

IN THE MATTER OF: THE SECURITIES ACT

-and-

IN THE MATTER OF: DJORDJE "GEORGE" VLAOVIC

AMENDED

STATEMENT OF ALLEGATIONS OF STAFF OF THE
MANITOBA SECURITIES COMMISSION

STAFF OF THE MANITOBA SECURITIES COMMISSION ALLEGE, AMONG OTHER THINGS, THAT:

A. REGISTRATION

1. Djordje "George" Vlaovic ("Vlaovic") was first registered under The Securities Act ("Act") as a salesman on April 9, 1996 and, at all material times, Vlaovic has been registered as a salesman under the Act as follows:

(a) From April 27, 1998 to February 15, 2000 with Summit Securities Ltd. later known as Summit Securities Inc. and then following an amalgamation effective on or about January 1, 2000 Summit Aurum Financial Group Inc. ("Summit");

(b) From February 22, 2000 to August 23, 2000 with TWC Financial Corp. ("TWC");

(c) From November 7, 2000 to September 24, 2001 with W.H. Stuart Mutuals Ltd. ("W.H.Stuart").

2. Vlaovic's registration was suspended on September 24, 2001.

3. On July 14, 2002, Vlaovic's certificate of registration expired.

4. Vlaovic has not been registered under the Act since July 14, 2002 and remains unregistered at this time.

B. DETAILS

Conduct while at Summit:

1. While at Summit, Vlaovic conducted transactions in the accounts of his clients on a frequent if not weekly basis.

2. Approximately 100 transactions per week were effected by Vlaovic, most of which were from one mutual fund, to another, within the same group of mutual funds ("Switches").

3. Summit told Vlaovic to stop the Switches. Summit told Vlaovic that the clients would be better off without the frequent trades.
4. Vlaovic continued to trade frequently in the accounts of his clients.
5. In or about May, June, and particularly July of 1999, a number of Vlaovic's clients were taking out loans to maximize their RRSP contributions.
6. Vlaovic did not make clients aware of all of the costs associated with leveraging.
7. Summit determined that approximately 25% of all new money, or pieces of business, from Vlaovic's clients were leveraged.
8. As a result, in September of 1999, Summit prohibited Vlaovic from the use of leveraging, at all.
9. In May, June, and July of 1999, Vlaovic obtained Power of Attorney ("POA") forms from numerous clients.
10. The form of POA so obtained from his clients was Vlaovic's own form, entitled *Special Limited Power of Attorney – Investment Funds* ("SLPOA").
11. The **SLPOA** had not been approved by Summit.
12. Vlaovic was told by Summit that the wording of his **SLPOA**'s permitted discretionary trading, which he was not allowed to do.
13. Vlaovic's explanation to Summit of his use of the **SLPOA**'s was that it took too much time to get signatures every time he wanted to do a trade.
14. Summit limited Vlaovic's use of the **SLPOA**'s such that they could only be used for transfers. Furthermore, Vlaovic was instructed not only to contact clients prior to each and every trade, but also to make a written record of each client contact on the switch form.
15. Vlaovic failed or refused to document client contact.
16. In September of 1999, as a result of continued concerns regarding Vlaovic's trading practices, Summit required that Vlaovic agree to:
 - a prohibition on leveraging
 - working strictly out of a specific branch office, as opposed to his home
 - quarterly reports by the Branch Manager to the President on Vlaovic's business practices.Vlaovic agreed.

17. In or about January of 2000, Summit again raised with Vlaovic the issue of his high number of Switches. In the course of discussing this issue, Summit determined that Vlaovic was marketing to his clients risk free investing.

18. Summit immediately prohibited Vlaovic from marketing risk free investing.

19. Shortly thereafter, Vlaovic resigned.

Conduct while at TWC:

20. Vlaovic executed Switches in his clients' accounts on a frequent if not weekly basis.

21. In furtherance of the frequent Switches, Vlaovic used POA's signed by his clients naming himself as their attorney.

22. Most of his clients had signed POA's for Vlaovic, being either his own **SLPOA** or TWC's form of Limited Power of Attorney/Agent Authorization ("AA"), or both.

23. When Vlaovic started with TWC, Vlaovic asked TWC to allow him to use the **SLPOA**.

24. TWC refused to permit Vlaovic to use the **SLPOA**'s. TWC required that only the AA be used.

25. TWC instructed Vlaovic that an AA does not give authority to do discretionary trading on a client's behalf. TWC advised Vlaovic that, when using an AA, investment instructions given to Vlaovic by the client had to be documented.

26. Vlaovic obtained new POA's from his clients in the form of TWC's AA.

27. In or about June of 2000, TWC was concerned with the volume of trading activity by Vlaovic and as to whether discretionary trading was being conducted by Vlaovic.

