STATE OF CONNECTICUT

**DEPARTMENT OF BANKING**

44 Capitol Avenue, Hartford, CT 06106

HOWARD B. BROWN
COMMISSIONER

PAUL J. McDONOUGH
DEPUTY BANKING COMMISSIONER

# SECURITIES AND BUSINESS INVESTMENTS DIVISION BULLETIN

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## IN THIS ISSUE:



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## A WORD FROM THE BANKING COMMISSIONER

The year 1989 was marked by a regulatory emphasis on fraud in telemarketing, high pressure sales tactics and penny stocks. Many questioned the adequacy of disclosure in penny stock offerings. On August 22, 1989, the Securities and Exchange Commission promulgated Rule 15c2-6 (effective January 1, 1990) which required that broker-dealers make a special suitability determination when recommending purchases of certain low-priced non-NASDAQ over the counter equities. This issue of the Securities Bulletin provides an overview of Rule 15c2-6, with explanatory comments drawn from SEC Release No. 34-27160.

Rule 15c2-6 was not intended to displace the existing obligation of broker-dealers to render a suitability determination for all recommended transactions. Accordingly, this issue of the Bulletin revisits the general suitability obligation in its Investor Alert. I would encourage all broker-dealers to review regulatory guidelines concerning investor suitability, bearing in mind that a failure to observe suitability requirements may constitute a dishonest or unethical business practice under the Connecticut Uniform Securities Act.

This issue of the Bulletin also showcases current developments in the area of securities enforcement. During the last half of 1989, the agency devoted increased scrutiny to licensing and to business opportunity regulation.

Also included is a message from the State Board of Accountancy describing the distinction between public accountants and certified public accountants which should be helpful to those involved in the preparation of financial statements.

I would also like to mention that the department is currently planning its annual Securities Forum, an educational program which met with success last year. We anticipate that the program will consist of a half-day session and will be held in June of this year. The program will focus on timely regulatory issues confronting the securities industry.

It is my hope that the Bulletin will continue to provide a valuable source of information to its readers.

Howard B. Brown
Banking Commissioner

## COMMISSIONER APPOINTS FOURTEEN TO ADVISORY COMMITTEE

Commissioner Howard B. Brown appointed fourteen individuals to his Advisory Committee on Securities. Chairing the committee is Willard F. Pinney, Jr., a partner in the law firm of Murtha, Cullina, Richter & Pinney in Hartford. Serving as vice-chairperson is Harold B. Finn, III, a partner in the Stamford law firm of Finn Dixon & Herling. Also named to the committee were George N. Gingold, Counsel at Aetna Life & Casualty; Robert Googins of Hoberman & Pollack, P.C. in Hartford; Dane Kostin of Tarlow Levy Harding & Droney in Farmington; Lee G. Kuckro, General Counsel, Secretary and Vice President of Advest, Inc. in Hartford; William H. Cuddy, a partner in the Hartford law firm of Day, Berry & Howard; Richard L. Rose of the Stamford law firm of Cummings & Lockwood; Stephen H. Solomson of O'Connell, Flaherty, Attmore & Forsyth in Hartford; Robert B. Titus, a professor of law at Western New England College of Law in Springfield, Massachusetts; Frank J. Marco of Shipman & Goodwin in Hartford; Nicholas Wolfson, a professor of law at the University of Connecticut School of Law; Jody J. Cranmore of Cranmore and Fitzgerald in Hartford; and Marilyn Ward Ford, a professor of law at the University of Bridgeport Law School.

## NASAA RELATED ACTIVITIES

At its 1989 Fall Conference held in Quebec City, Canada, the membership of the North American Securities Administrators Association, Inc. ("NASAA") elected Ralph Lambiase, Director of the Securities and Business Investments Division of the Connecticut Department of Banking, to its nine member board.

In addition three individuals in the Securities and Business Investments Division will be serving on NASAA committees in 1990. Eric Wilder, Assistant Director of the Division, has been appointed to the Financial Planners/Investment Advisers Committee where he will serve as vice chairperson. Cynthia Antanaitis, also an Assistant Division Director, was named vice chairperson of the Legislation/Regulation Committee. John Walsh, Senior Examiner with the division, was appointed to the NASAA Enforcement Policy Committee.

## SEC ADOPTS PENNY STOCK RULE

Effective January 1, 1990, Rule 15c2-6 (17 CFR 240.15c2-6) went into effect. Informally known as the "Penny Stock Rule", the rule was promulgated under Sections 3, 10, 15 and 23 of the Securities Exchange Act of 1934, 15 U.S.C. 78c, 78j, 78o and 78w, and imposes certain sales practice requirements on broker-dealers who recommend the purchase of designated low-priced non-NASDAQ over-the-counter securities to persons who are not established customers. Non-NASDAQ securities are quoted primarily in the National Daily Quotation Service published by the National Quotation Bureau (otherwise known as the "pink sheets"). Many are low-priced securities commonly denominated as "penny stocks." Following is an overview of the Rule, with clarifying comments drawn from Securities and Exchange Commission Release No. 27160 (August 22, 1989), Fed. Sec. L. Rep. (hereafter, the "Release").*

### I. OBJECTIVES OF THE RULE

The SEC noted in the Release that the Rule "was intended to prevent the indiscriminate use by broker-dealers of fraudulent, high pressure telephone sales campaigns to sell ... [certain low-priced] securities to unsophisticated investors." (Release, p. 80,404) The rule proposal recognized that many purchasers of penny stocks had little investment experience and limited financial resources and that this, combined with high pressure sales tactics, encouraged a disregard for suitability requirements. (Release, p. 80,406) Issuer disclosure would not provide sufficient protection to investors. (Release, pp. 80,413, 80,415)

At the same time, the SEC recognized that low-priced securities sold in large volume could generate enormous profits for broker-dealers. The Commission noted that:

> Price spreads in these securities, while small in dollar amount can be very large in percentage terms. For example, if a stock is quoted at five cents bid and ten cents asked, the spread, while only five cents in amount, constitutes a potential 100% profit per share to the broker-dealer. The broker-dealer can attract purchasers to these stocks by touting that a small gain in price will produce large percentage gains in value. Unsophisticated investors may fail to recognize, however, that if they purchase a stock with a 100% spread they will not break even on a sale of their investment until the bid price doubles (assuming that a broker-dealer actually will buy all of the investor's stock at that bid price). (Release, p. 80,406)

The Commission added that "the per share profit to the broker-dealer may be much higher than the spread alone. The 'market' for these securities is frequently dominated and controlled by the broker-dealer, thereby permitting arbitrary pricing." (Release, p. 80,406, n. 14)

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*Page references are to the Commerce Clearing House Federal Securities Law Reporter.

Another consideration was that information on the issuer and the securities was often lacking where the securities were issued by smaller, non-reporting companies. The Commission commented that:

> The non-NASDAQ OTC market does not have reliable quotation or trade information that the public could use to examine the nature of the market. In contrast, firm quotations are readily available in exchange and NASDAQ markets, and all exchange securities and NASDAQ/National Market System Securities have minute by minute trade reports that are disseminated to investors. The availability of this information makes possible ongoing electronics surveillance of exchange and NASDAQ markets by the relevant self-regulatory organization .... (Release, p. 80,406)

## II. THE RULE ONLY APPLIES TO "DESIGNATED SECURITIES"

Rule 15c2-6 only applies to transactions in a "designated security" which is broadly defined in subsection (d)(2) of the Rule to mean "any equity security" with certain exceptions. The Commission explained that "[a]lthough there is evidence that boiler room abuses can occur in connection with debt transactions, such abuses do not appear to be of the same nature or to have occurred with the same frequency as abuses in connection with equity transactions." (Release, p. 80,411) Not all equity securities, however, would be deemed "designated securities." Following are the exceptions.

### A. Exchange Listed and NASDAQ Equities

The Rule excepts equity securities registered, or approved for registration upon notice of issuance, on a national securities exchange that makes transaction reports available pursuant to 17 CFR 11Aa3-1. The SEC noted that "exchange-listed securities exempt from the Rule at a minimum should be subject to quotation and last sale reporting" (Release, p. 80,411, n. 40) and recently indicated that the exclusion would not apply to equities listed on the Spokane Exchange since it was not required to make transaction reports available under 17 CFR 11Aa3-1.

Similarly excluded are equity securities authorized, or approved for authorization upon notice of issuance, for quotation in the NASDAQ system. The Commission stated that

> the exchange and NASDAQ transaction reporting and surveillance systems operated by the SROs provide the basis for sufficient monitoring and prosecution of fraudulent activities, without the imposition ... of the requirements of the Rule. In addition, issuers of securities traded on an exchange or NASDAQ must comply with increased corporate disclosure requirements. Moreover, an issuer whose securities trade on an organized, visible market is more likely to be followed by professional securities analysts and the public, with greater opportunity for efficient pricing of the issuer's securities. (Release, p. 80,412)

Securities issued in initial public offerings would not be considered "designated securities" if, upon completion of the offering, they would be traded on an exchange or NASDAQ. (Release, p. 80,412)

B. Equities Issued by Investment Companies Registered Under the Investment Company Act of 1940

Similarly excluded from the rule are equities issued by an investment company registered under the federal Investment Company Act of 1940.

C. Put and Call Options Issued by the Options Clearing Corporation

In excepting puts and calls issued by the Options Clearing Corporation, the Commission noted that "sales of these options already are subject to special suitability and risk disclosure requirements under Commission and SRO rules." (Release, p. 80,410, n. 30)

D. Equity Securities Whose Issuer Has Net Tangible Assets in Excess of $2 Million

The basis for this exception was an assumption that entities historically used in penny stock manipulations rarely had $2 million in net tangible assets (Release, p. 80,413). The net tangible asset standard was designed to exclude intangible assets which could be improperly inflated (Release, p. 80,413). Moreover, the criteria for this exception were deliberately made higher than the standards for qualification on NASDAQ in light of the absence of the protections of trading in a market with visible quotations, transaction reporting, and electronic surveillance capabilities. (Release, p. 80,413)

In determining whether an issuer satisfies the net tangible asset requirement, a broker-dealer is required to review the issuer's financial statements dated less than fifteen months previously and reasonably believe that the financial statements are true and complete in relation to the date of the transaction in question.

