To the parliamentary enquiry:
10 August 2009

I first got involved with Emanuel Cassimatis whilst working in Townsville in about 1994 when I installed a Computer Server, Workstations and Laser printer and set up a small office LAN for the company.

In 1995, I setup in business myself and was approached by Emmanuel to retain him as a client and looked after his computer requirements until 2001 when I had sold my business. At that time, I had no commitments, no employment and little to do. I had accepted a commission to do more work in his Brisbane office. Whilst on this job, I was offered a permanent fulltime position as IT Manager with the company (then known as ozdaq securities).

In 1996, I did attend an education session with Cassimatis securities but this didn't go any further as my wife and I separated and I was in no position do anything anyway.

I invested a few hundred thousand dollars with ozdaq in 2001 and lost money in the dot com or tech wreck crash. I was hesitant about investing more for a while. However, I later succumbed to Emmanuel Cassimatis's sales pitch. It was several years before I was given any Statement of Advice.

I always felt that as I was an employee, it would be disloyal to the company I worked for to approach another financial advisor for un-biased advice and that it may appear to another advisor that I would be seen as trying to get information about their business practices.

My position and involvement with the company meant that I had frequent exposure to the Storm model of investing but had no prior knowledge.

As IT Manager I was given no specific budget and for the first few years, whenever a new workstation or server was required, I purchased these out of my own money and due to my workload and dedication to my job, I did not get to invoice ozdaq for these purchases adding up to round $60K. Thankfully I stopped the practice of providing equipment from my own pocket. I was offered a reduction in commission fees for an investment to compensate me for these expenses.

I was privileged to have three overseas holiday trips paid for by the company. I believed that I had earned these privileges through hard work and dedication. I know that I'll never be able to have holidays like that again.

In 2004 I remarried and bought a house with my wife. As the market had been rising (and I was now believing that the Storm model was a safe investment), I introduced my wife to Storm investments.
In June 2006 my wife retired from work.
Through some miscommunication she felt obliged to go along with me (although she had grave misgivings) and we mortgaged our house for an investment in her name with the Storm model.
I must say that she had not received the Storm education (propaganda) prior to investment.
She had no direct communication with Storm or Bank employee regarding the investment before she was presented with documents to sign.

My wife felt under pressure to sign as it had been conveyed to her, that by not investing by the 30th June, she would lose a tax benefit of around $8,000. It was not revealed to her that the investment had cost her $55,000 in advisor fees of which David McCulloch personally received $5,000 commission.

My wife and I were not aware she even had a margin loan. (I should have known). She did not get to have a meeting with her appointed advisor, David McCulloch until several months later. She was not given a 'Statement of Advice' at the time of investment. The one that Storm had prepared for her had someone else's name on it. We did not read in detail the documents that she signed. It was not until May the following year that an SOA was prepared for her to sign and initial.. McCulloch had it back dated to June 2006. This was not the only incidence of falsification. In the BOQ documents, McCulloch had neglected to put in that she had retired and that she had no income. We did note that in the document and counter signed that her income was zero. I had been named guarantor for the loan and they had stated that I also owned another house of the same value as the one which was being mortgaged. I did not find out about that until after the Storm collapse when I was forced to review the loan documents.

On the 17th October I signed a document to convert all my investments to cash.
This was a document in which every Storm client with margin loans was urged to sign.

I found out much later from another ex-employee that Storm never did act on any of these documents, and that none of them were ever sent to the CBA for processing.

I often asked my own advisor, Stuart Drummond, what was happening with the conversion of shares and was told that it was in the hands of Colonial who were slow in processing due to the huge volume.

Towards the end of October 2007 Storm's investment funds were 'frozen' for a period of 2 weeks with possible extensions. That is, Storm notified Challenger and/or Colonial that no transactions were to take place. I understood that this was due to concerns about the stock market stability. It was also talked about, that money from these funds was taken out and put into the futures market to reduce the effects of the declining market. I cannot verify that this did actually occur, but it was mentioned at an executive meeting. If funds were removed for speculative measures, I question whether this may have been legal.

The Cassimatises had negotiated agreements with CBA and for special considerations being given to Storm's client investments. It is my belief that these special agreements were outside CBA's normal practices and that their systems were unable to track the additional complexities of the agreement.
One of the agreements that Storm had with Colonial was to have a 10% LVR buffer on their clients LVR's
I believe that this factor meant that Colonial's systems could not track their clients as effectively as other non-Storm clients would have been tracked.

