

# There's room for the stock market to get worse

A recent disclosure by MCI-WorldCom, one of the largest telephone companies in the country, said that its highly respected head of finance improperly handled important accounting information. The specter of another Enron immediately raised itself in



**Real Money**

most investors' eyes. This, along with the general pessimism and relentless decline in market prices over the last month, has created another crisis in the public's confidence in the markets. Doubts are being expressed about whether the tools exist today to deal with the depth of the corporate structural problems we face.

How did this situation arise? Like the Enron energy-trading scandal, MCI-WorldCom is a product of the era of deregulation initiated by President Reagan and his advisers in the early 1980s. Governmental regulators were told that the "free" market would take care of providing efficient and reliable services and that benefits would flow to consumers. We are now reaping the rewards of a long period where corporations and their bevy of advisers—investment bankers, accountants, lawyers and lobbyists—were given free rein to run the country's economy.

WorldCom began the 1980s as a reseller of long-distance services and as the owner of a small motel chain in Mississippi. It went on to become the second-largest purveyor of telecommunications-systems services in the country. Over the course of a little more than a decade,

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# Fast, easy ... and maybe fraudulent

San Jose Mercury News

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Here's how the honest way works: You forgot to mail in payment for a bill that's due today? No problem — call the company's customer-service number and indicate you'd like to pay by phone. Give your checking account number and the route number — the identification number for your bank. Both numbers appear across the bottom of your check.

With that information, money can be instantly deducted from your account. This method can pay for catalog sales and even settle your utility bill, depending on where you live.

Telemarketers, the source of many consumer complaints, are forbidden from accepting telephone debits.

For consumers, "it's a neat way to get their money there faster and avoid late charges on a credit-card bill," said Bill Nelson, executive vice president of NACHA-The Electronic Payments Association, the coalition of banks and

credit unions that devised the rule. Businesses also benefit, since they quickly receive payments and can tap new customers.

"Our statistics show that 67 percent of households have credit cards, while 89 percent have checking accounts," Nelson said. "So it's another way to open up new markets for companies. There was a big corporate demand for it."

But telephone debits are also a new way for scammers to steal.

Since the group's rule about telemarketers went into effect in September, about 20 million phone-debit transactions have been placed, with less than 1 percent of them being unauthorized, Nelson said.

Still, that's plenty of fraudulent withdrawals.

The Annette Willis Insurance

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# Owner finds herself and comes home again

**BELLINGER**  
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ness, only one piece of furniture remained. "I was totally amazed. People have been so thankful I'm doing this," Sena said. To say thanks back, Sena donates \$25 of all sales on Tuesdays to nonprofits groups such as the United Way



# MONEY

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Wall Street's use of lucrative instruments and the insatiable appetite of investors for high-growth companies set the stage for the current debacle.

Given the climate of regulatory sentiment regarding accounting firms, there is little doubt that the pressure to borrow in order to grow — and then make enough money to pay back these loans — created a climate where committing fraud became a matter of technical judgment. Both MCI-WorldCom and our local phone company, Qwest, face investigation by the Securities and Exchange Commission for accounting irregularities. The huge amounts of capital that MCI-WorldCom, Qwest and Enron needed to operate would have been unthinkable 10 years ago. MCI-WorldCom recently invested more than \$35 billion to upgrade its global telecommunications network. It has \$33 billion in debt, of which about 10 percent is held by banks. Given

MCI-WorldCom's accounting problems, banks will now control the destiny of the company.

A recent announcement that MCI-WorldCom would get another \$1 billion in loans is a signal that the banks will protect their position of being the first in line to collect any money. Institutional investors, such as large state retirement plans and mutual funds, are on the hook for 10 times the amount owed to banks, and they, along with individual investors, stand to lose all of their money in MCI-WorldCom's securities. No one is talking about the inequality of the system. Corporations have greater legal sway in the courts and superior lobbying power in Washington than any individual possesses. This is because of their superior organizational focus and the pools of funds they have set aside to buy and wield influence.