If the issuer is not a foreign private issuer, the financial statements must be the most recent that have been audited and reported on by an independent public accountant in accordance with Regulation S-K, 17 CFR 210.2-02. The existence of an unqualified opinion by an independent public accountant would constitute, in the absence of information to the contrary, a reasonable basis for a broker-dealer to believe that the financial statements were true and complete (Release, p. 80,413, n. 45).

If the issuer is a foreign private issuer, the financial statements must be the most recent that have been filed with the SEC; furnished to the SEC under 17 CFR 240.12g3-2(b); or prepared in accordance with GAAP in the country of incorporation, audited in compliance with the requirements of that jurisdiction, and reported on by an accountant duly registered and in good standing in accordance with the regulations of that jurisdiction. The Commission has indicated that "the $2 million net tangible asset exclusion and the five dollar price exemption [discussed below] will except most foreign

securities broadly traded in the non-NASDAQ OTC market. For foreign securities that do not qualify for these exclusions, the Commission has retained general authority under paragraph (c)(5) of the Rule to provide relief in appropriate situations." (Release, p. 80,411, n. 38)

## III. EXEMPT TRANSACTIONS

Regardless of whether an equity security would be considered a "Designated Security" for purposes of the Rule, the transaction may still be exempt. Exemptions from the requirements of the Rule are described below.

### A. Transactions Involving Designated Securities with a Price of $5 or More

There are several reasons behind this exemption. First, it would enable issuers of equity securities, whether common stock, preferred stock, limited partnership interests or other equity securities to achieve greater control over the application of the Rule to their securities by enabling them to adjust their capital structure and set the price for their securities so as to avoid the strictures of the Rule. (Release, p. 80,414) Second, the exemption could be easily monitored by broker-dealers (Release, p. 80,414). Third, the $5 price criteria is a uniform standard which is the same price required for inclusion on the list of OTC margin stocks, 12 CFR 220.17(a)(2); for designation as a National Market System Security (Release, p. 80,414, n. 46); and for qualification to utilize the Uniform Limited Offering Registration developed by the State Regulation of Securities Committee of the American Bar Association for Rule 504 offerings (Release, p. 80,414). Fourth, stocks priced at $5 or more are "less susceptible to manipulation and high pressure sales campaigns because the spreads at this price level are generally much smaller." (Release, p. 80,414) The SEC has also indicated that smaller issuers setting the offering price at $5 or more to avoid the rule may be limited in the number of shares that they can issue, which may somewhat limit secondary trading in their securities. (Release, p. 80,414)

The Release provides that, if the designated security is a unit composed of one or more securities, the unit price divided by the number of components of the unit other than warrants, options, rights, or similar securities must be $5 or more. Any component that is a warrant, option, right, or similar security or a convertible security must have an exercise price or conversion price of $5 or more. The Release explains that

> to avoid the need to assign a price to warrants, options, rights, and the conversion option of a convertible security, the value of these components of a unit would not be considered in determining whether a transaction in the unit was covered by the Rule. Thus, units would be subject to the Rule unless (1) the unit price divided by the number of shares (or interests, in the case of a partnership or trust) included in the unit was $5 or more; and (2) the exercise price of any warrant, option, or right, or the conversion price of a convertible security, included in the unit was $5 or more. Once the components of a unit begin trading separately, both the transaction price and the exercise price of warrants, options, or rights, or the conversion price of convertible securities, would have to be $5 or more to qualify for the $5 exclusion. (Release, pp. 80,414-80,415)

B. Transactions Involving Accredited Investors and Established Customers

Also exempt from the Rule are transactions in which the purchaser of the securities is an accredited investor or an established customer. Under subsection (d)(1) of the Rule, the term "accredited investor" carries the same meaning as it does for Regulation D purposes under 17 CFR 230.501(a). An "established customer" is defined in subsection (d)(3) as "any person for whom the broker or dealer, or a clearing broker on behalf of such broker or dealer, carries an account, and who in such account: (i) has effected a securities transaction, or made a deposit of funds or securities, more than one year previously; or (ii) has made three purchases of designated securities that occurred on separate days and involved different issuers."

The reference to clearing brokers was merely intended to recognize that introducing broker-dealers do not carry accounts. (Release, p. 80,416, n. 53)

The rationale for this exemption is that it was considered "less likely that a person who has had a significant relationship with a broker-dealer for over a year ... [would] be victimized by that broker-dealer engaging in boiler-room abuses. In addition, the alternative requirement of three purchases of Designated Securities increases the likelihood that the customer ... [would] be familiar with the risks of Designated Securities, and that the broker-dealer ... [would] have made an appropriate suitability determination for customers with accounts less than one year old prior to selling them a Designated Security." (Release, p. 80,416) Once a customer is excepted from the Rule, the customer is permanently exempted with respect to that broker-dealer, thus simplifying the firm's compliance procedures. (Release, p. 80,409)

With respect to the three purchase criterion, the SEC has stated that: "If the person ... [has] more than one personal account with the broker-dealer, purchases in all of the accounts could be aggregated to meet the three purchase requirement. In the context of introducing and clearing brokers, however, purchases by a person with more than one personal account carried by the clearing broker could be aggregated only with purchases in accounts that were carried by the clearing broker on behalf of a single introducing broker." (Release, p. 80,416, n. 54)

C. Transactions Not Recommended by the Broker-dealer

According to the Release, the Rule would not apply where a broker-dealer functioned solely as an order taker and executed transactions for persons who decided to purchase Designated Securities on their own without a recommendation from the broker-dealer. In addition, the Rule would not apply to general advertisements which did not contain a direct recommendation to the individual. The SEC has noted that "in most situations in which the broker-dealer brings a specific Designated Security to the attention of the customer, a subsequent purchase of the security will involve an implicit or explicit recommendation by the broker-dealer. For example, if several customers dealing with a registered representative purchased the same security within a short period of time and without communicating with each other, it would be strong evidence that the registered representative had recommended the security." (Release, p. 80,416)

D. Transactions by Non-Market Maker Broker-dealers Whose Commissions and Marks-Ups from Transactions in Designated Securities Did Not Exceed 5% of Total Commissions

The Rule also exempts transactions by a broker-dealer 1) whose commissions, commission equivalents, and mark-ups from transactions in Designated Securities during each of the immediately preceding three months, and during eleven or more of the preceding twelve months, did not exceed five percent of its total commissions, commission equivalents, and mark-ups from transactions in securities during those months; and 2) who has not been a market maker in the Designated Security that is the subject of the transaction in the immediately preceding twelve months.

In the Release, the SEC recognized that

> broker-dealers will need a period of time after the end of a month to determine whether their sales-related revenue from transactions in Designated Securities during the preceding month was less than five percent of their total sales-related revenue from securities transactions. Accordingly, if a broker-dealer's non-market maker transactions during the preceding month were exempt under the percentage exemption, such transactions by the broker-dealer will continue to qualify for the exemption for the first ten business days after the end of the preceding month in order to provide the broker-dealer with an opportunity to make the percentage determination. (Release, p. 80,417, n. 56)

Transactions by market makers in Designated Securities were not eligible for the exemption because "making a market in a security provides an incentive for high pressure sales practices and an opportunity for manipulation of the price of that security that would not otherwise be present, and, consequently, all market makers in a Designated Security should be subject to the Rule, irrespective of the percentage of revenue accounted for by Designated Securities ...." (Release, p. 80,417) The Commission has also remarked that the "percentage of revenue exemption also will restrict collusion between broker-dealers active in penny stocks, in which each firm would sell as agent Designated Securities in which the other firm was a market maker." (Release, p. 80,417)

E. Transactions Otherwise Exempted by the Commission

The Rule also provides an exemption for any transaction that, upon written request or upon its own motion, the SEC conditionally or unconditionally exempts as not being encompassed within the purposes of the Rule.

IV. IMPACT OF THE RULE

The Rule makes it unlawful for a broker-dealer to sell a Designated Security to, or effect the purchase of a Designated Security by, any person unless 1) the transaction is exempt as described above or 2) before the transaction occurs, the broker-dealer both approves the person's account for transactions in Designated Securities and receives a written agreement from the person providing the identity and quantity of Designated Securities to be purchased.

The requirement that the customer agree to the purchase in writing provides the customer with an opportunity to make an investment decision outside of a pressured telephone conversation with a salesperson (Release, p. 80,407) and essentially slows down the process. The SEC has indicated that the agreement need not include a price term ("Price can be agreed upon over the telephone when the broker-dealer receives the customer's written agreement", Release, p. 80,421). However, "[t]he Rule would not preclude a written agreement from including the price agreed upon by the broker-dealer and the customer. If, however, the market price of the security at the time the broker-dealer receives the written agreement is less than the price specified therein, the broker-dealer's 'best execution' obligations would preclude the broker-dealer from executing the transaction at that price." (Release, p. 80,421, n. 64)

## V. PROCEDURES FOR APPROVING ACCOUNTS FOR TRANSACTIONS IN DESIGNATED SECURITIES

### A. Obtain Information on the Customer's Suitability

The Rule requires that the broker-dealer obtain from the customer information on the customer's financial situation, investment experience and investment objectives. The broker-dealer may choose to obtain this information over the telephone, record its basis for the suitability determination and then send the information and this determination to the customer for verification. (Release p. 80,409) In its proposed stage, the rule set forth detailed information for the broker-dealer to obtain, such as information on the customer's financial situation, age, marital status, number of dependents, employment status, estimated annual income and sources of such income, estimated net worth (exclusive of family residence), estimated liquid net worth (i.e. cash, securities), investment experience and knowledge, including the number of years of experience, and the size, frequency and types of transactions in stocks, bonds, options, commodities and other investments and investment objectives (e.g. safety of principal, income, growth or speculation). Although the final version of the Rule eliminated such specificity, the SEC noted that the foregoing factors would be "highly relevant" to the suitability determination. (Release, p. 80,418) The Commission added that the customer's refusal to provide key information would not absolve the broker-dealer of its obligations under the Rule.

