TESTIMONY OF PETER T. SCANNELL

Before the Subcommittee on Financial Management, the Budget, and International Security U.S. Senate Committee on Governmental Affairs

Mutual Funds: Trading Practices and Abuses that Harm Investors

January 27, 2004

Mr. Chairman,
Committee Members and
Senators,

I would like to thank you for this extraordinary opportunity to come before you and share my experience as both an “insider” and “outsider” in the Mutual Fund Industry.

If I was told a year ago that I would be present at a Senate Sub-Committee Hearing concerning abuses in the Mutual Fund Industry I would not have believed it possible.

I was already aware of market timing abuses at Putnam Investments, and had been since April 2000. My fear was that market timing in a mutual fund, whose prospectus clearly states it is a prohibited transaction, was occurring throughout the industry. This was a seemingly accepted practice for those investors with influence and money and I believed that any attempt to by me to expose market timing would be dismissed.

For years there has been a “conspiracy of silence” in the Mutual Fund Industry – “no news was good news” for both the industry and regulators. A tangled web has been woven and it is imperative that we fully understand the scope and depth of these abuses. We have a window of opportunity, “a once in an Investor's Lifetime Opportunity” to address the integrity of this industry and to make sure that every step will be taken to protect the American Investor.

Senators, would you please indulge me for a few moments so that I can relate to you the circumstances that bring me here today. It is important that you have an idea of who I am and why I would be the first person inside a mutual fund company to come forward with allegations of abuses and fiduciary failure.

You cannot imagine the magnitude of this burden, coming forward with these abuses knowing full well of the possible ramifications. I put my welfare and the welfare of my family aside because of the importance of these events. There are thousands of decent, honest and hard working Putnam employees who live in the area I call my home, and most if not all, had no knowledge of the abuses I speak of; their lives may be greatly impacted as well. For both the senior management personnel who resigned and those who remain at Putnam who had a significant role in the perpetuation of these fund abuses, there need to be severe consequences.

I had hoped and prayed that these abuses would be discovered by those responsible for regulating the industry or that someone in senior management would say “enough is enough” and come clean. That never happened either before or after the scandal broke. But month, after month, after month, market timing flourished in one of the most volatile markets in history.

In 1999, my wife Teresa and I had all the challenges we could handle. We were living in Quincy, Massachusetts, “the City of Presidents”, expecting our first child, renovating a New England farm house in Weymouth, Massachusetts which had been built in the 1800s, and we were about to bring to trial a case against a CPA, financial planner, who we had discovered defrauding our family and many other families of hundreds of thousands of dollars.

Teresa and I also had our share of tragedy as well during this time. My father in-law Paul Quinton died suddenly from a heart attack, my sister in-law Joan Scannell died of breast cancer and my next youngest brother, suffering from a spinal cord injury, was being moved from one rehabilitation center to another because of the substandard care that he received. David had been the victim of a hit and run drunk driver. He remains to this day, unfortunately, a semi-comatose quadriplegic. David's primary care giver is my seventy eight year old mother, Barbara Scannell who put an addition on her home out of frustration and determination that the institutions that were available to Dave would lead to an even more torturous life than he had already.

In October of 1999 we were blessed with our son Paul and had moved into our home in Weymouth. I was still battling with alcoholism and knew I needed a career change. I had been in the restaurant business for years and my talent for selecting the best Barbarescos and Barolos was no longer amusing.

We were fortunate enough to have had our family friend and attorney, Stephen Follansbee recover before trial most of our investments from the “Ponzi Scheme” in which our family and others had become unwitting victims. This was not a "get rich quick scheme" but rather victimization of elderly individuals and families who believed their life savings were being invested in government backed securities. **We were robbed, we fought back and we won**.

Now with a different Financial Advisor handling our investments in a diversified portfolio in funds like Janus, Invesco and Strong, we decided that we need to better educate ourselves – trust needed to be earned and we trusted only ourselves at the time.

In March of 2000 I was looking into the possibility of becoming a financial advisor when the opportunity to work for Putnam investments arose. I knew that I would be starting in an entry level position in their call center. I was told that this position would give me the experience to learn first hand how a mutual fund company worked and that the opportunity to advance and become a licensed NASD representative was mine to earn.

