

Stephen B. Sawtelle, The 27 Million Dollar Man

By Paul Glenn Neuman



Most of you will remember the landmark arbitration case of Stephen B. Sawtelle vs. Waddell and Reed, Inc. that will go down in Wall Street history as the longest arbitration and the largest punitive damage award ever given to a financial advisor. After eight grueling years, the NASD arbitration panel awarded him \$27 million on August 7, 2001 in compensatory and punitive damages for what his firm put him through.

In addition to awarding damages, the arbitrators ordered that defamatory information Waddell & Reed had placed on Mr. Sawtelle's Form U-5 be expunged.

We have been asked by readers whatever happened to Steve Sawtelle? Did he win his battle? Is he still in the industry? To share the case with those of you who are not familiar, here are the details:

After 17 years as an advisor for mutual fund powerhouse Waddell & Reed, ex-Green Beret Stephen Sawtelle was honored in 1997 as "Advisor of the Year" for single-handedly producing 6% of the company's bottom line. A week later, Waddell & Reed fired Sawtelle in retaliation for his refusal to lie to SEC investigators about another W&R advisor caught embezzling within the company.

Sawtelle's untimely dismissal set into motion a dramatic David and Goliath battle lasting almost eight years, beginning with W&R hiring attorney and ex-SEC enforcement officer Theodore Sonde, and funding an orchestrated campaign to discredit Sawtelle and capture all of Sawtelle's 2800 clients.

From hiring telemarketers to inform Sawtelle's clients that he had been let go because he was unfit to professionally manage their financial affairs, to having clients' calls to Sawtelle rerouted to Waddell & Reed, and even hiring someone to steal his mail — W&R pursued their quest to destroy Sawtelle professionally and privately.

This unrelenting assault took a terrible toll on Sawtelle's family as he battled to reclaim both his reputation and his clients. Eventually, he found a new spot with brokerage firm Hackett Associates and began, one by one, winning back his clients. Waddell & Reed responded by filing charges against Sawtelle's new employer.

Waddell & Reed subjected Sawtelle and his attorneys, Carl Secola and Jeffrey Liddle, to an unprecedented 108 arbitration sessions, each one personally costing Stephen Sawtelle between \$10,000 and \$15,000. When the three-member arbitration panel finally rendered their decision, in direct response to Waddell & Reed's "reprehensible behavior," it ruled in Sawtelle's favor to the tune of \$25 million in punitive damages, the highest such award in Wall Street history.

Finally, on February 3, 2003, after spending approximately \$22 million in six years financing their vendetta against Sawtelle — \$16 million during the arbitration process, with another \$6 million going to law firm Skadden Arps — the Appellate Division of the New York Supreme Court remanded the \$25 million punitive damages originally awarded Sawtelle back to the same three arbitrators for reconsideration of that punitive amount.

The case was then re-argued before the original arbitration panel in May 2003. In September 2003, the arbitration panel reaffirmed its original decision in awarding Sawtelle \$25 million in punitive damages. Waddell & Reed appealed and, on January 26, 2004, Judge Stallman, who originally ruled in Sawtelle's favor with a 20-page decision, now ruled against Sawtelle in a five-page decision that sent the case to a new arbitration panel to determine what, if anything, Sawtelle would receive.

On December 15, 2005, eight years after his nightmare began, Sawtelle accepted a settlement of \$7.9 million. When added to the \$1.2 million in compensatory damages, plus attorney's fees of \$747,000 already paid out, he received a total of about \$10 million.

It has often been asked why Waddell & Reed would fire Sawtelle and then spend millions to crucify their company's top performer? As one of Sawtelle's attorneys, Carl Secola, so keenly observed, "Obviously, someone at Waddell & Reed was convinced they could get rid of their golden goose and still keep the eggs."

Professionally and financially vindicated after a grueling eight-year war of attrition that saw him spend his life savings and mortgage his house in order to face his Goliath and win, Stephen Sawtelle's hard fought victory was, at best, bittersweet. Shortly after closing the door on this unbearable chapter of his life, Sawtelle's courageous and dedicated wife, Sherry, was diagnosed with cancer. Early in the morning of August 18, 2007, this remarkable woman who fought alongside her husband for justice, succumbed to her illness.

Today, Sawtelle runs his own highly successful firm, SBS Star, in North Haven, Connecticut. He is with LPL-affiliate Waterstone Financial Group, and maintains a client base of about 2400 clients.

Paul Glen Neuman is a 25-year veteran financial writer and former associate editor of Registered Rep magazine. He and Sydney LeBlanc interviewed Mr. Sawtelle, which was a breaking cover story, for On Wall Street magazine in Oct., 2001