28. In late June 2000, TWC asked Vlaovic whether he contacted his clients as to specific trades, prior to making the trade. Vlaovic provided an explanation to the effect that he does not contact every client before each trade about the specific trade, but that he informs his clients of the trades that have been made by sending his clients weekly statements prepared by him, as to the changes which have already occurred.

29. In late June of 2000, Vlaovic was advised by TWC that:

- they would not support the level of activity Vlaovic was generating in his clients accounts
- he was to contact each client prior to each trade
- all trades had to be supported by documented client contact.

30. Vlaovic continued to conduct frequent Switches.

31. In late June of 2000, Vlaovic began charging his clients new additional fees on transactions which were Switches ("Switch Fees").
32. The Switch Fees were in the amount of 1.33% of the value of the assets being transferred.
33. 75% of the Switch Fee went to Vlaovic.
34. From late June to late August of 2000, Vlaovic himself received approximately \$8,575.00 from the Switch Fees.
35. In some cases, the manner in which the transactions within a mutual fund family were conducted by Vlaovic generated multiple and excessive Switch Fees.
36. On or about August 14, 2000, TWC informed Vlaovic of their decision to terminate him, due to the frequency of trades/Switches and lack of adequate documentation to support his use of POA's. The termination was to be effective August 31, 2000.
37. TWC informed Vlaovic that all transactions by Vlaovic in his clients' accounts in the period of time leading up to August 31, 2000 had to be accompanied by an original client signature.
38. After having been informed of TWC's decision to terminate him, Vlaovic prepared a form letter to be signed by his clients, threatening a lawsuit against TWC.
39. Vlaovic sent the form letter to his clients for their signature and then forwarded the signed form letters to TWC. TWC received approximately 24 such letters, containing the names of almost all of Vlaovic's clients.
40. On or about August 22, 2000, Vlaovic sent to TWC trading instructions with a handwritten note stating that: "If you do not process this trade you will be sued".
41. On August 23, 2000, TWC terminated their sponsorship of Vlaovic's mutual fund license, effective immediately.

Client – Ms. H:

42. In or about January of 2000, while Vlaovic was still with Summit, Ms. H met with Vlaovic for the purpose of determining whether she would become his client.
43. Vlaovic explained to Ms. H that he operated as follows:
 - (a) if he didn't achieve a return of 10%, he would pay her 50% of the difference;
 - (b) if the return was over 15%, he would receive a bonus from her of 50% of the difference between the 15% and the return achieved.
("Performance Deal").

44. Vlaovic further explained to Ms. H that he guaranteed a 10% return, but that the return would be closer to 25%.

45. Later, in or about March or April of 2000, Vlaovic told Ms. H not to say anything about the Performance Deal she had with him as it was confidential.

46. Ms. H became a client of Vlaovic's and was a client of Vlaovic's for the entire time he was with TWC.

47. When Ms. H became a client of Vlaovic's, Vlaovic explained to Ms. H that he would trade her account quite often, buying low and selling high. Vlaovic did not explain any risks associated with the manner in which he would trade in her account.

48. In conjunction with becoming a client of Vlaovic's, Vlaovic presented Ms. H with his **SLPOA**.

49. Vlaovic informed Ms. H that he needed the **SLPOA** in order to be able to trade funds as needed, without running around getting her signature.

50. At the request of Vlaovic, Ms. H signed the **SLPOA**.

51. In or about March of 2000, Vlaovic also asked Ms. H to sign a TWC AA.

52. Ms. H again complied with his request.

53. Vlaovic did not contact Ms. H prior to executing specific trades in her account. Ms. H found out about transactions after they had occurred, through receipt of statements from Vlaovic and trade confirmations.

54. Ms. H remained a client of Vlaovic's following his departure from TWC.

55. While Vlaovic was at W.H.Stuart, he began faxing documents containing trading instructions to Ms. H requesting that she sign and return them to him.

56. Vlaovic did not explain anything about the fund being purchased, nor did he discuss with Ms. H the risks associated with the trades shown in the faxed documents.

57. Ms. H relied upon Vlaovic and signed documents as requested by him.

58. While Vlaovic had been with TWC, Ms. H was charged Switch Fees.

59. Ms. H was not aware of the Switch Fees until after Vlaovic had received a termination letter from TWC, a copy of which he forwarded to Ms. H.

60. On or about August 20, 2000, Ms. H received from Vlaovic documentation addressed to "All True Clients", among others, which included a form letter, drafted for her signature, and which

purported to express her support for Vlaovic, including the frequency of trades/Switches, short-term trading fees, and POA's. The form letter stated:

If TWC disregards our power of attorneys and does not process the trades Dr. Vlaovic is requesting and actually proceeds with the termination of Dr. Vlaovic's mutual funds licence sponsorship I/We _____ are more than ready to inform Manitoba Securities Commission about TWC's inappropriate action as well as to sue both TWC and Merit and Associates if any damage occurs in our investment accounts during the process of Dr. Vlaovic's re-licensing by another mutual funds dealer.