My first exposure to market timing at Putnam Investments occurred almost immediately after having completed three week of intensive training for my position as a call center representative. My initial responsibilities included exchanging funds for participants in our defined contribution plans, as well as Taft-Hartley plans (union retirement plans). The Joint Industry Board of Electricians was the first plan that I was exposed to who had members actively market timing two Putnam funds that mirrored the NASDAQ. Every day in the spring and summer of 2000 that saw movement in the NASDAQ, whether it be up or down, we would receive scores of request from the JIB members to move their entire balances in or out of either Putnam New Opportunity Fund (PNOPX) or OTC and Emerging Growth Fund.

The NASDAQ's volatility nearly doubled in 2000. 1999 had 62 day with a shift of 2% or more, (24% of trading days). 2000 had 136 days with a shift of 2% or more, (54% of trading days). Unfortunately for the JIB members the NASDAQ was moving in the wrong direction and would never provide enough recovery to cover its losses. The JIB members were hard working blue collar workers who mistakenly believed this scenario would bring about gains but the NASDAQ continued to be uncooperative. Many members just did not understand that they were losing huge amounts of their hard earned retirement balances. I and other call center representative would constantly inform our supervisors and of this activity, concerned over the devastating losses the members practicing these prohibited transactions were incurring, we felt that Putnam had a fiduciary responsibility to stop them from further damaging themselves, unaware at that time that the unwitting long term shareholder was being hurt as well. What we were allowing to occur would be similar to a pharmacist filling a patient's prescription which stated clearly that no refills remain, over and over again knowing full well the damage it could cause.

The call center representatives cared very much about the financial well being of the JIB members, as well as all of our clients. As the Markets were plunging in 2000, Putnam wanted us to convey to our clients the importance of diversification and the suitability of their investment choices given their years to retirement. But never were we told we could discourage our clients from "market timing." Nobody was sure what to do and it became obvious that discussions about market timing were met with deaf ears. We continually tried to do the right thing and were disturbed that every time we would bring up market timing and the damaged it caused to our supervisors we were told that there is not a system in place to detect that activity. Putnam employees that I came in contact with on a daily basis and who because of their positions were exposed to market timing bought that excuse for awhile, it eased our pain.[1]

After a time the JIB members who were market timing went away, their losses so great they reached a point where they "had enough" and quit the practice. On more than one occasion I would receive a call from one of the JIB members telling me of their woe. An example of one member's losses is as follows:

Original balance $171,220.92,
428 exchanges later he had lost $78,962.32.

That is the kind of damage that occurred. It was heart wrenching when I had contact with them later on and they would say thing like, "I can't believe how much I lost – I'm going to have to work another five years, and another member who told me he has to keep hiding his statement so that his wife won't find out. They learned an expensive lesson.

[1] Market timing is frequent trading by short-term investors sometimes hoping to exploit fund share prices that lag behind the value of the underlying securities assets. Market timing is not illegal. However, many mutual funds discourage the practice because it can drive up fund management costs, reduce profits available to shareholders, affect the amount of cash a fund has on hand, impact asset allocation, and impact the fund's tax efficiency. Many fund prospectuses state that market timing, or excessive trading, does not serve shareholders' interests. Thus, by employing this strategy, many fund companies actually violated their prospectuses, which serve as contracts between funds and investors. Total assets for all mutual funds as of the second quarter of 2003 are $12.36 trillion, and equity funds balances are approximately $4.735 trillion. It is estimated that the cost to shareholders from market timing activities are $4 billion annually.

What a shame that market timing wasn't addressed at that time.

Life at Putnam went on and the pressure began to mount. Putnam's funds were underperforming our piers. The markets continued to decline and there was no stop in sight. My role at Putnam continued to evolve and many of us were becoming licensed NASD representatives. The training at Putnam was the best in the industry, the opportunity for advancement was there for those willing to put in the work. I received both my Series 6 and Series 63 NASD licenses in 2001 and was looking toward a career path that would provide me with stability and dignity. Where I was going to find that at Putnam, I was not sure.

Sometime in the fall of 2001 I became aware of another group of market timers who also happened to be union members but they didn't need my help. The Boilermakers Local 5 members had a different and far more successful strategy. They were using an international fund and timing it against US markets. The same scenario started occurring again. The Preferred Specialist Group, of which I had become a member after successfully completing my exams, became aware of this market timing strategy.

