Terry Burns and the New York Stock Exchange

In October of 1997, Terry Burns was promoted to Specialist Member of the New York Stock Exchange (NYSE) by the senior partners of Robertson & Co., LLC Specialists NYSE. This was a great honor for Terry and a just reward for over 10 years of dedicated hard work as a Specialist's assistant. Becoming a member of the Exchange is a tremendous step; it's like being called up to play for the Yankees after years of minor league ball. Terry understood the value of being made a Specialist Member of the Exchange and the faith the senior partners of the firm had in him. Robertson & Co was a family owned firm with a history that dated back generations and a culture of integrity the leaders of the firm strictly maintained. The integrity of the Exchange was paramount in the way the firm conducted business. A Specialist had great responsibility to the public because they "ran the book." Specialists were the point of trade. All public orders to buy or sell in a particular stock would end up the hands of a Specialist who would then assign a price. It was a great responsibility requiring years of training, a solid understanding of the rules of the Exchange, and—above all—integrity. Terry was made a member because the partners of the firm believed he was a person of good character.

In 2000 Robertson & Co. was purchased for millions of dollars by a larger Specialist firm, Holland & Co. This was a life-changing event for Terry because, just prior to the "buyout," he was made a junior partner, which meant he was able to participate financially in the transaction. He chose to continue on with Holland & Co. as a percentage partner, and he soon came to understand that Holland & Co. was a very profitable firm.

At first the transition to the new firm was exhilarating, as sudden wealth tends to have a euphoric effect. Terry and his wife fulfilled one of their lifelong dreams and purchased a beach house along the New Jersey shore. What beach house would be complete without a new boat and Jet Ski? They were living the life of their dreams: summers at the beach with friends and family with nothing but sun, surf, and water sports. Life was great, they were happy, and Terry felt he finally had made it.

By the end of the first year with the new firm, Terry realized a major difference in the firm's culture and the way the members of the management committee led the firm. The culture was focused exclusively on profit, and the firm's managing partners led by example. Terry came to realize that the new team was comprised of truly exceptional traders. No matter how hectic or seemingly out of control the trading was, they always made money and expected all of the subordinate partners to do the same. The managers often questioned Terry as to why he did not generate more trading profits and suggested he should "be more aggressive." Terry struggled with this because he felt he already was aggressive and trading well.

When Terry was with Robertson & Co., he believed he was good trader. He consistently made profits for the firm, but like most other specialists, he didn't win every time. As a result of this Terry struggled with whether or not he would be able to maintain his position. He could not figure out how to be as profitable as many of the other partners in his firm. This problem was shared by all the other members of Robertson &Co. who became part of the new firm. Some of them expressed that they were being pressured to circumvent the rules to better position themselves to make money. In other words, put themselves "in front of the public" (illegal trading).

One morning in March of 2001, the management committee called Terry and several members of the original Robertson firm into a small conference room with the intention of reprimanding them on their poor trading skills and unaggressive trading style. The management also mandated several specific trading instructions to Terry and his fellow members. They had to make greater trading profits or risk losing their job. At this point, Terry spoke up and gave an example of a common situation where no matter how quick you can make a decision the only way to make a profit was to break the rules of the Exchange. One of the senior partners spoke up and said, "we are not telling you to break the rules—just make more money." Terry left this meeting feeling very unsettled and distraught. The details of the meeting were permanently forged in his mind. He struggled with how he could be as profitable as they wanted him to be without crossing the line. Terry's thoughts went to his wife and kids and the life style he had provided for them.

Place yourself in Terry's position: what would you do at this point?

When Terry went to the floor that morning after the meeting he was conflicted with how he was going to adapt to the expectations management placed before him. He questioned his core beliefs and principles and actually began to rationalize crossing the line for better profit. He realized that trading to make a greater profit was easy if you bend the rules and even more fruitful if you were willing to break them. He also knew that the chance of getting caught was a long shot at best because trades happen so quickly it would be difficult to prove a Specialist intentionally bought or sold "in front of the public."

Terry was a competitive person by nature, and he hated the feeling of not being considered a valuable member of the firm. Not to mention the fact that he has never been reprimanded for doing a poor job. He was a skilled Specialist with experience enough to know how to bypass the rules without getting caught—or at least he thought he did. From that point on Terry found himself in countless situations everyday where he was positioned to decide whether to circumvent the rules of the Exchange or maintain his responsibility to the public; however, he worked so hard for many years to finally achieve the level of success to provide the kind of life he wanted for his wife and children. Terry found himself at a crossroads. The thought of losing his job and disappointing his wife and kids scared the hell out him but the fear of violating the sanctity of the Exchange was greater.

In 2003 an investigation by the SEC, the US Attorney General and the NYSE revealed what they believed was widespread fraud and mishandling of public orders involving the Specialist system on the NYSE. The investigators focused on the management committee. They were very interested in their trading habits and the consistency in which they were profitable. The investigators were also investigating the culture of the firm and the levels of command. Terry was interrogated under oath by the FBI and the US Attorney's office. He was asked to talk about the meeting that took place in March of 2001. The investigators wanted to know what took place in that meeting, who was present, and what was said.

Terry realized that this was a pivotal moment in his life and he had a decision to make. He could tell the investigators he didn't remember anything and possibly avoid any further involvement, or answer the questions asked of him as honestly as possible. Terry had to decide whether or not to be forthright.

It is March of 2001. The meeting with the management committee is over and Terry is heading to the trading floor for the opening bell.

Would you put your career and lifestyle in jeopardy to preserve the integrity of the institution in which you are a member?

If you believed you would not get caught would you cheat?

Would you be able to stay firm to your principals and accept the consequences?

Place yourself in Terry Burns's position. You are being interrogated by the FBI and the US Attorney General. They ask specific questions, and you know the answers.

Would you say you "don't recall" even when you do remember the actual events to avoid being involved?

If you are asked a question, under oath, that you know the answer to and you answer, "I don't remember," do you believe you are lying?

What would you do?