### B. Render a Suitability Determination

The Rule requires that, based on the foregoing information and any other information known by the broker-dealer, the firm must reasonably determine that transactions in Designated Securities are suitable for the person and that the person (or his independent adviser in such transactions) has sufficient knowledge and experience in financial matters such that the person or his adviser may reasonably be expected to be capable of evaluating the risks of transactions in Designated Securities. Explaining that this suitability determination was a special one which did not displace the broker-dealer's general obligation under SRO rules to make a suitability determination for all recommended transactions, the SEC added that "a broker-dealer would remain obligated to make a suitability determination for each recommended purchase of a Designated Security by a customer even after the

customer's account had been approved for transactions in Designated Securities, as well as for recommended purchases by customers that are not covered by the Rule, such as accredited investors and established customers." (Release, p. 80,419, n. 60)

As to independent advisers, the Commission commented that "the broker-dealer must reasonably determine that the adviser will consult with the customer on transactions in Designated Securities, and that the adviser is completely independent of the transactions. Any connection between the adviser and either the broker-dealer or the issuer that compromises the adviser's independence, such as an affiliation or compensation, would preclude the adviser from qualifying under the Rule." (Release, p. 80,419)

C. Deliver a Written Statement to the Customer Supporting the Suitability Determination

The Rule requires that the broker-dealer deliver to the customer a written statement which 1) sets forth the basis on which the broker-dealer made the special suitability determination; 2) states in a highlighted format that it is unlawful for the broker-dealer to effect a transaction in a non-exempt Designated Security unless the broker-dealer received, prior to the transaction, a written agreement to the transaction from the person; and 3) states in a highlighted format immediately before the customer signature line that the broker-dealer is required to provide the person with the written statement, and that the person should not sign and return the written statement to the broker-dealer if the statement does not accurately reflect the person's financial situation, investment experience and investment objectives.

The Release stated that "[t]hese requirements are intended to convey to the customer the importance of the suitability statement, and to prevent a salesperson from convincing the customer to sign the statement without a review for accuracy." (Release, p. 80,420)

D. Get From the Customer a Manually Signed and Dated Copy of the Written Statement

The Release articulated that since the customer need only sign and date a copy of the suitability statement and return it to the broker-dealer, only one suitability document was required to be processed by the broker-dealer and the signed copy could be obtained from the customer at the same time that the customer sent the broker-dealer his written agreement to the first purchase of a Designated Security in his account. (Release, p. 80,420)

VI. IMPACT ON BROKER-DEALER RECORDKEEPING

The Release explained that the Rule "requires records to be kept that will indicate ... [a broker-dealer's] compliance with each of its provisions. This documentation will enable regulatory authorities to review a broker-dealer's compliance with the Rule, and will provide the basis for simple and direct enforcement actions against broker-dealers that fail to comply." (Release, p. 80,408)

Section 36-482(a) of the Connecticut General Statutes provides, in part, that "[e]very registered broker-dealer ... shall make and keep such accounts, correspondence, memoranda, papers, books and other records as the commissioner by regulation prescribes." Section 36-500-13(a)(1) of the Regulations of Connecticut State Agencies states that "[a]ll broker-dealers ... shall keep nd maintain at their principal place of business, open to inspection by the State of Connecticut Banking Department, all books and records required to be kept by the Securities and Exchange Commission." Accordingly, in conducting its examination program, the Securities and Business Investments Division will include among examined records Commission required documentation concerning compliance with the Rule.

# STATE ACCOUNTANCY BOARD CLARIFIES ROLE OF PUBLIC ACCOUNTANTS

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DEPUTY SECRETARY

FROM THE OFFICE OF THE CONNECTICUT STATE BOARD OF ACCOUNTANCY

Dec. 5, 1989

In 1955, Public Act 55-539 was enacted and the State of Connecticut began to license Certified Public Accountants (CPAs). A grandfather provision was included to allow public accountants (practicing at the time the act was passed) to continue in the profession provided they meet certain criteria. All currently licensed public accountants were approved by the Public Accountants Advisory Commission which was established to assist the Board in evaluating public accountant candidates. Additionally, all licensees (CPAs and PAs) are governed by the same "Rules of Conduct" found in Connecticut regulation Section 20-280-15c. Also, all licensees must complete forty (40) hours of continuing professional education in order to maintain their licenses. Finally, any function which can legally be completed by a CPA can also be completed by a PA.

Any questions relative to this matter or any request to confirm that a person is currently licensed to practice should be directed to the office of the Board of Accountancy. Thank you.

David L. Guay
Executive Secretary

## ENFORCEMENT HIGHLIGHTS

### ADMINISTRATIVE SANCTIONS

### Cease and Desist Orders

- **David Edwin Weston**

  On July 11, 1989, the agency issued an Order to Cease and Desist and Notice of Right to Hearing against David Edwin Weston, formerly an agent of Gateway Securities, Inc. in Greenwich, Connecticut. In the Order, the Commissioner alleged that, while an agent of Gateway Securities, Weston offered to sell and sold securities to Connecticut residents and represented that the purchase of those securities constituted investments in an entity known variously as Christl Dolphin, Christl Dolphin, Inc., Christl Dolphin Yachts, Inc., Christl Yachts, Ltd. and Christl Dolphin, Ltd. Such securities were not registered under the Connecticut Uniform Securities Act. The Commissioner also alleged that Weston failed to disclose to purchasers his personal interest in Christl Dolphin, the risks involved in the investment and adequate background information on Christl Dolphin in violation of the antifraud provisions of the Act. Christl Dolphin was Weston's yacht. The Order became permanent as to Weston on August 20, 1989.

- **Orion Financial Group**
  **Kevin P. O'Brien**

  On July 28, 1989, the department issued an Order to Cease and Desist and Notice of Right to Hearing against Orion Financial Group, now or formerly of 490 Orchard Hill Road, Weare, New Hampshire, and Kevin P. O'Brien, its president. The Order was based on allegations that Orion Financial Group, through O'Brien, offered and sold unregistered securities in the form of notes, evidences of indebtedness and investment contracts to Connecticut residents during 1987 and 1988. The Order further alleged that Orion Financial Group employed O'Brien as an agent while O'Brien was not registered as such under the Connecticut Uniform Securities Act, and that O'Brien violated the Act by transacting business as an agent absent registration. Since neither Orion Financial Group nor Kevin P. O'Brien requested a hearing on the allegations in the Cease and Desist Order within the prescribed time period, the Order became final as to them on August 17, 1989.

- Parliament House, Ltd.
Jim Matson

On August 7, 1989, the department issued an Order to Cease and Desist and Notice of Right to Hearing against Parliament House, Ltd. of 1930 S. Havana, Aurora, Colorado and its sales manager, Jim Matson. The Order was based on allegations that Parliament House, Ltd., through Matson, offered to sell Thai Deodorant Stone distributorships in Connecticut without registering the distributorships under the Connecticut Business Opportunity Investment Act. Since neither Parliament House, Ltd. nor Jim Matson requested a hearing on the allegations in the Cease and Desist Order, the Order became permanent as to them on August 25, 1989.

- Energy Technologies
John Douglas

On August 16, 1989, the department issued an Order to Cease and Desist and Notice of Right to Hearing against Energy Technologies of 15445 Ventura Boulevard, Suite 10, Sherman Oaks, California, and its representative and sales manager, John Douglas.

The Order alleged that Energy Technologies, through Douglas, offered or sold Mileage Master distributorships in Connecticut without registering those distributorships under the Connecticut Business Opportunity Investment Act. The Order also alleged that Energy Technologies and Douglas failed to provide prospective purchaser-investors with a disclosure document as required by Section 36-506(a) of the Connecticut General Statutes. Since neither Energy Technologies nor John Douglas requested a hearing on the allegations in the Cease and Desist Order within the prescribed time period, the Order became final as to them on September 8, 1989.

- North Atlantic Planning Corporation
Thomas Dorsey George

On August 21, 1989, the department issued an Order to Cease and Desist and Notice of Right to Hearing against North Atlantic Planning Corporation of 270 Farmington Avenue, Suite 210, Farmington, Connecticut and its president, Thomas George. The Order to Cease and Desist alleged that during 1987, 1988 and 1989, North Atlantic Planning Corporation violated Section 36-474(c) of the Connecticut Uniform Securities Act by transacting business as an investment adviser absent registration and that the firm violated the antifraud provisions of the Connecticut Uniform Securities Act by misrepresenting the degree of objectivity and individualization in the financial plans it prepared for its clients. The firm also purportedly violated the antifraud provisions by making false and misleading statements to its clients to the effect that no person associated with the firm, including George, had any connection with a broker-dealer known as Integrated Resources Equity Corporation, despite the fact that George was registered as an agent of Integrated Resources Equity Corporation at the time such representations were made.

The Order further alleged that George made materially false and misleading statements to advisory clients in that he represented to them that he was not connected with Integrated Resources Equity Corporation in any capacity; such conduct allegedly violated the antifraud provisions in Section 36-473(a)(2) of the Connecticut Uniform Securities Act. The Order afforded both George and North Atlantic Planning Corporation the opportunity to request a hearing on the allegations therein.

Steven William Albert
Richard Thomas Burke
Leo Liberato DiLoreto
Eugene Randolph Ellis, II
John Christopher Gaudio
Michael Kingman Hsu
Bradley James Simonelli
John Scott Tournour

On October 13, 1989, the department issued an Order to Cease and Desist and Notice of Right to Hearing against Steven William Albert, Richard Thomas Burke, Leo Liberato DiLoreto, Eugene Randolph Ellis, II, John Christopher Gaudio, Bradley James Simonelli and John Scott Tournour, agents of J. T. Moran & Co., a broker-dealer with its principal place of business at One Whitehall Street, New York, New York. The Order alleged that the foregoing seven agents sold securities from the Wethersfield branch office of J. T. Moran & Co., Inc. during 1988 and 1989 and at a time when the securities were not registered under Section 36-485 of the Connecticut Uniform Securities Act. The Order also alleged that Michael Kingman Hsu violated Section 36-474(a) of the Connecticut Uniform Securities Act by transacting business as an agent of the firm at a time when he was not registered with the department. The Order afforded the respondents an opportunity for hearing on the allegations therein.

