Court rules Stanford investors can pursue lawsuits

Firms that helped Stanford targeted

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Advocate staff file photo by PATRICK DENNIS -- The Stanford Group Co. office in Baton Rouge closed in Februar 2009 after federal regulators seized Stanford as part of its investment scheme investigation of the company.

Investors defrauded by convicted multibillion-dollar Ponzi scheme operator Robert Allen Stanford can pursue negligence or fraud claims against people and firms who allegedly assisted the Houston promoter, the U.S. Supreme Court ruled Wednesday.

The 7-2 vote upheld a March 2012 decision by the 5th U.S. Circuit Court of Appeals in New Orleans.

That 5th Circuit decision was taken to the high court by law firms, insurance brokers and other professional services companies that had worked for Stanford. All were seeking the ruling's reversal.

Stanford, 63, is serving a 110-year federal prison term for his conviction on charges that he masterminded a Ponzi scheme that funneled between $5 billion and $7 billion into his personal fortune and the pockets of some of his assistants.

In a Ponzi scheme, few if any actual investments are made. Instead, money from later investors is used to pay fake dividends to earlier investors in order to attract more money and stretch the scheme for as long as possible.

Stanford, whose firm operated Stanford Group Co. in Baton Rouge, was alleged to have pursued his fraudulent plan for more than a decade before the Securities and Exchange Commission shut down his companies in February 2009.

The scheme involved more than 20,000 investors worldwide.

It solicited money from plant workers, doctors, lawyers, school teachers and others for deposit in Stanford International Bank on the Caribbean island of Antigua. Stanford's financial advisers told prospective depositors their money was either insured or backed by other liquid assets.

Over the past five years, government investigators have learned that little of the money went to the bank. Much of it funded Stanford's lavish lifestyle at locations throughout the world.

In Louisiana, more than 1,000 investors in the Baton Rouge, Lafayette and Covington areas were believed to have lost as much as $1 billion before federal action was taken against Stanford, according to estimates by state Sen. Bodi White, R-Central, the Louisiana Attorney General's Office and Baton Rouge attorney Phillip W. Preis.

A special receiver was appointed by a federal judge in Dallas to search for assets Stanford had in the United States and other countries. Some investors were lucky enough to have removed their money prior to the shutdown.

None of the remaining investors whose money was stolen by February 2009, however, has recovered more than a penny on each dollar lost.

A retired Zachary couple, Louis and Kathy Mier, saw $240,000 of their retirement savings vaporized by the fraudulent scheme. They are among the plaintiffs seeking recovery of their money through Preis and an investor suit that now can move forward against SEI Investments Co.

SEI, a Pennsylvania firm, contends it merely provided office administrative services to Stanford's companies.

"This is the biggest news we've had so far," said Kathy Mier, 66, a retired school teacher, on Wednesday. "It looks like the beginning of the end of our long journey to recover our money."

SEI attorney J. Gordon Cooney Jr. has stated in court hearings in Baton Rouge that SEI did not falsify any of the financial statements that Stanford provided to investors or participate in any of Stanford's crimes.

Preis represents scores of Stanford investors whose suit against SEI was halted by the firm's appeal to the nation's highest court.

"It was the right decision," Preis said of the Supreme Court's action. "It allows people with smaller resources to band together to seek recovery of money lost to a Ponzi scheme. It's a great day."

Corporations across the nation may decide to fight the Stanford investors' court suits, Preis acknowledged before adding: "Our opportunity to achieve a substantial settlement has been greatly increased because of this decision."

From Washington, D.C., Rep. Bill Cassidy, R-Baton Rouge, issued a written statement: "Today's decision by the Supreme Court is the next step in helping families who were defrauded by the Stanford Ponzi scheme."

Added Cassidy: "We need to continue to push for accountability on the issue. I continue to work for federal action to help Stanford's victims and have co-sponsored ... the Restoring Main Street Investor Protection and Confidence Act."

Among other things, that proposed law would require the congressionally chartered Securities Investor Protection Corp. to cover up to $500,000 of each Stanford victim's actual loss.

For the first time in its history, SIPC refused in 2011 to obey a directive by the SEC, which had ordered the industry-funded safety-net organization to begin court proceedings that could have led to SIPC coverage for Stanford victims.

The SEC sued SIPC over its defiance, but lost a decision in federal district court in Washington, D.C. No decision on the SEC's appeal of that judgment to the U.S. Circuit Court of Appeals for the District of Columbia was listed on the case's docket sheet Wednesday.

In Baton Rouge, Stanford victim Blaine Smith, who had worked for ExxonMobil for more than 20 years and was in home construction and said he was defrauded of more than $900,000, said he is anxious to learn what the Circuit Court decides in the SEC-SIPC dispute.

Smith is one of a group of Louisiana residents suing Stanford financial advisers who encouraged them to place their money with the Ponzi schemer. He said that suit is among scores of others that have been ordered by a Dallas federal judge into his court for eventual disposition.

Smith said he viewed the Supreme Court's ruling in favor of other Stanford investors as "a giant relief. It's a giant relief that some of these lawsuits now can move forward."

At the Supreme Court, Associate Justice Stephen G. Breyer wrote Wednesday's majority decision in favor of Stanford victims.

"We believe the basic consequence of our holding is that, without limiting the federal government's prosecution power in any significant way, it will permit victims of this (and similar) frauds to recover damages under state law," Breyer wrote.

Associate Justices Anthony M. Kennedy and Samuel A. Alito Jr. dissented, predicting the majority decision "will inhibit the SEC and litigants from using federal law to police frauds and abuses that undermine confidence in the national securities markets."

Breyer countered he and the other justices in the majority were surprised by concerns of Kennedy and Alito that Wednesday's decision could weaken protections for the national securities market and place securities criminals beyond the reach of federal regulators.

"That would be news to Allen Stanford, who was sentenced to 110 years in federal prison after a successful federal prosecution," Breyer said.

The Supreme Court decision does not mean that investors have won their civil cases against the individuals and companies who provided services to Stanford. It simply means those investors are not barred by the Securities Litigation Uniform Standards Act from even pursuing that class-action litigation.
