

**IN THE MATTER OF THE *SECURITIES ACT*,  
R.S.O. 1990 c.S.5, AS AMENDED**

**- and -**

**IN THE MATTER OF JOHN DAUBNEY and  
CHERYL LITTLER**

**STATEMENT OF ALLEGATIONS  
OF STAFF OF THE ONTARIO SECURITIES COMMISSION**

Staff of the Commission make the following allegations:

**I. THE RESPONDENTS**

1. John Daubney (“Daubney”), a resident of Ontario, is 61 years of age. Between 1990 and 2002, Daubney was registered under the Securities Act (the “Act”) as a salesperson with the following dealers:

- (i) August 1, 1990 – September 1, 1991: Investors Syndicate Limited, a dealer in the category of mutual fund dealer under the Act;
- (ii) January 1, 1992 – July 2, 1996: Investors Group Financial Services Inc., a dealer in the categories of mutual fund dealer and limited market dealer under the Act;
- (iii) June 30, 1996 – July 22, 1999: Hewmac Investment Services Inc. (“Hewmac”) a dealer in the categories of mutual fund dealer and limited market dealer under the Act.
- (iii) July 30, 1999 – June 17, 2002: Wealth Map Financial Limited (“Wealth Map”) a dealer in the categories of mutual fund dealer and limited market dealer under the Act.

Daubney's registration was suspended by the Commission in January 2003.

2. Cheryl Littler ("Littler"), a resident of Ontario, is 52 years of age. Between 1997 and 2003, Littler was registered as a salesperson under the Act with the following dealers:

- (i) March 13, 1997 – July 22, 1999: Hewmac, as referenced above.
- (ii) July 30, 1999 – July 17, 2003: Wealth Map, as referenced above.

Littler's registration was suspended by the Commission in July 2003.

## **II. CONDUCT OF THE RESPONDENTS**

3. Between 1997 and 2002, Daubney and Littler worked at the Orangeville branch offices of Hewmac (1997 – 1999) and Wealth Map (1999-2002). Daubney, an experienced salesperson, was a mentor to Littler and worked closely with her. Daubney shared with Littler his high-leverage investment strategy, described below, and referred clients to her.

4. Between 1997 and 2000, Daubney and Littler recommended to their clients an aggressive and risky investment strategy. They presented their clients with investment plans indicating unusually high long-term returns (e.g. 12% per annum). By making misleading and inaccurate undertakings to their clients regarding the future value of their investments, they contravened s. 38(2) of the Act.

5. Daubney and Littler failed to adequately inform their clients about the underlying risk associated with the recommended investments, which were aggressively-oriented mutual funds, exempt-status investments sold pursuant to an offering memorandum and segregated funds that Daubney and Littler sold in their capacity as licensed insurance agents.

6. Daubney and Littler further increased their clients' exposure by encouraging leveraged investing through mortgages and margin loans. Specifically, they advised their clients to increase their investment by borrowing substantial funds secured by a mortgage on their homes. These borrowed funds were invested, and were also used to obtain 1-to-1 or 2-to-1 margin loans which were in turn used to purchase additional securities. Daubney and Littler were paid commission and trailer fees based on the amounts invested by their clients.

7. Daubney and Littler recommended this high-leverage strategy to their clients indiscriminately, without taking proper account of their clients' respective risk tolerance, investment objectives, investment knowledge, age, income or net worth. As such, Daubney and Littler provided investment advice that was unsuitable for their clients, contrary to their obligations under OSC Rule 31-505, Section 1.5(1)(b).

8. The market downturn in 2000/2001 revealed the risk and unsuitability of Daubney's and Littler's investment advice. The combined effect of diminished investment values, margin calls, and continuing debt obligations caused financial and personal hardships for Daubney's and Littler's highly-leveraged clients. Many were forced to take measures including the renegotiation of mortgages and margin loans on less favourable terms, the depletion of pre-existing savings, and the sale of family homes and securities pledged as security for mortgages and margin loans.

### **III. CONDUCT CONTRARY TO THE PUBLIC INTEREST**

9. Daubney and Littler each made misleading and inaccurate undertakings to their clients regarding the future value of the securities that they recommended, contrary to s. 38(2) of the Act and thereby acted in a manner contrary to Ontario securities law and contrary to the public interest.

10. Daubney and Littler each recommended an investment strategy that was unsuitable and inappropriate for their clients' needs and investment objectives as required

by OSC Rule 31-505, Section 1.5(1)(b) and thereby acted in a manner contrary to Ontario securities law and contrary to the public interest.

11. Daubney and Littler each failed to deal with their clients fairly, honestly and in good faith, contrary to their obligations under Rule 31-505, Section 2.1(2) and thereby acted in a manner contrary to Ontario securities law and contrary to the public interest.

12. Such additional allegations as Staff may advise and the Commission may permit.

**DATED at Toronto** this 14<sup>th</sup> day of July, 2006.