Scully Photo
Gerald Scully

On October 13, 1989, the department issued an Order to Cease and Desist against Scully Photo of 112 Ford Road, Windsor, Connecticut and Gerald Scully, its representative, prohibiting them from offering or selling business opportunities in violation of Chapter 662a of the Connecticut General Statutes, the Connecticut Business Opportunity Investment Act. The Order was based on allegations that Scully Photo and Gerald Scully offered or sold unregistered business opportunities from the state for the purpose of enabling purchasers thereof to start a picture business card distribution business. The Order further alleged that Scully Photo and Scully represented to distributors or potential distributors that Scully Photo conditionally guaranteed that income would be derived from the distributorships and that Scully Photo would provide a sales and marketing program to distributors. In addition, the Order alleged that Scully Photo and Scully failed to provide a disclosure document to prospective distributors. Since neither Scully Photo nor Gerald Scully requested a hearing on the allegations in the Cease and Desist Order within the prescribed time period, the Order became permanent as to them on December 5, 1989.

Vendx Marketing, Inc.
Donald F. Stearley

On November 17, 1989, the department issued an Order to Cease and Desist and Notice of Right to Hearing against Vendx Marketing, Inc of 1550 Jones Avenue, Suite G, Idaho Falls, Idaho and its representative, Donald F. Stearley. The Order alleged that Vendx Marketing, Inc., whose business consisted of selling vending machines, offered to sell vending machines to one or more persons for the purpose of enabling such persons to set up a vending machine business. The Order further alleged that the corporation, through Stearley, represented to purchasers that it would assist them in finding locations for the use or operation of the vending machines; that the corporation unconditionally guaranteed that the purchasers would derive income from the vending machine business; and that the corporation would provide a sales and marketing program to purchasers. The department also claimed that the offering by Vendx Marketing, Inc. involved a "business opportunity" within the meaning of Section 36-504(6) of the Connecticut Business Opportunity Investment Act and was effected without compliance with the registration requirements in Sections 36-505(a), 36-508(a) and 36-510 of the Connecticut General Statutes. Vendx Marketing, Inc. and Stearley were afforded an opportunity for hearing on the allegations in the Order to Cease and Desist. Since Stearly did not request a hearing within the prescribed time period, the Order became permanent as to him on December 8, 1989.

Armenian Express U.S.A., Inc.

On December 1, 1989, the department issued an Order to Cease and Desist and Notice of Right to Hearing against Armenian Express U.S.A., Inc., a Delaware corporation with its principal place of business at 447 West Fifth Street, Oxnard, California. The Order was based on allegations that the corporation violated Section 36-488(b) of the Connecticut Uniform Securities Act by failing to pay the proper filing fee in conjunction with the registration of its securities despite opportunities afforded by the department to cure the deficiency. The check remitted by the corporation in payment of its registration fee had allegedly been returned for insufficient funds. Since the corporation did not request a hearing within the time prescribed, the order became permanent on January 23, 1989.

## Stipulation Agreements

### Baron Resources Corporation

On August 29, 1989, the department entered into a Stipulation Agreement with Baron Resources Corporation of 30 Tower Lane, Avon, Connecticut and its parent, Baron Capital Corporation of the same address. The Stipulation Agreement followed an investigation by the department's Securities and Business Investments Division which revealed that, in contravention of the private offering memorandum and allegedly in violation of Section 36-472 of the Connecticut General Statutes, Baron Capital Corporation, as the general partner of Baron Properties Nine Limited Partnership ("Baron Nine"), failed to promptly refund subscriber payments when the targeted number of units were not sold by the offering deadline. The division's investigation also disclosed that Baron Resources Corporation, as general partner of Baron Properties Ten Limited Partnership ("Baron Ten"), purchased 12 units at $23,000 per unit (net of a $2,000 selling commission) and resold those units for $25,000 per unit, notwithstanding the offering circular's representation that no commissions would be paid for units sold by the general partner. The division claimed that Baron Resources Corporation's purchase and sale of the units of Baron Ten gave rise to a violation of Section 36-474(a) of the Connecticut General Statutes.

Baron Resources Corporation admitted to the facts uncovered by the division's investigation but neither admitted nor denied that those facts gave rise to violations of the Connecticut Uniform Securities Act or the Regulations thereunder. The Stipulation Agreement provided that: 1) Baron Resources Corporation would pay a $5,000 fine to the State of Connecticut within three business days following execution of the agreement by the department; 2) $10,000 would be contributed to the Open Hearth, a local charity, within three business days following execution of the agreement by the agency; 3) Baron Resources Corporation would undertake to pay $20,500 to Baron Ten; 4) any and all future offers and sales of securities in which Baron Resources Corporation or Baron Capital Corporation acted as general partner or control person would be effected through a registered broker-dealer; and 5) Baron Resources Corporation and Baron Capital Corporation would retain securities counsel in connection with any future securities activity conducted by them and would notify the department in writing of their intention to offer and sell securities in Connecticut prior to offering or selling those securities.

### Stolper & Company, Inc.

On September 22, 1989, the department entered into a Stipulation Agreement with Stolper & Company, Inc. of 525 B Street, Suite 630, San Diego, California. The Stipulation Agreement followed an investigation by the agency's Securities and Business Investments Division which revealed that Stolper & Company, Inc. had entered into contracts with nine Connecticut advisory clients while the firm was not registered as an investment adviser in the state.

Pursuant to the Stipulation Agreement, Stolper & Company, Inc. agreed to 1) maintain supervisory procedures designed to prevent and detect violations of the Connecticut Uniform Securities Act and 2) contribute $500 for the purpose of providing educational services to Connecticut residents regarding securities investments.

Arneson, Kercheville, Ehrenberg & Associates, Inc.

On October 12, 1989, the agency entered into a Stipulation Agreement with Arneson, Kercheville, Ehrenberg & Associates, Inc. of 9901 IH 10 West, Suite 950, San Antonio, Texas. The Stipulation Agreement followed an investigation by the department's Securities and Business Investments Division which revealed that the firm had transacted business as a broker-dealer in Connecticut at a time when it was not registered as such under the Connecticut Uniform Securities Act. Pursuant to the Stipulation Agreement, the firm agreed to 1) review and revise, as necessary, its supervisory procedures to prevent future violations of the Connecticut Uniform Securities Act; 2) reimburse the agency for investigative costs in the amount of $1,000 and 3) pay a fine of $2,500 to the agency.

Dane, Falb, Stone & Co., Inc.

On October 12, 1989, the department entered into a Stipulation Agreement with Dane, Falb, Stone & Co., Inc. of 67 Batterymarch Street, Boston, Massachusetts. The Stipulation Agreement followed a Securities and Business Investments Division investigation which revealed that from January, 1986 through January, 1989, the firm had transacted business as an investment adviser without being registered as such and had employed unregistered investment adviser agents, all in purported violation of Section 36-474 of the Connecticut General Statutes. Pursuant to the Stipulation Agreement, the firm agreed to: 1) review and modify its supervisory procedures to detect and prevent future regulatory violations; 2) purchase 2,000 copies of Investor Alert, a publication on investor protection, for division distribution to the public; 3) refrain from directly or indirectly paying any compensation, commission or remuneration to any individual who solicited Connecticut clients unless that individual was first registered as an investment adviser agent under the Connecticut Uniform Securities Act; and 4) pay the cost, not to exceed $500, of any examination of the firm's books and records which the division would conduct within one year following execution of the Stipulation Agreement.

Lieber and Company

On October 12, 1989, the department entered into a Stipulation Agreement with Lieber and Company of 550 Mamoroneck Avenue, Harrison, New York. The Stipulation Agreement followed a Securities and Business Investments Division investigation which revealed that the firm had transacted securities business for the account of Connecticut customers at a time when the firm was not registered as a broker-dealer under the Connecticut Uniform Securities Act.

Pursuant to the Stipulation Agreement, Lieber and Company agreed to: 1) review and modify its supervisory procedures to prevent and detect future violations of Connecticut's securities laws; 2) pay the cost, not to exceed $1,000, of an examination to be conducted by the Securities and Business Investments Division within one year following execution of the Stipulation Agreement; 3) reimburse the division $2,500 for investigative costs; 4) contribute $10,000 to the Open Hearth, a Hartford based nonprofit organization benefiting the homeless; and 5) contribute $7,500 to the division for the purpose of developing and distributing public service materials emphasizing investor protection.

V. Stockbridge Partners, Inc.

On November 14, 1989, the department entered into a Stipulation Agreement with Stockbridge Partners, Inc. of 425 Sherman Avenue, Suite 220, Palo Alto, California. Execution of the Stipulation Agreement followed an investigation by the department's Securities and Business Investments Division which alleged that the firm had transacted business as a broker-dealer in Connecticut prior to becoming registered as such in violation of Section 36-474(a) of the Connecticut General Statutes.

Without admitting or denying that it had violated the Connecticut Uniform Securities Act, Stockbridge Partners, Inc. agreed to 1) review and modify its supervisory procedures to detect and prevent future violations of the Connecticut Uniform Securities Act and the regulations thereunder and 2) pay a $3,500 fine to the state within three business days following execution of the Stipulation Agreement by the department.

V. Kortright Market Systems, Inc.

On December 1, 1989, the department entered into a Stipulation Agreement with Kortright Market Systems, Inc., an investment adviser presently located at 31 Bloomingdale Drive, Scarsdale, New York. The Stipulation Agreement followed an investigation by the department's Securities and Business Investments Division which revealed that the firm had failed to file an annual report of its financial condition in contravention of the regulations promulgated under the Connecticut Uniform Securities Act. On May 31, 1989, the department had issued a Notice of Intent to Revoke Registration as an Investment Adviser based on the alleged financial reporting violations. In settlement of the department's allegations and pursuant to the Stipulation Agreement, Kortright Market Systems, Inc. agreed, without admitting or denying the existence of regulatory violations, to 1) file timely financial reports in compliance with Connecticut law as long as it remained registered as an investment adviser in the state and 2) reimburse the agency for investigative costs in the amount of $500.

