

Enforcement News

from the North Dakota Securities Commissioner

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Securities Commissioner Suspends Local Brokers

Bismarck, ND—North Dakota Securities Commissioner Syver Vinje announced today that he has summarily suspended the securities agent registrations of two local stockbrokers, Arnold James (Jim) Schulz and Todd James Schulz. Commissioner Vinje also brought action to permanently revoke their agent registrations. Jim and Todd Schulz are father and son. They have conducted securities business in Bismarck for several years as agents for H. D. Vest Investment Services, Inc, based in Irving Texas.

"Our investigation of the Schulzes business activity has uncovered clear and compelling evidence of numerous and significant violations of the securities laws, including unauthorized trading, unsuitable trading, and providing false and misleading information to their clients. It is apparent these activities caused substantial—and perhaps irreparable—financial harm to their clients.

"Under North Dakota law and the rules governing the securities industry, a securities agent cannot conduct trading in a client account without the client's approval prior to trades. An agent cannot exercise discretionary trading in a client account, unless the client has signed a written discretionary trading agreement authorizing the agent to exercise his own judgment when conducting client trades.

"Our investigation shows that Jim and Todd Schulz routinely conducted trading in client accounts without specific prior approval of the client, and without discretionary trading agreements," Vinje said.

"To make matters worse, it's apparent that many of the trades the Schulzes executed were not suitable considering the investment objectives, risk temperaments, and financial situations of their clients," said Vinje. "In many accounts, including the accounts of conservative and financially unsophisticated clients, the Schulzes traded risky and volatile options and other speculative investments." Vinje noted, "Our analysis of client records shows that these trading strategies subjected clients to unsuitable risks and unjustifiable losses. In many cases, the Schulzes had over concentrated client investments in a few speculative stocks, which provided inadequate diversification and magnified the damage to client investment portfolios.

"To further compound the problem, Jim and Todd Schulz created false and misleading statements which they sent to clients, for the apparent purpose of concealing investment losses," Vinje said. "Some clients told our investigators that Jim and/or Todd Schulz informed them to disregard the statements provided to them by H. D. Vest, and to rely solely on the statements that the Schulzes prepared in their office."

Vinje said, "As Securities Commissioner, it is my responsibility to stop violations of securities law and to take enforcement actions against violators. I took this unprecedented action to stop the Schulzes from doing further damage to their clients pending a full investigation into this matter, and its ultimate resolution. It is our understanding that the Schulzes resigned from H.D. Vest after receiving our Order of Suspension."

In mid-December, the Commissioner issued a Cease and Desist Order against Jim and Todd Schulz based on the same allegations. Vinje said, "Our office first took lesser action because we did not then know the full scope of the violations. We were also hesitant to send clients searching for new securities agents in mid-December, when many year-end tax planning decisions must be made." Vinje noted that neither Jim nor Todd Schulz contested the Cease and Desist Order.

"It is unfortunate that this action was necessary, and that so many clients were harmed through the activities of their securities agents," said Vinje. "It is important to note that the activities of Jim and Todd Schulz do not represent the securities industry in North Dakota. The overwhelming majority of securities agents in North Dakota exhibit a high standard of ethical conduct, and put the interests of their clients foremost in their minds."

"Most investors will never experience the harm caused by this type of broker misconduct. Nevertheless, people should know there are many things investors can do to protect themselves," Vinje said. "First, investors can check out the background of their financial professionals by contacting the North Dakota Securities Commissioner's Investor Hotline at 1-800-297-5124, or checking with the National Association of Securities Dealers at www.nasdr.com.

"Investors should stay on top of their accounts by carefully reading their account statements and trade confirmation statements to ensure that all of the transactions in their accounts are authorized. Investors should understand their holdings in order to be sure they are comfortable with the risks involved in their investments."

Vinje Said, "Investors should contact the Office of the Securities Commissioner in the event that they find any unauthorized transactions or transactions which are not in line with their investment objectives, risk temperament, and financial situation. These simple steps can go a long way to protect investors from being harmed by these types of violations."

Vinje added, "Most important of all, investors need to become educated about investments and the markets, and take charge of their own financial future, whether they are working with a financial services professional or 'going it alone' on the Internet."

"Our office has scores of unbiased educational materials produced by state and federal securities regulators, the securities industry, and financial services self-regulatory organizations. Virtually all of this material is available free of charge to North Dakota residents. We also have several professionally produced seminars and presentations that teach about investing and financial planning. Members of our staff are available to present these to any civic club, church group, professional association, or any other public-spirited organization at no cost. People with Internet access can also visit our Website www.state.nd.us/securities. We provide four new educational segments a month on various investment and financial planning topics.

"The bottom line is this: Educated and informed investors are not likely to become victims of rogue brokers or investment scams," Vinje said.