We knew of all sorts of individual market timers in many of the over 2000 plans we managed but this group was on to something quite different and for their self-interest, quite effective. I began tracking this group on an "Excel Spreadsheet" and was aware from that moment on I would become someone who would be closely monitored. Every conversation we had on the phone was recorded and our monitors were evaluated. That was the primary job of our supervisors. Every aspect of our computer activity was also monitored from "the bridge," an elevated area looking out over all the various levels of call center representatives.

We were constantly complaining to our supervisors and they were beginning to feel the heat. The Boilermakers were making a killing. As an example, there was one member whose balance in July of 2000 was $525,800.55 and in sixteen months after 542 exchanges it grew to $1,472,214.01.[2]

The Preferred Specialist Group was becoming a very savvy group. We researched and tracked the market timing activity and shared this information at lunch. Through my research I learned market timers were in fact pillaging the profits of the long term shareholder.

---

[2] Half of the customer's basis was due to market timing gains. My ability to research back further had been shut off without explanation.

Unfortunately managers gave us the same lame excuse we had heard before

> "Putnam does not have a system in place to discover market timers – it's a manual process." [3]

When ever I had a break I did as much research as I could on market timing and found out that it is not a practice that was unknown in the industry. I had uncovered internal documents that show Putnam was concerned about Market timing back in March of 2000, coincidently the month that I started, and I tracked market timing transfers back as far as I could, which was 1998.

In January of 2002 I decided to address the issue of market timing detection at Putnam Investments. I needed to prove to myself that of course Putnam had the ability to detect market timing and that it evidently was used selectively. I intentionally replicated market timing like transactions in a number of Putnam's international funds over the course of the next few months making eighteen transfers using multiple funds. I did not want to be successful at it; in fact I wanted the transaction history to show that I was just trying to draw attention. The net effect of my personal transactions was a loss to my account, but I had to prove to myself and others that Putnam had systems in place to prevent market timing abuses.

In early April of 2002, my father, David Scannell, was dying of leukemia under the care of a hospice group in the front living room of my parent's home. I had informed my team's supervisor that I would be out a few days because of my Dad's impending death. So, there I was in our living room, with Dad in a bed in front of the fireplace, and my brother Dave, Dad's namesake, in the addition off of the side of our home. I was determined to keep my demons at bay - but one suddenly gripped me tightly. There on the mantle was the morphine and syringe that I dreamed about injecting into my brother, putting him out of his misery; having not already done this I considered my biggest failure. At that moment my Dad had opened his eyes and very quietly told me that I have my own family's future to think about and that I needed to take care of that problem at work. I had told my Dad in a conversation that previous winter that three things would trouble me on an almost daily basis; my concern that I might pick up a drink, how troubled I was that I let Dave down – we treat dogs in this Country better than we treat human beings, and somehow I had to find away to get Putnam to stop the market timing that had sapped me of the pride I took in my new career. Dad died peacefully the next morning.

---

[3] I have given regulators the Putnam emails documenting those statements.

In early May of 2002, I received a memorandum that told me in so many words to stop market timing. This confirmed to me what I had long suspected. I now could prove that Putnam "selectively tracked" market timing. I emailed the Sr. Vice President who had sent the memo to me and we had a brief email discussion about market timing and how it was a "prohibited transaction." Unfortunately he was smart enough not to take the bait at the time. I was sticking my neck out far enough and needed to possess more documentation before I could confront senior management.

In July of 2002, Putnam was having an update of its Siebel System Software (a marketing and tracking program) for the Preferred Specialist Group. It was to take place over the weekend and on that Friday one of the supervisors asked me for my passwords to all the programs I use, Seibel, my Lotus Notes, Putnam on Line, and another. I asked who needed them and why he needed them all and not just my Siebel. He did not respond. I knew something was not right. This was not just for the update. It was 4:00PM and my work week was over, so I reluctantly gave them to him, having no choice at the time. I now knew for sure that the supervisors were trying to more closely monitor my interest in market timing at Putnam.

In August of 2002, I and those who also were concerned about the Boilermakers market timing could not believe the numbers that were being generated by this group of ten members in the 1,000 member union plan. **They had exchanged more than HALF A BILLION DOLLARS with gains of close to TWO MILLION DOLLARS**. The International Voyager Fund was having a portion of its gains, which should be shared amongst the entire shareholders of the fund, being extracted for a few. What did these guys had going on with Putnam would allow them to continue rolling this snowball, and it was just starting to pick up some real steam.