## Mark A. Blake

On December 4, 1989, the department entered into a Stipulation Agreement with Mark A. Blake of Bloomfield, Connecticut. The Stipulation Agreement followed an investigation by the department's Securities and Business Investments Division into the activities of Mr. Blake and Equity Partners. The Stipulation Agreement alleged that in or about June, 1988, Mr. Blake formed an entity denominated as Equity Partners for the purpose of trading in commodities through an account at First National Trading Corporation of Southfield, Michigan, and that Mr. Blake solicited some 22 investors to invest in the entity upon the representation that he would offer them two options: 1) a managed account for which Blake would charge a 15% management fee on all profits earned and 2) a guaranteed account bearing a 20% rate of return. The Stipulation Agreement further alleged that the interests in Equity Partners were securities which were offered and sold without compliance with the registration provisions of the Connecticut Uniform Securities Act and without full disclosure in contravention of Section 36-472 of the Connecticut General Statutes.

Pursuant to the Stipulation Agreement, Mark Blake agreed to 1) extend to investors in Equity Partners a written offer to refund the consideration paid for the securities, plus interest, within fifteen days following execution of the Agreement by the department; 2) refrain from transacting business in Connecticut as a broker-dealer, agent, investment adviser or investment adviser agent for twelve months from the date of execution of the Agreement by the department; and 3) refrain from engaging in any activity that would constitute grounds for administrative, civil or criminal sanctions under the Connecticut Uniform Securities Act or adversely impact his qualifications to engage in the securities business as determined by the agency.

## Peregoff Rottman & Associates Incorporated

On December 12, 1989, the department entered into a Stipulation Agreement with Peregoff Rottman & Associates Incorporated of 401 East Pratt Street, Suite 323, Baltimore, Maryland. The Stipulation Agreement followed a Securities and Business Investments Division investigation which uncovered evidence that the firm had effected securities transactions for four Connecticut clients at a time when the firm was not registered as a broker-dealer under the Connecticut Uniform Securities Act. Pursuant to the Stipulation Agreement, Peregoff Rottman & Associates Incorporated agreed, without admitting or denying that it had violated state securities laws, to 1) review and revise its supervisory procedures as necessary to prevent future violations of the Connecticut Uniform Securities Act; and 2) reimburse the agency $1,174.36 for its costs of investigation.

- First Chicago Investment Services, Inc.

On December 12, 1989, the department entered into a Stipulation Agreement with First Chicago Investment Services, Inc. of One First National Plaza, Chicago, Illinois. The Stipulation Agreement resulted from a Securities and Business Investments Division investigation which revealed that the firm had effected securities transactions in Connecticut prior to its becoming registered as a broker-dealer under the Connecticut Uniform Securities Act. Without admitting or denying that it had engaged in regulatory violations, First Chicago Investment Services, Inc. agreed to 1) review and modify its supervisory procedures to prevent and detect future violations of the Connecticut Uniform Securities Act and the regulations thereunder; and 2) within three business days following execution of the Stipulation Agreement by the department, reimburse the agency $5,400 for investigative costs.

## Licensing

- Drexel Burnham Lambert Incorporated - Notice of Intent to Revoke Issued Subject to Opportunity to Show Compliance

On July 7, 1989, the agency issued a Notice of Intent to Revoke Registration as a Broker-Dealer and/or Investment Adviser Subject to Opportunity to Show Compliance with respect to Drexel Burnham Lambert Incorporated ("Drexel"), a registered broker-dealer and investment adviser with its principal office at 60 Broad Street, New York, New York, and Drexel Burnham Lambert Puerto Rico Incorporated ("Drexel Puerto Rico"), a registered broker-dealer with its principal place of business located at Banco de Ponce Building, Hato Rey, Puerto Rico. Drexel Puerto Rico is directly or indirectly controlled by Drexel Burnham Lambert Group, Inc. ("Group"). The Notice was based on a final judgment of permanent injunction entered against Drexel and Group on June 20, 1989 for alleged violations of the Securities Act of 1933 and the Securities Exchange Act of 1934.

- Barry Paul Sarin - Registration Revoked

On July 11, 1989, the department issued an Order Revoking Registration as an Agent with respect to Barry Paul Sarin. Sarin, who had been registered as an agent of David Lerner Associates, Inc. in Connecticut since approximately June 1987, had been censured and fined by the National Association of Securities Dealers on March 24, 1988 and suspended from association for one year commencing January 3, 1989. The NASD's action, which became final on November 24, 1988, was based on a finding by the NASD that Sarin had violated Article III, Section 1 of the NASD Rules of Fair Practice. The department found that the NASD sanctions against Sarin provided a basis for the revocation of his agent registration under Section 36-484(a)(2)(F)(iii) of the Connecticut General Statutes.

- Gilman Planning Services, Inc. - Notice of Intent to Deny Issued

On August 4, 1989, the department issued a Notice of Intent to Deny Registration as an Investment Adviser with respect to Gilman Planning Services, Inc of 25 Gilman Road, Gilman, Connecticut. The Notice was predicated on allegations that from 1985 to 1988, the firm had wilfully transacted business as an investment adviser in the state without being registered as such under the Connecticut Uniform Securities Act; that the firm had wilfully violated the antifraud provisions in Section 36-473(2) of the Connecticut General Statutes by representing to clients that it was registered with the Department of Banking as an investment adviser; that the firm had wilfully failed to maintain tangible assets in excess of liabilities to the extent of at least $1,000 in violation of Section 36-500-8(c) of the Regulations of Connecticut State Agencies; and that the firm had wilfully violated Section 36-500-13(b)(2)(B)(i) of the Regulations in that it failed to provide the department with telegraphic notice that its tangible assets over liabilities were less than that required by Section 36-500-8(c) of the Regulations, and failed to file with the department up-to-date statements of its financial condition and supplemental schedules and reports. The Notice of Intent to Deny Registration provided Gilman Planning Services, Inc. with an opportunity to request a hearing on the allegations therein.

- Jonathan Charles Gilman - Notice of Intent to Deny Issued

On August 4, 1989, the department issued a Notice of Intent to Deny Registration as an Investment Adviser Agent with respect to Jonathan Charles Gilman, the president and owner of Gilman Planning Services, Inc., 25 Gilman Road, Gilman, Connecticut. The Notice was based on allegations that Gilman wilfully violated the antifraud provisions in Section 36-473(2) of the Connecticut General Statutes by providing clients of Gilman Planning Services, Inc. with a document which falsely represented that the firm was registered as an investment adviser in the state. The Notice of Intent to Deny Registration provided Jonathan Charles Gilman with an opportunity to request a hearing on the allegations therein.

- Thomas Edward Doyle - Registration Revoked

On September 27, 1989, the department issued an Order revoking the registration of Thomas Edward Doyle as an agent of Pruco Securities Corporation ("Pruco") in Connecticut. The Order contained findings that 1) on September 28, 1988, the District Business Conduct Committee for District No. 13 of the NASD censured Doyle and suspended him from associating with any NASD member for one year; 2) the NASD's action was based on a finding by the NASD that Doyle had violated Article III, Section 1 of the NASD's Rules of Fair Practice; 3) the NASD's suspension of Doyle was currently in effect and would remain in effect until December 2, 1990; and 4) the NASD's action constituted a basis for the suspension of Doyle's registration under Section 36-484(a)(2)(D)(iii) of the Connecticut General Statutes.

## Bel Air Equities, Inc. - Notice of Intent to Deny Registration Issued

On October 5, 1989, the department issued a Notice of Intent to Deny Registration as a Broker-dealer with respect to Bel Air Equities, Inc., a California corporation with its principal place of business at 310 Madison Avenue, Suite 509, New York, New York. The Notice of Intent to Deny was predicated on allegations that the firm lacked the proper experience required of applicants for registration as broker-dealers in that it did not have at least two active officers who had been engaged in the securities business in any capacity for at least three years nor did it have at least two active officers who were otherwise qualified by training or knowledge of the securities business. The Notice of Intent to Deny Registration afforded the firm an opportunity for a hearing on the allegations therein.

## Investors Group, Ltd. - Notice of Intent to Revoke Registration as a Broker-Dealer Issued

On October 6, 1989, the department issued a Notice of Intent to Revoke Registration as a Broker-dealer with respect to Investors Group, Ltd. of McLean, Virginia. The Notice was predicated on allegations that during July and August, 1988 the firm, through one Richard C. Ferris, effected securities transactions in Connecticut in willful violation of Section 36-474 of the Connecticut General Statutes in that neither the firm nor Ferris were registered in the state at the time. The notice also alleged that, in permitting Ferris to transact business in Connecticut as its agent in violation of Section 36-474(a) of the Connecticut General Statutes, the firm failed to exercise reasonable supervision over its agents. The Notice went on to allege that Gratian Michael Yatsevitch, then president of the firm, filed a materially false and misleading statement with the Commissioner in willful violation of Section 36-492 of the Connecticut General Statutes. In his statement, filed while the firm's broker-dealer registration was pending, Yatsevitch claimed that the firm had not conducted or solicited securities business in the state.

## Karl Francis Birkenfeld - Consent Order Entered

On October 13, 1989, the department entered a Consent Order with respect to Karl Francis Birkenfeld, a representative of Allegiance Securities, Inc. from September 1988 to August 1989. The Consent Order followed a June 28, 1989 Order to Cease and Desist and Notice of Intent to Fine issued against Birkenfeld based on his transaction of business as an agent of Allegiance Securities, Inc. while Birkenfeld was not registered as an agent under the Connecticut Uniform Securities Act. In settlement of the matters raised in the Order to Cease and Desist and the Notice of Intent to Fine, Birkenfeld agreed to comply with the terms of the Consent Order. The Consent Order required that: 1) Birkenfeld's registration as an agent in Connecticut be suspended for 30 days commencing on its date of effectiveness; 2) Birkenfeld request from the broker-dealer exercising supervisory control over his activities written notice that his agent registration became effective; and 3) Birkenfeld pay a fine of $10,000.

## J. T. Moran & Co., Inc. et al. - Notice of Intent to Revoke Registration and to Fine Issued

On October 13, 1989, the department issued a Notice of Intent to Revoke Registration as a Broker-dealer with respect to J. T. Moran & Co., Inc. ("Moran"), a New York based securities brokerage firm maintaining a branch office at 100 Great Meadow Road in Wethersfield, Connecticut. The Notice was predicated on allegations that from approximately July, 1988 through October, 1988, Moran sold unregistered securities from its Wethersfield branch office. The Notice also alleged that, during October, 1988, Moran sold to Connecticut residents unregistered securities of J. T. Moran Financial from Moran's branch office located in Garden City, New York.