61. Initially, Ms. H did not sign the form letter.

62. Vlaovic contacted Ms. H, adamant that she sign the form letter.

63. At Vlaovic's insistence, Ms. H signed the form letter.

64. In early September of 2000, Ms. H received documentation from Vlaovic addressed to all clients regarding New Money Management/Administration Practices and Fees, Effective October 1, 2000 ("September Letter").

65. The September Letter was distributed following Vlaovic's termination by TWC and prior to his becoming registered with W.H. Stuart, during a time when Vlaovic's registration under that Act was suspended.

66. In the September Letter, Vlaovic requested payments of money equivalent to .15% of Ms. H's household's portfolio value, to be paid by personal cheque from Ms. H to Vlaovic ("Management/Administration Fee").

67. The September Letter stated that the Management/Administration Fee was to be used for investment instructions, phone calls, reports, to replace Vlaovic's reduced commission, among other things.

68. In the September Letter, Vlaovic requested that the Management/Administration Fee be paid by personal quarterly cheques, with the first cheque due by September 11, 2000.

69. Vlaovic calculated Ms. H's Management/Administration Fee as \$75.00.

70. At the time, Vlaovic owed Ms. H money from the Performance Deal, as he had not earned her a 10% return on her investment.

71. Ms. H suggested that the \$75.00 be taken out of the money he already owed her, to which Vlaovic agreed.

72. Together with the September Letter requesting the Management/Administration Fee, Vlaovic enclosed a written proposal, which he described as Investment Funds' Performance Deals (IFPDs).

73. The terms of Vlaovic's IFPDs were such that compensation was to be paid to the client by Vlaovic personally in the event of failure to achieve a specified rate of return and a bonus was to be paid by the client personally to Vlaovic in the event of his achieving a return above a specified percentage.

74. By February of 2001, Vlaovic owed Ms. H under the Performance Deal \$4,478.00, as calculated by Vlaovic. Ms. H received from Vlaovic a payment in the amount of \$2,000.00.

75. In or about February of 2001, Ms. H transferred to another representative.

Conduct while at W.H.Stuart:

76. W.H.Stuart told Vlaovic that regardless of having a trading authorization signed by a client, Vlaovic was required to obtain the signature from the client in writing, authorizing a particular trade.

77. In September of 2001, peculiarities were noticed in some forms submitted by Vlaovic in order to effect trades in accounts of his clients.

78. By reviewing previous paperwork which had been submitted for other trades in the accounts in question, W.H.Stuart determined that Vlaovic had resubmitted old forms as new forms, with the clients' signatures remaining identical, but the date and the trading instructions on the newly submitted forms having been changed.

79. When W.H.Stuart confronted Vlaovic with this discovery, Vlaovic did not deny having done it.

80. W.H.Stuart terminated Vlaovic on September 24, 2001.

81. Upon being informed of his termination, Vlaovic requested of W.H.Stuart that they not inform the Commission of this situation.

82. Also while with W.H.Stuart, W.H.Stuart received information that Vlaovic had a deal with some clients described as Investment Funds Performance Deals, whereby if the markets went up over a certain percentage he would get a cut, and if the markets went down, he would pay for some of it.

83. Vlaovic told W.H.Stuart that such deal had been while he was with his previous dealer and that none of his clients were now involved in that program.

84. Ms. H was a client under Vlaovic's Performance Deal, or IFPD, at a time when he was with W.H.Stuart.

Non-Resident Clients:

85. At TWC, approximately nine clients of Vlaovic's had home addresses in the Province of Ontario. Transactions were conducted in the accounts of these clients.

86. At W.H.Stuart, approximately ten clients of Vlaovic's had home addresses in the Province of Ontario.

87. At all material times, Vlaovic was not registered to trade in securities in the Province of Ontario.

Trading Without Registration (post September 24, 2001):

88. Following his termination from W.H.Stuart on September 24, 2001, and continuing into 2002, Vlaovic prepared and/or submitted documentation to B2B Trust, including B2B Trust Financial Account Changes forms, for mutual fund transactions, including switches.

89. The mutual fund transactions were for persons who were formerly clients of Vlaovic's while he had been registered under the Act through W.H.Stuart and earlier through TWC.

90. At all material times, Vlaovic was not registered under the Act, his registration having been suspended on September 24, 2001.

91. Furthermore, Vlaovic has established a website for Doc's Computerized Brokerage.

92. The website refers to Vlaovic as "Dr. George" and describes who he is and what he can do.

93. In the latter part of April of 2003, the website in describing Dr. George stated that "You Count on Him to Deliver... Insurance & & Money Products..." and then listed as one of the Money Products, Mutual Funds.