On another August day the Preferred Services Specialist Group in Norwood, Massachusetts was visited by the Managing Director of Defined Contribution Plan Administration. He evidently came to see first hand what functions we were performing to retain assets at Putnam, a high priority given the incredible flight from Putnam Funds. Asset retention was priority number one for our group and second to it was enrollment. We needed every possible employee in our plans to participate and we started flying members of our group around the country to educate, encourage, and most importantly to enroll in their 401K.

The Managing Director sat down with a fellow PSS representative, who I shared a cubicle with, and plugged in his phone to the representative's computer and waited for the first call to be routed to our group. We would take care of various clients that meet certain criteria – and one criterion that routed them to our group was a large balance in their 401K. I believe the very first call that popped on the representative's computer screen was one of the most prolific market timers we knew of, a Boilermaker with over a million dollars in his account. The representative addressed the member by name and when I heard it I immediately positioned myself so that I could watch the show. The PSS representative very quickly and efficiently took care of his request to exchange 100% of his account balance out of the International Voyager Fund and into the Stable Value Fund (a GIC fund). The representative confirmed it again and gave him his confirmation number. When the call was completed the Managing Director took off his head set and asked the representative what the member was trying to achieve with the transaction.

The representative, who was as red as a tomato at the time, told him that the member was one of the most successful market timers we have at Putnam and tried quickly to show the Managing Director the member's transaction history. With that information being shared, the Managing Director wanted to see no more and he abruptly got up from his seat, looked at his assistant, and said there should be "short term trading fees" (STTF) on this account and scurried out of there with his assistant trailing. I then looked at the fellow PSS representative and said "we finally have someone from senior management who knows, we know, they know."

In September of 2002 the games continued and market timing never missed a beat. We never heard any directive from senior management that market timing was going to be addressed or that short term trading fees were going to be assessed to anyone transferring out of a fund within a 90 day period after having transferred into the fund as the prospectus states for the International Voyager Fund. The snowball kept on rolling along, picking up more steam and profits.

Later that month we had a Preferred Specialist meeting with our Norwood team. Present at this meeting were the SVP and Director of the call center, another SVP, a human resource representative and the Preferred Specialist Group numbering about twelve. This meeting was to inform us that our bonus criteria and base compensation was going to change in January. [4]

Once our Senior VP and Directing manager shared the new program with us he asked us if we had any questions. Previous to this meeting, a supervisor attending the meeting sent us an e-mail directing us that we must e-mail in advance to him any questions that may be brought up at the meeting. This was always done whenever we had a meeting with senior management. One of the Preferred Specialist attending took the Senior VP up on

[4] And as always not for the better, Larry Lasser's bonus you know.

his offer to voice any concerns we may have. She inquired about market timing and the Boilermakers getting rich doing nothing but market timing International Voyager. Another representative asked before the SVP/Director had a chance to respond, why did we not put the same restrictions on Boilermakers as "Flour Hanford Plan" asked Putnam to implement. The Plan wanted to put exchange restrictions of no less than 15 day in and out of any particular fund; they had caught wind of their employee's market timing. Evidently management at Flour Hanford felt it was a great distraction at the work place. The SVP/director became quite uncomfortable and said "**Listen, it isn't CRIMINAL**" and quickly tried to change the subject without addressing the suggestion. When the SVP/Dir. said it isn't CRIMINAL, it was my turn to become very flushed. I turned and looked at my other SVP to see what his reaction would be and was he was starring at directly at me - he was obviously not pleased with the remark.

About a week after that meeting one of the PSS representatives on my team put together a spread sheet to track market timing in any of our Plans. He brought it to the AVP we reported to and told him this should help and why don't we email it out to the call center. That PSS representative was as frustrated as I was with the market timing that was taking place at Putnam. The AVP was up against the wall when this was suggested in front of others and he sent the spreadsheet out to the floor via email. I am not sure as to how many to how many representatives it was sent.