The Notice went on to allege that Moran employed unregistered agents in Connecticut in wilful violation of Section 36-474(b) of the Connecticut General Statutes and that it wilfully violated Section 36-500-13(a)(3) of the Connecticut Uniform Securities Act Regulations by failing to keep and maintain at its Wethersfield branch office commission runs showing the amount of commissions earned by each of its agents.

Also on October 13, 1989, the department issued a Notice of Intent to Fine the firm up to $10,000 per violation based on the allegations supporting the issuance of the Notice of Intent to Revoke the firm's broker-dealer registration.

## Thirty-Eight Agents Also Named

In a related action, on October 13, 1989, the department issued a Notice of Intent to revoke the agent registrations of thirty Moran agents, the vast majority of whom the department alleged, wilfully sold unregistered securities while employed by the firm. The agency further alleged that two of those agents, Gregory Patrick Ferguson and Kevin Henry Kading, wilfully violated Section 36-474(a) of the Connecticut General Statutes by transacting business as agents while unregistered. The Commissioner also alleged that Kading had wilfully violated Section 36-492 of the Connecticut General Statutes by filing with the agency a materially false and misleading statement concerning Kading's involvement in the purchase or sale of securities in the state. The Notice of Intent to Revoke afforded the Moran agents an opportunity for hearing on the allegations therein. Named in the Notice of Intent to Revoke were Stephen Peter Porzio, Steven Michael Damiani, Andrew Robert McIntire, John Francis Townsend, Lawrence A. Emmons, Terence Gerard O'Brien, Jordan Jay Hirsch, Paul Miguel Demoor, Andrew Frederick O'Connell, Jonathan Hutchinson Drury, Michael Francis Umbro, Shaun Keith Commings, David Henry Muschweck a/k/a David Musweck, Ronald Leslie Wheeler, Jr., Anthony Gennaro Buono, Michael Joseph Garand, Christian Paul Lord, Arthur Julius Kruesi, Eugene Richard Tournour, Mathew Malloy Folds, Gregory Patrick Ferguson, Brian Patrick McManus, Michael Anthony Perillo, Michael John Parenti, Sr., Steven Dale Allbright, John Ruis, Michael Alite, Kenneth John Murphy, Daniel Moscatiello and Kevin Henry Kading.

Concomitantly, the department issued on October 13, 1989, a Notice of Intent to Fine the thirty Moran agents named in the revocation notice. The Notice of Intent to Fine included eight additional Moran agents, seven of whom had allegedly sold unregistered securities in violation of Section 36-485 of the Connecticut General Statutes. Those seven agents were: Steven William Albert, Bradley James Simonelli, Richard Thomas Burke, John Scott Tournour, John Christopher Gaudio, Eugene Randolph Ellis, II and Leo Liberato DiLoreto. The eighth agent, Michael Kingman Hsu, allegedly violated Section 36-474(a) of the Connecticut General Statutes by transacting business as an agent while unregistered. The eight agents were also the subject of an Order to Cease and Desist and Notice of Right to Hearing issued against them on October 13, 1989.

- Profile Investments Corporation - Registration Cancelled

On October 24, 1989, the agency issued an Order Cancelling Registration as a Broker-dealer with respect to Profile Investments Corporation, now or formerly of 6360 N. W. 5th Way, Ft. Lauderdale, Florida. The department found that such action was justified under Section 36-484(d) of the Connecticut General Statutes in light of the firm's cessation of business as a broker-dealer.

- Ameri-Vest Planning, and Paul D. Kreminski - Notice of Intent to Revoke Registration Issued

On October 27, 1989, the department issued a Notice of Intent to Revoke Registration as an Investment Adviser with respect to Ameri-Vest Planning of 35 Pleasant Street, Meriden, Connecticut. The firm had been registered as an investment adviser in the state since approximately November 1987. In providing the firm with notice of its intent to revoke the firm's investment adviser registration, the department alleged that the firm wilfully violated the financial reporting requirements of Section 36-482(b) of the Connecticut General Statutes and Section 36-500-13(b)(2)(A) of the Regulations of Connecticut State Agencies. On the same date, the department issued a Notice of Intent to Revoke the investment adviser agent registration of Paul D. Kreminski, president of Ameri-Vest Planning. The department's action was predicated on Kreminski's January 25, 1989 conviction for filing a false statement on a tax return in contravention of 26 U.S.C. §7206(1). Both Ameri-Vest Planning, Inc. and Paul Kreminski were afforded an opportunity for hearing on the allegations in the Notice.

- Gratian Michael Yatsevitch, III Fined; Registration Denied

On November 17, 1989, the department issued two orders against Gratian Michael Yatsevitch, III, an Order Denying Registration as an Agent and an Order Imposing a Civil Penalty. Both orders were accompanied by Findings of Fact and Conclusions of Law.

The Order Denying Registration as an Agent found that Yatsevitch, the president of Investors Group, Ltd. of McLean, Virginia from April 1986 to August 1989, filed a document with the Commissioner stating that Investors Group, Ltd. had not conducted or solicited securities business in the State of Connecticut. The filing, made while Investors Group, Ltd.'s broker-dealer registration was pending in the state, was materially false and misleading in violation of Section 36-492 of the Connecticut General Statutes.

The Commissioner also found that Yatsevitch's violation of Section 36-492 of the Connecticut General Statutes was wilful, thus providing a basis for the denial of his registration application as an agent of Marshall Davis, Inc. under Section 36-484(a)(2)(B) of the Connecticut General Statutes.

The Order Imposing a Civil Penalty was predicated on the same set of facts supporting the Order Denying Registration as an Agent. Pursuant to the Order Imposing a Civil Penalty, Yatsevitch was ordered to pay to the state the sum of $7,500 within 45 days following the issuance of the Order.

**Allied Capital Group - Notice of Intent to Revoke Registration as a Broker-dealer and to Fine Issued**

On November 24, 1989, the department issued a Notice of Intent to Revoke Registration as a Broker-dealer with respect to Allied Capital Group, Inc. of 4643 South Ulster Street, Suite 1560, Denver, Colorado. The Notice of Intent to Revoke Registration alleged that from August 1988 to October 1988, the firm had wilfully sold unregistered securities of CIP Holdings, Inc. in violation of Section 36-485 of the Connecticut General Statutes and had wilfully violated Section 36-474(b) of the Connecticut General Statutes by employing an unregistered agent. The Notice of Intent to Revoke afforded the firm an opportunity for a hearing on the allegations therein.

Also on November 24, 1989, the department issued a Notice of Intent to Fine with respect to the firm. The Notice of Intent to Fine was also predicated on alleged violations of Sections 36-485 and 36-474(b) of the Connecticut General Statutes.

**AIC Investment Advisors, Inc. - Notice of Intent to Deny Registration as an Investment Adviser and Order to Cease and Desist Issued**

On December 1, 1989, the department issued a Notice of Intent to Deny Registration as an Investment Adviser with respect to AIC Investment Advisors, Inc. ("AIC"), a Massachusetts corporation with its principal place of business at 7 North Street, Pittsfield, Massachusetts.

The Notice was based on allegations that AIC wilfully violated Section 36-474(c) of the Connecticut General Statutes by transacting business as an investment adviser without being registered as such; wilfully violated Section 36-500-8(c) of the Connecticut Uniform Securities Act Regulations by failing to maintain tangible assets in excess of liabilities to the extent of at least $1,000; and wilfully violated Section 36-500-13(b)(2)(B)(i) of the Regulations by failing to provide notice of its capital deficiency and to comply with financial reporting requirements. The Notice provided AIC with an opportunity for hearing on the allegations therein.

Also on December 1, 1989, the department issued an Order to Cease and Desist against AIC based on the firm's failure to register as an investment adviser as required by Section 36-474(c) of the Connecticut General Statutes. The Order afforded AIC an opportunity to request a hearing on the allegations therein.

**William S. Killeen - Consent Order Entered; Notice of Intent to Fine Withdrawn**

On December 8, 1989, the department entered a Consent Order concerning William S. Killeen who was employed as an agent of Allegiance Securities, Inc. from August 1988 to August 1989. The Consent Order followed a June 28, 1989 Notice of Intent to Fine and an Order to Cease and Desist regarding Killeen.

The Consent Order required that 1) for a period of eighteen months, Killeen would not engage in the solicitation for purchase or sale of any securities not listed on an exchange registered with the Securities and Exchange Commission, except for National Market System securities traded on NASDAQ; 2) Killeen would not engage in the solicitation for purchase or sale of any non-exchange listed securities for which the bid price had not exceeded $3.00 for five consecutive days within the twelve months preceding the Consent Order; 3) Killeen would send copies of any written complaints received from Connecticut residents to the agency for one year; 4) Killeen, as president of Wayne, Grayson Capital Corp., would pay the cost, not to exceed $750, of an examination of that firm to be conducted within eighteen months following the entry of the Consent Order; 5) Killeen would pay the agency $250 to cover its costs of investigation; and 6) Killeen would review the Connecticut Uniform Securities Act and the regulations thereunder to ensure compliance with such provisions.

In light of the entry of the Consent Order, the department ordered on December 22, 1989 that the Notice of Intent to Fine Killeen be withdrawn.

James Christopher Valentino - Consent Order Entered; Notice of Intent to Fine Withdrawn

On December 12, 1989, the department entered a Consent Order in settlement of allegations raised in a Notice of Intent to Fine and Order to Cease and Desist which had been issued with respect to James Christopher Valentino on June 28, 1989. The Notice of Intent to Fine and Order to Cease and Desist were predicated on allegations that Valentino effected securities transactions in the state as an agent of Allegiance Securities, Inc. without being registered as such under the Connecticut Uniform Securities Act. Allegiance Securities, Inc. is a Georgia corporation with its principal place of business at 39 Broadway, New York, New York. The Consent Order provided that Valentino receive a letter of censure and refrain from seeking registration as an agent in Connecticut for an eighteen month period. The letter of censure was issued on December 26, 1989.

In light of the Consent Order, the department ordered on December 22, 1989 that the Notice of Intent to Fine Valentino be withdrawn.

