CUG.COMments

A Newsletter from Chicago Underwriting Group, Inc.
Underwriters of D & O and Professional Liability Insurance

Issue 13 December 2000

The staff of Chicago Underwriting Group, Inc. sends Holiday greetings and best wishes for the New Year to all our business partners!

2000: Some Thoughts

2000 was another eventful year for executive liability, but ironically the year began with a notable non-event: the Y2K problem (apologies to all who hoped never to see those words again). After many months of doomsday hypothesizing and many millions of dollars spent in systems remediation, the fateful day came and went with barely a whimper. Maybe it proved that all that money was well spent. Maybe; but the whimper was worldwide, and countries where almost nothing had been spent to fix the "problem" emerged about as unscathed as the U.S. But what of the real stories of 2000? Our first is still unfolding as we write this newsletter.

The Stock Market

On March 9, 2000 the NASDAQ composite index closed above 5,000 for the first time. This was some two months after it had broken the 4,000 mark. But by March 15 this lofty height proved a little too dizzying and the index tumbled to 4,700. By mid-April it was as low as 3,321. On November 30 it closed at 2,597, almost half its March peak. The Dow Jones Industrial Average took a slightly different path down, but down it went nonetheless. From an all-time high of 11,722 on January 14, it fell to 9,796 on March 7, recovered again before returning to the 10,400 mark at November 30.

It appears that for now, at least, the NASDAQ boom is over. Ignited by investor frenzy over anything to do with technology, and fuelled by an endless series of Internet-related IPOs, those who had watched, cheered and marched in the parade realized that the Emperor indeed, had no clothes. Temporarily ignored and unfashionable, "old economy" metrics such as genuine sales of real products for hard cash, and actual operating profit became meaningful again. Individual stock drops from hundreds of dollars to a handful of dollars became commonplace as the "dot com" casualties piled up. To paraphrase Winston Churchill, it may not be the end, but it could certainly be the end of the beginning: there should be interesting times in 2001.

Levitt's Legacy

As the year comes to an end, so does the tenure of Arthur Levitt as Chairman of the Securities Exchange Commission. Faithful to the SEC's motto of "We are the investor's advocate," one of his goals was to provide a level playing field for all those participating in the stock markets, not tilted to favor the interests of professionals and insiders. His criticism of selective disclosure of relevant information was unwavering (see our discussion in "Prior & Pending" (http://www.cug.com/about/prior/sprg_99.asp). On October 23, 2000 the SEC put into effect a set of regulations that will probably define Arthur Levitt's legacy. The first, Regulation FD (Fair Disclosure) attracted in its public discussion phase a record 5,000 letters of comment (mostly in support). While "FD" got most of the publicity, its simultaneous counterpart Regulation 10b5-1 might ultimately have the most impact on D&O liability. This regulation - discussed in the October 2000 issue of "CUG.COMments" (http://www.cug.com/about/cug_com/10_00.asp) - gives formal SEC sanction to pre-planned sales of stock by corporate insiders, and provides a potentially viable defense against certain securities class action law suits. The next issue of "Prior & Pending" will address this in more detail, with comments from attorneys in this field. ✍

As a member of the Old Republic Insurance Group of companies, part of Old Republic International (NYSE: ORI), we are pleased to provide our customers with the stability and security of Old Republic Insurance Company.

A.M. Best rating:	**A+ XV**
Standard & Poors rating:	**AA**

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