This all stemmed from the fact that management continued to tell us that this was a manual process and the email that was sent repeated that worn out piece of disinformation[5]. Management knew I had been tracking the Boilermakers and other market timers, but the Boilermaker stood out like a sore thumb. Putnam was aggressively seek out union business and was quite successful acquiring those accounts. I would get troubled glances from those supervisors returning from "the bridge." At this time I was occupied studying for my six hour series 7 exam (I received my license in November). I did take the AVP up on his email and transferred some of market timers from my own spreadsheet to the one that was sent out; I also copied it to another representative whom I could trust so that it could not have been said that it was never received.

My email with the spreadsheet of the ten Boilermaker market timing was never acknowledged, not verbally or by email. I decided to confront the AVP face to face. When he was passing my desk I stopped him and asked what he thought and what he had done with my spreadsheet. He was very terse, and quickly told me that the information I compiled was against company policy and that I was not to bring up customer accounts without their knowledge – they had to be on the phone. I looked at him with utter

[5] I have provided the regulators that email.

contempt and told him it's quite clear that Putnam has no desire to stop these prohibited exchanges. He was furious with me and didn't have a clue of how to respond other than to walk away. That was very satisfying at the time.

A few days after that one of my team members next to me got up from his desk, after having executed another million dollar market timing exchange for a known market timer, to confront the same AVP as I did and ask him about the spreadsheet he made and how effective it was in helping Putnam putting a stop to market timing. I saw him talking with the AVP in front of other supervisors and return to his desk quite upset and very frustrated. I asked what transpired, and he told me in so many words that if we were to stop them from market timing that we might lose the plan and others, the Taft-Hartley Plans were becoming very lucrative for Putnam. It was not long after this that my team member who confronted the AVP asked for a transfer and it was accepted. That was unusual, the PSS representative had his 6, 63, and 7 NASD licenses and we were very valuable in our department and we were required to commit to our positions for a period of time.

After my teammate left I felt a lot more exposed, my unwitting corroborator and original supporter in the fight to have market timing end at Putnam was no longer beside me, both literally and figuratively.

No other PSS representatives were willing to stick their necks out as far as my partner and certainly not as far as I had. I was in very deep and I remember discussing this with my brother Jay who is an attorney with the Quincy District Court. He said I better be very careful that I don't get myself killed. I told him he was dramatizing.

One day while I was updating my market timing spreadsheet and completing the demographic information of the market timers I was tracking I noticed behind one of my windows a web site I without thinking had searched for on line and at work months earlier. The web site page was up on my screen. The web site was www.whistleblower.org/protect. I had no idea how that got on my screen but knew that someone did. This event was the final push I needed to follow through with the issue.
For me, someone had drawn a line in the sand.

From December of 2002 forward, I was very nervous during for obvious reasons. I knew I needed to find a document which I had found months earlier but did not dare print out at the time. When I tried to find the site deep within my bookmarks it was now restricted; just as my ability to go back in anyone's account and perform a Transaction History. This was now restricted beyond July, 2000, I used to be able to go back as far as 1998. The internal document I was searching for confirmed the Putnam was aware back in March of 2000 that market timing involving some specific Putnam funds was having a detrimental effect on the long term shareholder of those funds.

I spent the next few weeks looking for those documents and one day in the beginning of January I found them. The documents in the site were compelling. They would give insight to Putnam's preferential treatment of some market timers and show which market timers would be assessed the STTF (short term trading fee) that would make market timing not quite as lucrative.

Bottom line, if you want to market time you needed to get in a Putnam 401K or IRA. If not, you may or may not have STTF assessed to your account.

One day late in January, 2003, I got up the nerve to print these documents from my computer; which was the only computer to which I had access. The printer was across the floor next to the supervisor's and AVP's area. I managed to accomplish while seemingly undetected during our business day. I knew soon enough they might confront me with my intentions but they also knew they could do nothing to me. The next day when I returned to work nothing out of the ordinary occurred. I had some time to organize the data.

About a week later I signed on to my computer and began servicing clients when in between calls I heard the AVP who I had earlier confronted and a couple of supervisors discussing something that was amusing them all while looking in my direction. It was Thursday, January 30, 2003. For some reason, feeling frustration, resentment, anger, I got up and went over to address the AVP while the others moved away but still were within earshot of what I was about to say. I told the AVP that I will no longer accept transfer request from known market timers. The AVP responded very seriously and told me "I had to do what I had to do, but that I should be very careful".

The following day I was preparing to take all the information I had compiled. It was a select and concise anthology of the abuses that I and many others witnessed yet could do nothing to stop without getting terminated.

