



## Case study: Investments

### Improper trading on a portfolio of investments

Themes: Advisory non-managed account, deferred payment, rolled over stock, improper trading

Mr J held an account with a wealth management company (Company L) which he used to buy and sell stocks and shares. Mr J had an agreement with Company L to pay for these stocks and shares 20 days from the date of the trade.

The value of the stock decreased after Mr J made the trade. Rather than sell the stock at a loss, Mr J requested that Company L allowed payment to be deferred past the agreed 20 days.

By selling the stock and then buying it again, Company L allowed Mr J to hold the stock for an additional 20 days without settling the trade through payment. When this is done, the stock is said to have been “rolled over”. Mr J asked for stock to be rolled over on a number of occasions.

In one instance, a trade was placed and the value of the stock fell to the extent that Mr J’s account became overdrawn. Company L allowed the stock to be rolled over repeatedly at Mr J’s request, because he anticipated that the value of the stock might recover.

After one year of repeated roll overs, and with no payments being made by Mr J, Company L refused to continue rolling over the stock. The stock was sold by Company L at a loss, and they sought to reclaim the difference (between the original purchase amount and the market value when the stock was sold) from Mr J.

Mr J complained to CIFO that by selling the stock, Company L had conducted an illegal trade on his account without authorisation, and that this had caused him financial loss. He also did not think Company L had investigated his complaint properly.

We considered that it was not unreasonable for Company L to sell the stock and recover the money which was owed to them in order to settle the trade. Company L had provided Mr J with numerous opportunities to clear the outstanding account balance in order to avoid selling the stock. Mr J had not done so. We also found that Company L was acting within its terms and conditions of the account agreement with Mr J.

We were also satisfied that Mr J's complaint was handled in accordance with the standards set by the regulator, and CIFO's own guidelines on model complaint handling procedures. Therefore, our final decision was to not uphold the complaint.