First State Investments, Inc. - Notice of Intent to Cancel Registration as a Broker-Dealer Issued

On December 13, 1989, the department issued a Notice of Intent to Cancel Registration as a Broker-dealer with respect to First State Investments, Inc. of 224 Spring Street, Little Rock, Arkansas. The Notice was predicated on allegations that the firm, a registered broker-dealer in the state since July 7, 1988, had sold substantially all of its assets to Allison Rosenblum & Hannahs, Inc. and had ceased conducting business. The Notice provided the firm with an opportunity for hearing on the allegations therein.

Biscayne Securities Corporation - Notice of Intent to Cancel Registration as a Broker-dealer Issued

On December 18, 1989, the department issued a Notice of Intent to Cancel Registration as a Broker-dealer with respect to Biscayne Securities Corporation of 7175 West Oakland Park Boulevard, Lauderhill, Florida. The Notice was based on allegations that the firm, which had been registered as a broker-dealer in the state since October 24, 1988, was no longer in existence or had ceased conducting business as a broker-dealer. The Notice afforded the firm an opportunity for hearing on the allegations therein.

- **Winston-Frost Securities, Inc. - Notice of Intent to Cancel Registration as a Broker-Dealer Issued**

On December 18, 1989, the department issued a Notice of Intent to Cancel Registration as a Broker-dealer with respect to Winston-Frost Securities, Inc. of 11 Park Place, New York, New York. The Notice alleged that the firm, which had been registered as a broker-dealer in Connecticut since January 24, 1989, had ceased conducting retail securities business. Pursuant to the Notice, Winston-Frost Securities, Inc. was afforded an opportunity for hearing on the allegations therein.

- **State Street Securities, Inc. - Notice of Intent to Cancel Registration as a Broker-dealer Issued**

On December 18, 1989, the department issued a Notice of Intent to Cancel Registration as a Broker-dealer with respect to State Street Securities, Inc. of 450 Australian Avenue South, Suite 500, West Palm Beach, Florida. The Notice was predicated on allegations that the firm, which had been registered as a broker-dealer in the state since May 13, 1987, had ceased conducting business as a broker-dealer. The Notice afforded the firm an opportunity for hearing on the allegations therein.

- **Dunhill, Lord & Company - Notice of Intent to Cancel Registration as a Broker-dealer Issued**

On December 18, 1989, the department issued a Notice of Intent to Cancel Registration as a Broker-dealer with respect to Dunhill, Lord & Company of 1451 West Cypress Creek Road, Fort Lauderdale, Florida. The Notice was based on allegations that the firm, which had been registered as a broker-dealer in Connecticut since March 31, 1988, had ceased conducting business as a broker-dealer. Pursuant to the Notice, Dunhill, Lord & Company was afforded an opportunity for hearing on the allegations therein.

**Stop Orders**

- **Beverly Hills Concepts**

On August 7, 1989, the department entered a Stop Order denying effectiveness to the pending business opportunity registration of Beverly Hills Concepts, Inc. of 950 Cromwell Avenue, Rocky Hill, Connecticut. The Stop Order was based on findings that the corporation failed to provide required financial information in conjunction with the registration of its health, body and skin care distributorships under the Connecticut Business Opportunity Investment Act.

Also on August 7, 1989, the agency issued a Notification of Hearing concerning certain allegations contained in an Order to Cease and Desist which had been issued against Beverly Hills Concepts, Inc. and its president Charles Remington on June 28, 1989. The Order to Cease and Desist was based on allegations that Beverly Hills Concepts, Inc., through Remington, had offered and sold health, body and skin care distributorships in Connecticut without registering those distributorships under the Connecticut Business Opportunity Investment Act and without providing adequate disclosures to purchaser-investors as required by Section 36-506(a) of the Connecticut General Statutes.

Armenian Express U.S.A., Inc

On December 1, 1989, the department issued a Notice of Intent to Issue a Stop Order revoking the effectiveness of the securities registration statement of Armenian Express U.S.A., Inc., a Delaware corporation with its principal place of business at 447 West Fifth Street, Oxnard, California. The department's action was based on allegations that Armenian Express U.S.A., Inc. wilfully violated Section 36-488(b) of the Connecticut Uniform Securities Act in that it failed to pay the filing fee required for its registration by coordination. The Notice alleged that, although the corporation remitted a check for the filing fee, that check was returned for insufficient funds following effectiveness of the registration, and that Armenian Express U.S.A., Inc. failed to cure the deficiency despite written communications from the department informing it of the problem. The Notice of Intent to Issue a Stop Order afforded Armenian Express U.S.A., Inc. an opportunity for hearing on the allegations therein.

Also on December 1, 1989, the department issued an Order to Cease and Desist against Armenian Express U.S.A., Inc. The Order to Cease and Desist was based on the corporation's purported violation of Section 36-488(b) of the Connecticut Uniform Securities Act and also provided the corporation with an opportunity for hearing.

## TIPS ON INVESTMENT ADVISER AGENT REGISTRATION

Following is a division checklist of items necessary to register or terminate an investment adviser agent with the Securities and Business Investments Division. When submitting any form, as well as the consent letter for dual registration, original signatures must be used. Please be sure to address each item on the forms or place an "N/A" next to the question or item if it does not pertain to the individual registering. Consent letters must be signed by a qualifying officer of the investment adviser. Applications without signatures or improperly executed consent letters will delay the agent registration process.

1. Investment advisers shall employ as agents in this state only those who are registered as such. Under the provisions of Section 36-471(g) of the Connecticut Uniform Securities Act, any officer or director who otherwise acts as an agent must register as such. At least one agent's application (Form U-4) must be filed by a corporation or partnership applying for registration as an investment adviser. The Commissioner must be notified promptly, in writing, and within five (5) days (or 24 hours if an agent is dismissed for cause) whenever a Connecticut registered agent ceases to represent the investment adviser and state the reasons therefor on Form U-5.

2. A photograph must be included for each investment adviser agent applicant and for the sole proprietor or all officers or all general partners who act as managers of the applicant. The photograph must be similar in size and clarity to a passport photograph. The requirement to file photographs will be waived if each person's fingerprints are on file with the Central Registration Depository of the National Association of Securities Dealers, Inc.

3. Any person applying for registration as an investment adviser agent who is already registered as an agent of a broker-dealer must submit a written consent from the broker-dealer to act in this dual capacity. Section 36-500-5(d) of the Regulations requires that both employers consent to the agent's dual employment and also requires that written disclosure regarding the agent's dual registration be made to each of the agent's clients.

4. A fee of $50 shall accompany each application. All checks should be made payable to "The Treasurer of the State of Connecticut."

## UNSUITABLE INVESTMENTS*

### How Suitability Rules Are Supposed to Work

The concept is simple: brokers are professionals who should understand the ins and outs of the securities markets. All too often individual investors have limited knowledge and little time to fully master the intricacies of the rapidly-expanding and increasingly complex world of investments. Therefore, a legal and ethical burden is placed squarely on the shoulders of the broker to act in the best interests of the investor in making and executing investment recommendations.

Brokers are bound by a "know your customer" rule, which forbids them to place an investor in an investment for which he or she is "unsuited" in terms of depth of investment experience, net worth, annual income, investment objectives, and other factors. In theory, suitability rules are particularly strict when options trading is contemplated. The information used to determine suitability is collected when an investor opens an account with a brokerage firm and should be updated as needed thereafter. Courts and arbitration panels have established that brokers are responsible for the suitability of recommendations made to inexperienced investors.

The basic concept of suitability is set out in New York Stock Exchange Rule 405, known as the "know your customer" rule, which requires stockbrokers to "(u)se due diligence to learn the essential facts relative to every customer, every order, every cash or margin account accepted or carried" by their firms. The suitability standard is embodied in a provision of the National Association of Securities Dealers (NASD) Rules of Fair Practice. The Code of Ethics and Business Conduct of the Association of Investment Brokers, a trade group of registered representatives, states: "Encouraging financial transactions not commensurate with a client's resources, or suggesting highly speculative ventures without explaining the extent and nature of the risk involved, shall be considered unethical."

It is in this context that the "Manual for Registered Representatives" of the Securities Industry Association (SIA) notes that: "... common sense should rule out recommendations that are unsuitable to the customer's circumstances. There have been many lawsuits against securities firms and individual salesmen based upon the claim that recommendations made to particular customers were not suitable for the customer's accounts in violation of SEC and NASD rules. Recent court decisions have held the Registered Representative to a very high standard."

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*Excerpted from Investor Alert, a periodic release issued jointly by the North American Securities Administrators Association, Inc. and the Council of Better Business Bureaus, Inc. (April, 1988). Reprinted by permission.

## Suitability in Practice

Every customer who opens an account with a brokerage firm sits down with a sales representative and fills out a customer agreement form. This can also be done over the telephone. In the form, the prospective investor is required to provide such details as name, address, phone number, employer, social security number, citizenship, spouse's name and employer, and investment objectives and the degree of risk the applicant is willing to assume in his or her investment strategy. If an investor trades on margin there is at least one more form, usually referred to as a "margin" or "hypothecation" agreement, to be completed. In theory, it is through this combination of detailed questioning and form filing that brokerage firms satisfy the suitability requirements imposed upon them by the fiduciary nature of their relationship with clients.

Due to the extremely high degree of risk involved, options trading requires investors to go through what is intended to be an even more rigorous review process. If all goes according to the rules, an investor interested in trading in options is asked more probing questions than those posed to an investor in common stock. The rules of the Chicago Board of Options Exchange (CBOE) require that brokers get specifics about the following:

- Investment objectives (safety of principal, income, growth, trading profits, speculation)
- Employment status
- Estimated annual income from all sources
- Estimated net worth (exclusive of family residence)
- Estimated liquid net worth (cash, securities, other)
- Marital status; number of dependents
- Age
- Investment experience and knowledge (number of years, size, frequency and type of transactions for options, stocks and bonds, commodities, other.)

The prospective options investor is required to acknowledge the receipt of a current Options Clearing Corporation prospectus, which is intended to spell out for the customer the potential risks of investing in options. The customer also must return within 15 days of receipt a signed options agreement and verify the data displayed by the broker on the new accounts form. Rule 9.9 of the CBOE states that no broker "shall recommend to a customer an option transaction in any option contract unless the person making the recommendation has a reasonable basis for believing at the time of the making the recommendation that the customer has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risk of the recommended transaction, and is financially able to bear the risk of the recommended position in the option."

