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for Banking Services and Investments | des Services Bancaires et d'Investissement

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INVESTIGATION SUMMARY FOR PUBLICATION PURPOSES

BACKGROUND

Mr. P started investing through an investment advisor Mr. S in 1990. In 2003, Mr. S joined Richardson GMP and Mr. P remained his client. Mr. S transferred to Richardson GMP his RRSP, non-registered account, two corporate accounts, as well as third-party-managed investment accounts. Mr. P was 56 years old, earned $250,000 per year, and had accumulated a $3,000,000 net worth. Mr. P held investments with other investment advisors at the same time and had good investment knowledge.

Mr. P's investment goals were to accumulate sufficient assets for a comfortable retirement. Mr. P says he is a conservative investor and that he was not looking for significant or "super" growth. He says he agreed with Mr. S's recommendations to purchase investments that produced a better yield than bonds with slightly higher risk exposure while still having a triple A rating. Mr. P understood there would be some volatility with his investments and that some losses may result, but says he had no desire for aggressive or high-risk investments. At all times, he believed Mr. S was managing his investments according to his documented investment objectives and risk tolerances, which were a balance of moderate to higher-risk, income-producing investments and moderate-risk, growth-oriented investments.

Mr. S reviewed Mr. P's investments with him on an annual basis. Mr. P was satisfied with Mr. S and the performance of his investments and he had no concerns regarding his investments until late 2007. Over the next few months, Mr. P started to appreciate that some of the investments Mr. S selected for higher returns were not working out and were higher risk than he originally believed. Mr. P says he lost confidence in Mr. S and decided he would no longer transfer any new money to Richardson GMP. Mr. S told him to stick to the plan and that his investments had value that would come later, but was not currently reflected on paper due to the then-market conditions. He followed Mr. S's advice despite his concerns.

By May 2009, Mr. P had sustained $686,000 in losses on his net capital investments of $1,784,000. Mr. P transferred his investments away from Richardson GMP in June 2009.

COMPLAINT

Mr. P complained to Richardson GMP in July and December 2009 saying:

- Mr. S was negligent in his management of Mr. P's accounts. Specifically, he selected unsuitable securities (Mr. P provided a list), he paid no attention to individual security weightings, and did not have an asset mix strategy.

- While Mr. S made investment recommendations to produce income, he was also responsible to protect his principal and properly manage risk. He did not use income investments like traditional government bonds, or bonds issued by well-known corporations, nor did he take immediate action when the securities he recommended lost their investment grade status. He also took no action when a stock fell from the mid-$20 range to below $1 when stop loss positions were at his disposal. Richardson GMP provided no oversight and the advice Mr. S provided was to increase Richardson GMP's revenue and Mr. S's income; and,

- Mr. S never explained the true risk or nature of the investments he recommended nor were the risks understood by Richardson GMP and/or Mr. S.

Mr. P requested compensation for his losses but did not specify an amount.

RICHARDSON GMP'S RESPONSE

Richardson GMP responded to Mr. P by letter in October 2009 and February 2010 saying:

- Mr. S provided Mr. P with up-to-date risk analysis and recommendations on which asset categories had to be rebalanced;

- The investments Mr. P specified in his complaint were in accordance with his documented Know Your Client (KYC) information. The decline in their value occurred after the credit crisis and Richardson GMP is not responsible for market losses; and,

- Mr. S's recommendations were made in good faith, on a reasonable basis, in light of publically available information and consistent with the KYC parameters.

Richardson GMP did not offer Mr. P any compensation.

OBSI FINDINGS

Mr. P was employed with a stable income and had a significant net worth. OBSI determined Mr. P had good investment knowledge based on his experience investing with different advisors. In our view, the documented moderate-risk growth and moderate to higher-risk income investment objectives reasonably reflected Mr. P's investment objectives. He had a willingness to accept some risk and it was reasonable in view of his personal and financial circumstances. We relied on the documented risk tolerance and investment objectives in our analysis.

OBSI conducted a detailed analysis of the investments in Mr. P's accounts using historical information about the investments at the time of their purchase. OBSI assessed the investments at periodic intervals during the period of time Mr. P's accounts were open at Richardson GMP. OBSI concluded that a number of Mr. S's recommendations were unsuitable. In particular, we determined that in all of Mr. P's accounts, Mr. S had purchased investments that exceeded Mr. P's documented risk tolerance.

OBSI presented its risk and asset allocation analysis to Mr. S and Richardson GMP for comment. Mr. S provided information to support his view that the investments OBSI concluded were higher-risk were in fact less risky. While OBSI was able to accept some of Mr. S’s views regarding specific securities, we were unable to agree that all the investments were less than high risk.

By comparing the performance of Mr. P’s unsuitable investments to the appropriate benchmarks, OBSI concluded Mr. P incurred $232,500 in financial harm due to Mr. S’s unsuitable recommendations during the relevant time period. Richardson GMP is responsible for Mr. P’s losses but has refused to compensate him any amount.