We all knew it was obvious with the senior management response to our complaints that market timing would be here to stay until some regulator stopped it. Somehow I was going to find a way to deliver these document to the NASD who licensed me, the SEC who should have been discovering these abuses, or maybe the New York Attorney General Elliot Spitzer who was building quite a reputation for someone who is willing taking a stand – refusing to let the Broker/dealers and Mutual Fund Companies bully and take advantage of the trust the investor has put in them.

I was deeply concerned that this issue may be pervasive throughout the Mutual Fund Industry, Putnam being one of the largest Mutual Fund Companies in the world; if they are willing to accept and maybe even promote this behavior by not assessing any STTFs than there had to be many others as all my research suggested. The day ended. I left the building discreetly with the documents that should blow any regulator away. Every thing that I witnesses could be corroborated by many, the internal documents were the smoking gun, and the account numbers were the needle in the haystack. It was so simple, so very clear, I made sure that my presentation to a regulator would be dream come true if truly cared about their neighbor, The American Investor. I drove home looking constantly in my rear view mirror. I remember laughing out loud at how paranoid I was – actually I was shaking I was so scared. I wondered what did I get myself into – soon I would find out.

Sunday, February 2, 2003, I left my home for a meeting I attend regularly after having dinner with my wife and mother in-law and her house guest from Chile. I stopped at a Dunkin Donuts and got a cup of coffee before arriving at the church. I sat in my car for a few minutes finishing my coffee and listen to the end of the game. The night was cold, with blowing sleet and snow. Suddenly, without warning my car door was opened and I was being grabbed by my jacket and dragged out of the door, I still had my seat belt on and struggled to face my attacker.

As I looked up I could see a large burley man with a full beard, New York Yankee's cap and grey sweatshirt that had "Boilermakers Local 5" emblazoned across the chest area in large bold letters. This was happening in split seconds when I felt something smashing down on my head while he was strangely talking very loud but furious. He said " I better shut the f___ up" and repeated this and some reference to my working at Putnam a number of times while smashing my head and my left hand , which instinctively I was using to shield my head, repeatedly with what the police told me latter was a brick. The next thing I remember was a policeman reaching into my car to shut the engine off and then an EMT was trying to ask me questions. Blood was splattered against the inside of my driver's door and there was a big gash in the door's upholstery. I was shaking uncontrollably and I was incredibly cold and wet.

I was taken by ambulance to Quincy City Medical Center's emergency room and treated appropriately – CAT scans, X-rays, all the while being treated for hypothermia.

Evidently I had been hanging out of my driver's side door held up by my seat belt for almost an hour before help arrived.

When my wife arrived at the hospital and the pieces of what happened started to fall into place I was asked by a nurse if I had taken any drugs or alcohol. I told them that I was in fact a recovering alcoholic and had not had a drink in almost a year. Then I asked them if they would conduct a drug and alcohol test so there would be no doubt. She was very sympathetic and understood my rationale for wanting one. It later came up negative. I answered some question from the police that are in their report, but I was not coherent enough to continue. They asked for my permission to take my car to Quincy Police Headquarters' so that the detectives could fingerprint it and further investigate. I was released from the hospital late that evening and returned home with my wife.

The following day after waking up with great difficulty I received a phone call from Detective Maloney of the Quincy City Police and he asked me if I was able to come to the station to answer some questions. When I sat at his desk he told me that no fingerprints or evidence was found that could lead to the identity of my attacker. I was told that this was a major crime and was concern that this was such a violent act not typical of the area. He also said that he was concerned that my cell phone and wallet, containing cash and credit cards, were not taken despite being on the passenger's seat in plan sight. He asked me if I had any enemies that may have committed this act and I said that I was unaware of any. Then he asked me if anybody who knew where I was may have committed this act, and I said no. I was afraid that if I told the police that I believed the attack was related to my being employed by Putnam Investments that it may put me in further danger. After this horrific attack I am suffering with disturbing neurological problems including headaches, confusion, dizziness, and great difficulty waking-up in the morning as well deeply disturbing emotional trauma, all of which I am currently being treated for.

The following day I told my wife I knew why I was attacked and who may be responsible. I had somewhat informed Teresa of what was going on during the last six months of 2002 at Putnam. After talking with my family including my brother Attorney Jay Scannell, it was suggested that I put together all of the documents I had and find a law firm familiar with securities law.