## Problem Area: The Options "Double Whammy"

The theory of "know your customer" rules and the reality of how customers actually are recruited by brokers for options trading sometimes bear little resemblance to one another. The NASAA Investor Hotline study found that while options accounted for only 14 percent of the total number of investments analyzed in the study, 40 percent of all suitability complaints involved options. In proportional terms, the NASAA study found more than three times as many unsuitability cases reported by investors in options than was true of investors in common stocks.

The disturbing prevalence of the abusive sales practice of brokers placing investors in unsuitable high-risk option strategies is compounded by the low margin requirements for options, which may be as little as 5 percent, compared to the Federal Reserve's requirement of 50 percent for common stock. The two factors of low margin requirements and lack of investor sophistication about new and complex option investments combined in a "double whammy" effect, which was particularly evident in those cases where investors had been placed by brokers in "naked" puts, options not backed by securities. Investors heavily-margined in options were left with large losses in their accounts, made worse, in many cases, by hefty debit balances, often many times greater than the initial commitments of cash.

It was this "double whammy" which, for example, left a Morristown, N.J. man owing his broker $19,000, even after losing every cent of his $90,000 portfolio on a margin call in options.

## Problem Area: Margin Accounts

Margin accounts increase the potential for profit and loss for investors. In a margin account, an investor puts up half of the face value of a desired amount of stock, and then uses the purchased 50 percent of the securities as collateral for a loan which is extended by the brokerage firm to complete the sale of the balance. This leverage makes it possible to make twice the gross profit which otherwise would be achieved in a straight cash transaction, but the leverage also works in reverse, doubling the risk of loss.

If the value of the collateral falls below the 50 percent or an otherwise specified maintenance mark, the brokerage firm will demand additional deposits of collateral, usually in the form of cash or other securities, to resecure the margin loan. This is known as a "margin call."

Margin accounts were once the exclusive domain of aggressive sophisticated speculators who engaged in complex and risky investment strategies, such as naked call writing and spreads, which are restricted under federal regulation to margin transactions. In recent years, however, total margin debt held by U.S. investors has quadrupled, to the extent that the margin

trading is so pervasive that it now reaches, under the guise of the highly touted "central assets accounts," into the ranks of middle-income, blue-collar investors. Nevertheless, margin accounts are of little use to the average investor. The borrowed funds are subject to interest charges, which reached 20 percent during the hyperinflation of the 1970s. Higher commission charges are also present, since the margin trader tends to make more frequent trades, which, under margin, are twice as large as if made outright with cash. And while margin account holders sign "margin" or "hypothecation" agreements, few seem to understand the potential downside of being on margin, particularly when it comes to an option strategy.

Many investors [have] stated [to NASAA] that they were not aware that brokers have the "worst case" right under margin agreements to liquidate without advance notice or approval all or most of an investor's portfolio to satisfy margin account requirements. Some investors in margin accounts complained that they had the cash or other securities to meet the margin calls, but either were not contacted, or, when contacted, were given an unreasonably short period of time to satisfy the call. It was evident that most margin account investors, both large and small, did not understand the consequences of being on margin in a rapidly declining market.

## How to Protect Yourself Against Unsuitable Investments

While brokers have the obligation to abide by the "know your customer" rule, cautious investors should do their own homework to make sure that the investment recommendations of their brokers are suitable. Even newcomers to the investment world will be able to make use of the common sense guidelines detailed below:

1. Be realistic in setting your investment objectives.

   Be absolutely clear in your mind about the decisions you make when it comes to deciding how you want to invest your money.

   Do not be swayed by the decisions of acquaintances or relatives who may not share your financial circumstances. Do not rely on your broker to make the final decision on this key issue. You are the only person who has the right answers for you. Are you seeking maximum protection of capital? Quick growth? Regular income? Tax savings? These questions may be easier to answer with competent advice from a lawyer, bank officer, accountant, registered financial planner, reputable financial publication, adult education programs and college courses. It all boils down to this: How much risk are you willing to assume?

2. Choose a broker who is compatible with your investment objectives.

   This decision is second in importance only to the determination of your investment objectives. Brokerage services are extremely personal, and you will need to have a high degree of comfort with

both the firm and the specific sales representative you choose. Your goal should be to find a broker who will be able to understand and operate within your investment objectives. Interview several brokers and question them in detail. Ask each broker for a brochure describing the firm's investment alternatives, a list of services provided, copies of specific recommendations over the past year, and a copy of the firm's commission rates. Study all of this material in detail.

3. Check out your broker.

Contact ... [the Securities and Business Investments Division of the Connecticut Department of Banking] to get a reading on your broker. If the broker has a disciplinary or enforcement history, it ... [may] be on file and available ....

4. Tell your broker about your financial circumstances.

Be completely candid in filling out the forms used to determine the suitability of investments. Don't overinflate your financial status in order to impress the broker. Remember, the consequences can be disastrous. Incorrect information could result in your broker placing you in unsuitable investments that could cause devastating losses. In these circumstances losses would be your responsibility, not the broker's.

5. Avoid investments you don't fully understand.

The rule here is simple: If you don't understand "naked" puts, the fees involved in a mutual fund or the risks of margin accounts, don't invest a penny. An easy test: Steer clear of anything you can't explain in simple, comprehensible language to yourself or a friend. Research investments, go to the library and read up on investments, ask questions of brokers and other knowledgeable professionals, and attend courses - these are just a few of the accessible means of improving your knowledge of the investment world.

6. Risk no more than you can afford to lose.

If you can't afford to lose the money you have in the market, get it out and put it somewhere else. The rule of thumb is to gamble only with money you can afford to lose without hardship ... Remember, in some investments you can lose much more than you invested initially.

7. Avoid "cold calling" salespersons.

The common sense rule, "deal with people you know," applies as much to securities, as it does to any transaction. Be extremely dubious of strangers who contact you by phone, or through unannounced visits or "junk" mailings. The "dark side" of the investment world is heavily represented by boiler room operations filled with unlicensed salespersons peddling get-rich-quick schemes over the telephone. Remember that if it sounds too good to be true, it probably is.

8. Remember that there is no such thing as risk-free investing.

Be skeptical of glib, reassuring brokers who minimize the degree of risk involved in an investment strategy. The key to evaluating such a pitch is the knowledge that there is no such thing as a risk-free investment. Any claim to the contrary is a clear sign of an unscrupulous broker, one who may, in addition to misrepresenting risk, also place you in an unsuitable investment. Feel free to ask your broker to walk you through a hypothetical "worst case" of the type of investment in which you have your money. Demand straight answers on the question of risk. If you sense that it is being soft-pedaled or misrepresented, seek a new broker.

9. If you suspect an investment is unsuitable, be very clear in getting your concerns on the record.

If you become concerned over time that the investment strategy recommended by a broker is not appropriate for you, raise the matter with your broker orally and in writing. Keep a copy of your letter. If you are not satisfied by this discussion, take up the matter in the same manner with the branch office manager. At this point, it may make sense also to forward your concern to the firm's compliance office and your state securities office.

## YEAR END STATISTICAL SUMMARY

July 1, 1989 - December 31, 1989

| REGISTRATION | Securities | Bus. Opportunities |
|---|---|---|
| Registrations by Coordination | 1,016 | n/a |
| Registrations by Qualification | 10 | n/a |
| Regulation D Filings | 745 | n/a |
| Other Exemption or Exclusion Notices | 117 | 22 |
| Initial Business Opportunity Registrations | n/a | 33 |
| Renewal Business Opportunity Registrations | n/a | 7 |

| LICENSING & BRANCH OFFICE REGISTRATION | Broker-dealers | Inv. Advisers | Issuers |
|---|---|---|---|
| Firm Initial Registrations Processed | 315 | 92 | n/a |
| Firms Registered as of 12/31/89 | 1,563 | 581 | n/a |
| Agent Initial Registrations Processed | 14,393 | 628 | n/a |
| Agents Registered as of 12/31/89 | 51,465 | 2,863 | 122 |
| Branch Office Registrations Processed | 322 | 55 | n/a |
| Branch Offices Registered as of 12/31/89 | 322 | 55 | n/a |

| INVESTIGATIONS | Securities | Bus. Opportunities |
|---|---|---|
| Investigations Opened | 81 | 40 |
| Investigations Closed | 73 | 39 |
| Subpoenas Issued | 71 | 2 |

| ADMINISTRATIVE ENFORCEMENT ACTIONS | Number | Parties |
|---|---|---|
| **Securities** | | |
| Cease and Desist Orders | 6 | 15 |
| Denial, Suspension & Revocation Notices | 11 | 41 |
| Denial, Suspension & Revocation Orders | 3 | 3 |
| Cancellation Notices | 5 | 5 |
| Cancellation Orders | 1 | 1 |
| Notices of Intent to Fine | 3 | 40 |
| Orders Imposing Fine | 1 | 1 |
| Notices of Intent to Issue Stop Order | 1 | 1 |
| Stop Orders Issued | 0 | 0 |
| Miscellaneous Orders | 2 | 2 |
| Consent Orders Executed | 3 | 3 |
| Stipulation Agreements Executed | 10 | 11 |
| New Referrals (Civil) | 0 | 0 |
| New Referrals (Criminal) | 0 | 0 |
| **Business Opportunities** | | |
| Cease and Desist Orders | 4 | 8 |
| Notices of Intent to Fine | 0 | 0 |
| Orders Imposing Fine | 0 | 0 |
| Notices of Intent to Issue Stop Order | 0 | 0 |
| Stop Orders Issued | 1 | 1 |
| Miscellaneous Orders | 0 | 0 |
| Consent Orders | 0 | 0 |
| Stipulation Agreements Executed | 0 | 0 |
| New Referrals (Civil) | 0 | 0 |
| New Referrals (Criminal) | 0 | 0 |

| Monetary Remedies | $ Exacted | $ Restitution |
|---|---|---|
| Orders Imposing Fine (Securities) | 7,500 | |
| Consent Orders (Securities) | 11,000 | |
| Stipulation Agreements (Securities) | 51,074.36 | |