94. The website further provided an Account Application Form, Client Change Form, and Client Request Form for mutual funds.

95. The forms on the website bore the name of a mutual fund dealer.

96. At all material times, Vlaovic was not registered under the Act with the mutual fund dealer so named on the forms, nor was he registered at all.

C. ALLEGATIONS

1. Staff of the Commission allege that as to Vlaovic's conduct **while at Summit:**

- (a) Vlaovic engaged in discretionary trading in the accounts of his clients without adequate, or any, contact with his clients as to the particular trades, prior to said trades being done;

- (b) Vlaovic acted improperly by obtaining from his clients the Special Limited Power of Attorneys, which authorized him to trade on a discretionary basis;
- (c) Vlaovic acted improperly by using his own form of Power of Attorney to effect trades in the account(s) of his client(s), said form having not been approved by his broker;
- (d) Vlaovic failed to follow the instructions of his broker;
- (e) Vlaovic conducted excessive Switches contrary to the best interests of his clients.

2. Staff of the Commission allege that as to Vlaovic's conduct **while at TWC**:

- (a) Vlaovic engaged in discretionary trading in the accounts of his clients without adequate, or any, contact with his clients as to the particular trades, prior to said trades being done;
- (b) Vlaovic conducted excessive Switches contrary to the best interests of his clients;
- (c) Vlaovic charged Switch Fees which were contrary to the best interests of his clients, as being unnecessary at all and/or unnecessarily high in the amount so charged.

3. Staff of the Commission allege that as to Vlaovic's conduct regarding the **client Ms. H** specifically that:

- (a) While at TWC and at W.H.Stuart, or either of them, Vlaovic engaged in discretionary trading in respect of his practice of using Power of Attorneys to execute trades in the accounts of Ms. H without adequate, or any, contact with his client as to the particular trades, prior to said trades being done;
- (b) Contrary to section 69(2) of the Act, Vlaovic gave an undertaking relating to the future value of a security, by guaranteeing Ms. H a 10% return and/or by virtue of the terms of the Performance Deal or IFPD;
- (c) Vlaovic failed to avoid personal financial dealings with his client Ms. H, while at TWC and at W.H.Stuart, or either of them, in the use of his Performance Deal or IFPD;
- (d) Vlaovic failed to inform his broker of, or denied to his broker the existence of, his Performance Deal or IFPD with Ms. H;

(e) Vlaovic acted improperly in his charging of Switch Fees, which were not disclosed to the client Ms. H and which were contrary to her best interests, as being unnecessary at all and/or unnecessarily high in the amount so charged;

(f) Contrary to section 6(1) of the Act, Vlaovic traded in securities without being registered in the distribution of the September Letter and IFPD proposal and in his request of a Management/Administration Fee from Ms. H;

(g) Vlaovic acted contrary to the best interests of his client Ms. H.

4. Staff of the Commission allege that as to Vlaovic's conduct while at **W.H.Stuart**:

(a) Vlaovic acted improperly and contrary to the best interests of his clients by altering and re-submitting old documents previously used in respect of other trades and/or utilizing the signatures therefrom;

(b) Vlaovic acted improperly by requesting that W.H.Stuart not inform the Commission of the situation of his termination.

5. Staff of the Commission allege that Vlaovic's conduct while registered as a mutual fund salesman under the Act was improper in that he:

(a) obtained from his clients, or any one of them, signatures on form letters sent to his broker for his own benefit;

(b) threatened legal action on a trade form;

(c) marketed risk free investing;

(d) engaged in the excessive use of leveraging;

(e) had clients and/or executed trades in the accounts of clients who were residents of Ontario without being registered to trade in securities under the applicable laws of Ontario.

6. Staff of the Commission allege that following the suspension of his registration under the Act on September 24, 2001, Vlaovic traded in securities without being registered contrary to section 6(1) of the Act:

(a) by preparing and/or submitting documentation to B2B Trust pertaining to mutual fund transactions for persons other than himself; and

(b) through his website, by advertising himself as being able to deliver money products including mutual funds and by posting forms pertaining to mutual fund dealings, including Account Application, Client Change, and Client Request forms.

7. Staff of the Commission allege that as to any or all of the foregoing Vlaovic acted contrary to the best interests of the public and that, due to these allegations or any of them, Vlaovic should not be entitled to use any of the exemptions contained in sections 19(1), 19(2) and 19(3) of the Act and therefore should not participate in the exempt markets in Manitoba in the future and an administrative penalty pursuant to section 148.1(1) of the Act should be ordered against Vlaovic.

8. Such further and other matters as counsel may advise and the Commission may permit.

DATED at Winnipeg, Manitoba this 28 day of April, 2003.

Director, Legal and Enforcement

TO: DJORDJE ("GEORGE") VLAOVIC