," Holmes says as he sits in the cold, darkened sanctuary one morning. "People can see something's wrong."

Many of the workers may face more bad news—from the Internal Revenue Service. If they stop or change their distributions before taking them for at least five years, as many will have to, a number of younger ex-clients may face early-withdrawal penalties of 10% of the sizable sums they have drawn, plus interest. These penalties could range from \$30,000 to \$90,000, according to Edward J. Dovin, an Atlanta lawyer handling many of the claims.

Edwards has begun to quietly make amends. In the past 15 months, it began offering settlements to some of Gibbs's clients, including some of the ex-P&G workers and his old church, First Presbyterian Church of Augusta, which agreed to accept \$332,048 in December, 2001, for undisclosed losses. Most of the other retirees are seeking redress through arbitration, the only recourse for brokerage clients. It could take years to resolve so many.

Meanwhile, Gibbs, 51, has sold his home in Augusta and moved to a house he bought in 1998 in the North Carolina mountains. In the past year, he has made at least two trips back to Augusta: Former clients saw Gibbs—who at the time had grown a shoulder-length ponytail—twice last year at the weddings of mutual friends. Robinson says his wife refused to let him approach Gibbs. "She was afraid of what I'd say or do," he says.

Ironically, if Gibbs had stuck with the Dogs, all the retirees would be far better off because the Dogs gained 10.2% in 2000 before losing just 4% in 2001 and 10.5% last year. Instead, Robinson and the other P&G workers, who thought they might one day be billionaires, now must scramble to make ends meet. And the weight of that challenge suddenly makes lifting heavy boxes look like child's play. ■



STAY THE COURSE

Gibbs's assistant was left taking angry calls as the market fell. Clients claim she discouraged them from liquidating their accounts

clients, so Saccone handled the increasingly hostile calls.

For many retirees, the final straw was the market crash after the September 11 attacks. The next week, Vicki Green drove to the Edwards branch, where she learned that her husband Andrew's \$1.31 million portfolio had fallen below \$300,000. "I was crying," Vicki says. "I said, 'Liquidate it now.'" But Saccone persuaded her to stay the course. "A week later Susan called as if nothing had happened, saying, 'I have a tech stock to put you in.'" For Shell, the news was worse: His account, worth \$816,237 when he left P&G, was down to \$48,107 by the time he closed it. After a screaming match with Saccone, according to Shell, "She said, 'All I can tell you is we can't pay your salary anymore. There's nothing we can do.'"

The Edwards ordeal has taken both a financial and physical toll on the P&G workers. Robinson says he has suffered three more heart attacks in the past seven years, which he attributes in part to

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when Robinson's account shrunk to \$800,000, then \$700,000, then \$600,000, he says, Gibbs told him each time, "You haven't lost anything. It's all on paper." With his account down to \$500,000, then \$400,000, Robinson says he was driving to the Edwards office regularly to close his account. But he was always talked out of it. "Bill's favorite saying was, 'On the way back to a million,'" sighs Robinson.

By now the P&G retirees were panicking. Monthly gatherings that several held at a local steakhouse turned into blame sessions. "Some folks were