What do our elected representatives propose to do about the situation? President Bush has called it "out-

rageous." He said that the offenders will be brought to justice, and that the common person's interests will be protected. Rep. Billy Tauzin, R-La., is calling for Congress to "work together to pass tough new laws, which will prevent future abuses and restore investor confidence." My level of skepticism remains high; I do not believe that anything less than a basic restructuring of corporate rights and responsibilities will do the job. The White House proposed a reform plan after the Enron scandal, which would create a private accountability board. It is to have the ability to discipline auditors, examine accounting-firm procedures, and draw up new standards, a proposal that doesn't pack much of a punch.

The problems at MCI-WorldCom have resulted in calls for increased funding for the SEC, the agency that watches over the markets. Congress is rushing to boost the SEC's budget by 66 percent. Money may not solve the problem; in fact, the head

of the SEC, a Bush appointee, who was formerly an industry advocate, has been criticized for "not doing his job." My belief is that entrepreneurial brokers will always be able to stay one step ahead of the law. Regulatory action has and is likely to remain behind the curve.

The human side of the suffering to be caused by MCI-WorldCom's problems has similarities to the aftermath of the Enron scandal. Of MCI-WorldCom's 80,000 workers, 17,000 were laid off last week. At the same time, corporate lawyers in New York and industry lobbyists in Washington are moving in to garner millions in fees. Political fallout is likely to be light, because, like Enron, MCI-WorldCom's largesse was spent so that neither Democrats nor Republicans will be eager to point fingers. As the fall elections come closer, politicians of all persuasions will insist that they are not to blame.

Investors are reacting to the MCI news with aplomb. After an initial steep decline,

the stock market recovered. An important issue going forward is whether mutual funds, institutional investors, individuals, or even professional analysts can ascertain if the kinds of problems that have surfaced at MCI-WorldCom and Enron exist elsewhere; and if so, how widespread they are. The accounting profession does need radical restructuring, but this may not be enough. Arthur Anderson, the auditor, did not call into question the written footnotes to MCI-WorldCom's internal reports that disclosed the accounting treatments now causing so many problems.

The stock market can get worse from here. Our feeling is that there is downward movement left to go. There may be further losses ahead of us, so it is important to consider your overall portfolio and how far in the future you will need to sell stocks for living expenses. If you have more than five years, you are better off waiting out the downturn than selling. If you are diversified in bonds

and real estate, some of your assets will have increased in value, so there is little rush to take action.

There are tax strategies that one can take advantage of to benefit from the market's decline. Investors can sell stocks at a loss and buy back similar companies at the same time. This will reduce your tax bill but not lower your exposure to the market. Statistical information available to us from periods of market declines in the past show that when blue-chip companies decline, there is an attendant increase in the prices of small companies and international firms. This kind of rotation to other asset classes is long overdue. If you look at your portfolios and decide what kinds of risks you are willing to take, and how well diversified you are, it will make it easier to weather this storm.

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# FOUND

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she said.

Opening the store was all about magic, too. "People talk about starting out on a shoestring," Sena said. "I started out on a tattered and torn shoestring."

But things fell into place. She stumbled upon the vacant space in late winter and set about sanding the floor and

was so impressed with the store she is now working for Sena. "It's amazing what happens in this store," she said. "The people who come in are really special and what Alicia can do with furniture is astounding."

Jordan is a Web-site designer and got to talking with Sena. Jordan has since created lostandfoundinsantafe.com and says the store is a "real local experience."

# MERCK

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Medco unit, which handles prescriptions for 65 million Americans through retail pharmacies, a mail-order program and its Internet pharmacy.

Journal reported on the SEC filing.

Loder said Merck's independent accountant, PricewaterhouseCoopers, concurs with the accounting treatment. He also said the Securities and Exchange Commission

itself was reported in an April SEC filing but the exact amount of revenue in question was reported for the first time in Friday's SEC filing.

Merck, hurt by slumping