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Richard Strong sheds one of his investment roles

0:10 AM 11/03/03

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Richard S. Strong, chairman and founder of Strong Financial Corp., has stepped down from the independent board that oversees his company's mutual funds and more developments are likely this week, officials said.

In a statement issued Sunday afternoon, the five independent directors of the Strong mutual funds said they had accepted Strong's resignation as chairman of the funds' board. However, his resignation from the funds' board does not affect his role as chairman and chief investment officer of Strong Capital Management, which provides investment services to the funds.

Strong's decision to step down from the funds' board follows a statement last week by New York Attorney General Eliot Spitzer that he expects to charge Strong in connection with improper trades in his own funds. According to The New York Times, Strong may have gained as much as \$600,000 from activities including a "small number" of next-day trades he has conceded to.

On Sunday, Juanita Scarlett, a spokeswoman for Spitzer's office, called Strong's resignation from the independent board "inadequate," since he is retaining his other titles.

Stanley Kritzik, one of the independent directors of the funds, said the board has started to search for an independent president to oversee the funds' management and work closely with David Ruder, a former Securities and Exchange Commission chairman who has been retained by the Strong organization to review the company's policies and procedures.

The independent board oversees the funds' contract with Strong Capital Management, under which Strong Capital provides professional management, investment advice, bookkeeping and other services to the funds. Kritzik said he and the other independent directors, who are elected by shareholders of the funds, are responsible for ensuring the one-year contract with Strong is beneficial to shareholders. <

"Every year, we have a lengthy procedure to review the terms and conditions of what is called the advisory agreement" with Strong, Kritzik said Sunday. "One of the tasks that we're charged with is seeing how well these funds are doing."

The independent directors have faced criticism from shareholder groups for waiting until last week to announce their own investigation into the trading at Strong. The independent directors might have been quicker and more effective in their defense of shareholders' interests if they weren't responsible for so many Strong funds, Morningstar analyst Paul Herbert said Thursday.

The directors oversee 71 company funds, according to Strong's Web site and documents filed with federal regulators.

"They're stretched too thin," Herbert said.

In their statement Sunday, the independent directors said they are continuing their examination and "intend to take all steps necessary to protect the interests of

shareholders."

Other investigations also are proceeding. Lorrie Keating Heinemann, secretary of the state Department of Financial Institutions, said state officials are working closely with the U.S. Securities and Exchange Commission, "which is moving quite quickly on this case."

"It would be likely that you would see further discussions in the next week," Heinemann said Sunday.

Strong spokeswoman Stephanie Truog declined to comment on Strong's decision to step down from the funds' board. Today, officials with the Wisconsin College Savings Program board will meet in Madison with a newly-hired attorney to discuss how to respond to the latest allegations about Strong. Strong, of Menomonee Falls, has the sole contract to administer EdVest and other state college savings programs and investors have some \$759 million invested in those programs in Strong funds.

Attorney General Peg Lautenschlager said her office has declined a request by the state treasurer to represent the college savings program in a possible case against Strong.

"We were reluctant to take on the obligation of representing EdVest in a possible civil case, knowing that it would preclude us from involvement in any possible criminal matter that might arise," Lautenschlager said.

While federal officials bear responsibility for investment firms with more than \$25 million under management, the state has jurisdiction over registered investment advisers and representatives, Heinemann said. The state also can pursue fraud cases.

"We're looking to make sure that what's represented in the prospectus is true of what's being offered to investors," she said.

Strong is one of at least a dozen mutual fund companies under scrutiny nationwide. Although the results of the various investigations remain unclear, the accusations against the industry erode investor confidence, said Werner De Bondt, Richard Driehaus professor of finance with DePaul University in Chicago.

"Millions of people have put their trust in mutual fund managers. There is no doubt that they have a fiduciary duty," De Bondt said. "The real worry from the standpoint of the economic system is that if people lose their trust in the system, there would be less saving and less investment. It basically withdraws capital from the corporate sector."

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