After a few weeks and making a few contacts, I was referred to Tom Dwyer of Dwyer and Collora. There in Tom Dwyer's office with one of his partners Jody Newman, I presented them with the time line I had put together documenting my experiences at Putnam Investments. Tom first reaction threw me back in my chair. Tom thought that I may have to go to the FBI and maybe into the Federal Witness Protection Program. I told Tom right then and there that my family has already sacrificed too much and that going into hiding would be not be an option. I need to go to the SEC, they are the regulators who would want this Goliath, how they had missed this baffled me to no end, surely this would be of great interest them.

Jody Newman was advising me from that point on, her expertise was in employment law, but that was not my main concern at the time. I needed to get this burden off my back and onto the shoulders of who it belonged, the SEC. It was in March that Jody first made contact with the SEC. The following is a time line of my dealing with that Commission.

3/26/2003	Jody Newman e-mails SEC lawyer.
3/31/2003	Jody has telephone conference with SEC lawyer.
4/10/2003	Jody has telephone conference with David Bergers, Assistant District Administrator, Boston District Office. Lets Bergers know that I am interested in identity secret. Agrees to meet with Jody, and get an idea of what this is all about.
4/14/2003	Jody meets at The Boston District Office on 73 Tremont Street. Present at the at the meeting, David Bergers, Philip Koski, Suzanne (investigator). Jody shares with them the prospectuses of the funds involved and so too the firm. They agree to look into the issue and may wish to meet with me in the near future.
4/15/2003	Jody has telephone conference with David Bergers.
4/22/2003	Jody has various communications with the SEC
4/23/2003	Jody has various communications with the SEC
4/24/2003	Jody has communication with SEC, they finally agree to meet with me.
4/28/2003	Jody and I meet at 73 Tremont St offices of the SEC with Bergers, Koski, and Suzanne (investigator). I provide the SEC with internal documents, market timer's account numbers, emails, and my experience at Putnam Investments. (the very information that MA regulators acted

upon only hours after having them in their possession.) We meet for about an hour, then they thank me for my courage and would get back to me.

5/9/2003 Jody has telephone conference with David Bergers, Nothing to report.

For a number of months there was no communication from the SEC. I was still aware that market timing continued at Putnam investment and could not believe that the SEC was not acting on what I believed any reasonable regulator would consider being compelling evidence. Putnam Investments had some very disturbing practices blatantly being allowed to continue and the SEC for some unknown reason did not care.

I could not just walk away after all I had been through and knew very well that their must be some regulator who would consider what I compiled to be damning evidence. That is when I asked Michael Collora to contact Massachusetts Secretary of State, William Galvin's office to set up a meeting with his regulators.

On September 11, 2003, in the offices of Dwight and Collora, I met with Mathew Nestor, Massachusetts Deputy Secretary of State and Brian Lantagne, Chief of Securities Enforcement. It took Mat Nestor about fifteen minutes reviewing my spreadsheet to understand the enormity of the issue at hand. Matt and Brian both were awe struck at the story I told and realized that with the documents I presented that something terribly wrong was occurring at Putnam. When I told Matt that I had been to the SEC and never heard back from he looked at me and said that's not going to be the case with Galvin's Office.

We spent close to three hours going over the internal documents, emails, spreadsheet and my market timing outline. It's not that it was a significant amount of material, It didn't need to be. I just had to be sure that my experiences in the two and half years I worked a Putnam be completely understood. I told Matt he had to understand that the people I worked with, the rank and file, were as disturbed as I was that Putnam's senior management lacked so much character and back bone that they allowed the CEO to obliterate the reputation of all those at Putnam who **did** have the Investor's interest First.

The following week I met with Tom Dwyer, Michael Collora, and Jody Newman. I was concerned that I was unaware that their firm represented the two Prudential broker charged with trading abuses. I declined any further representation. Every step of the way for me there has been some peculiar coincidences.
When the Scandal broke, Putnam's senior management dug in with a strategy that they hope would buy them time. How unfortunate that those under Larry Lasser were willing

to risk sinking the ship with denial after denial at the CEOs direction. They did not know that he would be the first in his lifeboat rather than sticking around to walk the plank. They were so out of touch with the utter frustration and contempt the American Worker/Investor has for those who keep on trying to line their pockets at their expense.

Every single day, the Taxpayer, who is the Worker, who is the Investor, is getting nickled and dimed to death. Through no fault of their own, they are being scammed on such a regular basis there heads are spinning. Day in and day out the American worker is trying to eke out a living, trying to be responsible for their retirement needs. They are well aware that they will be the major and hopefully not the only contributor to their retirement.

The one of the most disturbing matters for me still remains, and that is the treatment I have received from the very Commission that should be honoring my efforts. I have put exposing market timing in the Mutual Fund Industry above my own welfare and the welfare of my family – who knows what the future holds for us. For the SEC's Stephen Cutler to dismiss me as one of the "one thousand tips" they receive a day was outrageous, adding insult to injury.

It is even more of a concern that the SEC wishes I never existed. They have been quoted in the press as saying I was "a disgruntled market timer," that I met with them in January instead of April, and then they claimed I met with them in May instead of April. The reason they wish I would go away is that they were at Putnam Investments doing 'routine regulatory' work the very day I was in their Boston offices giving them the complete details about the market timing at Putnam.

They refused to look at the "can of worms" I had delivered to their door. Now the question that comes to mind is how is it possible they would not even try to open it, all they had to do, so very simply, was bring up just one of the accounts that I provided. But they have there ways, midnight phone tips two days before I meet with state regulators gets them back in the game. It was peculiar how quickly they settled with Putnam Investment without Putnam admitting to any guilt. Something is very wrong with this picture, maybe someone should talk the Massachusetts SEC official that very quietly resigned and hopes to 'fade into anonymity.'

I want to share my thoughts on a few subjects that concern us today. The 401K, IRA , Taft-Hartley plan, dollar cost averaging workers are the very life blood of our economy. To think that a few of many who make up the Mutual Fund Industry think that the contributions entrusted are theirs to divvy up amongst themselves is OUTRAGOUS.

The longer it takes Mutual Fund Companies that have come under scrutiny to address their past, the longer it will take them to move ahead, if they can move ahead at all. For a CEO to leave a company like Putnam Investments in such a horrendous position, risking the livelihood of all the innocent rank and file has to be CRIMINAL. And for those who thought market timing is no real problem, well think again.

After I read Stanford University's Eric Zitzewitz' study on market timing, I was not shocked; my understanding of human nature and experience at Putnam Investment led me to believe market timing abuses must be widespread. But there was one question that he did not address which I believed I knew the answer to but I needed someone of his expertise to validate it for me. I called Eric at Colombia University and asked him quite simply:

> "**Did market timing in the last five years contribute to the historic volatility we have experienced affecting all markets?**"
>
> **Eric's answer was "Sure it did, but it would be unquantifiable."**

In conclusion, we have let a select group affect our markets in a way we cannot fully measure. That is a very troubling thought.

Mutual Fund trading abuse can be curtailed with appropriate regulation. But there is one form of uncovering abuses that has yet to be suggested. As the Federal Government has in place a very effective "Whistleblower Statute" for the monies we entrust the government to spend, so too there should be replicated a statute for the Securities Industry.

The Sarbanes-Oxley Act of 2002 will not inspire those who may want to come forward but are not will to risk their careers and maybe more. Every regulator I have spoken to said, "Peter, it's going to take insiders like you make a difference." It's the proverbial needle in a haystack, and with the technology available today as well as the future technologies which will be magnified thousands of times, we can make a difference. Maybe the next person to step up to the plate may have even more to offer than a former waiter from Boston's North End.

The SEVEN TRILLION DOLLARS the AMERICAN WORKERS have invested in the Mutual Fund Industry should be considered a NATIONAL TREASURE and treated as such. It is one of our citizens' GREATEST NATIONAL RESOURSES, and PLUNDERING it for the benefit of those so undeserving should be a CRIME.

I have been dismissed by a CPA, a CEO, and the SEC and all of them more likely than not regret it. I was BASHED IN THE HEAD for the AMERICAN WORKER.

Now Senators is your once in an INVESTOR"S LIFETIME OPPORTUNITY for you to level the playing field. I remember Matt Nestor saying that he worked on the "side of the angels" and to do that effectively you must think like the devil. Let us not close the back door to have the offenders slip in the side window.

Thank you once again for allowing me to present these issues for your consideration. It is a privilege and an honor for me to do so.