The first time my own name was on a list from Colonial was on the 13th November 2008 when my LVR got to 98%. Prior communications (lists of client LVR's) from Colonial showed that my name was not on any prior lists.

Why did Colonial not flag these loans as being past the 80% LVR until things were out of control?

Why did Storm's directors not have the 'switch to cash' documents acted on and presented to Colonial.

CBA would not answer my questions as to when my LVR got to, or went above 80%.
I asked several questions about my loan, however I was refused an answer.. only to contact Storm as they were responsible but Storm were already in receivership managed by Korda Mentha P/L which had been appointed by CBA.

I believe the following events proved to be financially devastating to Storm's clients wealth.

Storm's Directors drive to become super wealthy were instrumental in their desire to float the company to realise a huge personal profit

The pressure that Storm's directors put onto their sales people and their staff to maximise their clients investments, such as having their homes re-valued so that they could invest in more units and borrow more money (increase margin loans) to increase the investment even further.

A lot of this pressure was in the form of incentives, such as paid overseas holidays or promised shares in Storm following a successful company float.

The director's desires to maximise profits (upon a company float) drove them to take risks in the market, not only with their own resources, but also that of their most valuable clients.

Storm's relationship with Challenger and CBA's various subsidiaries led to some short cuts being realised for the sake of convenience. (eg: increased LVR buffers etc)

The Global Financial Crisis caused a large fall in the market which the Storm model of investing could not possibly sustain in their greed state. That is, prior to 2005 Storm appeared to regard LVR's above 50% as being too high or aggressive. Had they kept that policy and kept clients LVR's at or below that 50%, then their clients would have lost a lot of money, but would have not lost everything, and in time may have been able to recover from their losses as the GFC ends and markets recover.

(I now see that Storm's advisors were selling only one product, and because of that I believe that they were ineffectual as advisors)

<u>Why weren't our shares converted to cash</u>? Our investments would have decreased enormously, however we would not have been in negative equity.. owing the banks so much money that some of us will never be able to repay.

The CBA **should** have issued notices to clients when their LVR's approached the banks recommended maximum LVR.
The CBA **should** have issued notices to Storm Financial when the clients LVR approached the banks recommended maximum LVR.

Storm Financial had technology which **should** have been able to calculate their clients LVR to some degree of competency and be able to notify their clients.. but they did not act on this information. Why?

- I believe that Storm directors decided that the negative equity issue of their clients, was getting too hot to handle and pulled back from acting upon the 'switch to cash' letters that their clients had entrusted them with. That is.. They had already bailed out several of their favoured clients with cash from the company as 'un-secured loans' and did not want to carry the can for the entire client base. (They realised that they could not afford this)

- I believe that as they began to see that the market may keep falling, there would be an increasing number of clients getting into negative equity.

- I believe that they thought that if they did not act upon the 'switch to cash' documents then CBA would then have to take the position of making good the difference between the negative equity and the 80% LVR margin call, and so let them off the hook

- I also believe that certain people within CBA were complicit with Storm directors until it was realised that the negative issue was too big to handle. At that point, CBA officials also wanted to divest themselves of the liability and push it all back onto Storm Financial. (I would agree that Storm should have never let their clients LVR's get near maximum LVR).

I suspect that things went terribly bad for Storm's directors in early December with the CBA.
It would also appear that Storm Financial and CBA's common clients were the innocent victims of a falling out between these two parties.

Storm Fees.
Storm always claimed that their fees were modest.. and lower than industry standards.
However.. I have been told that their up-front fees were the highest
Their on-going trailing fees appeared to be modest, however when taking into consideration comparisons of other advisor groups, I now see that Storm's fees were very high indeed.

Example: The directors were very proud of the fact that while another advisor may see that a client with $100,000 to invest may advise that client to put $90,000 into an investment and keep $10,000 in a dam account. This may net the advisor around 1-2% trailing commission on $90,000. ($1,350PA)
Storm's model would have invested the $100,000, borrowed $400,000 against their house and then borrowed another $460,000 Margin loan(kept $60,000 of this in upfront fees) and taken a trailing commission of .6% of the $900,000 invested ($5,400PA)

20:20 Hindsight is no help for me now.
I found myself out of a job and broke and depressed.
Because of age, and having worked for Storm I've found employment difficult to obtain.
But I won't give up. So far, I've been labourer, driving taxi's and busses.
My wife has also suffered depression. We have both had to seek professional assistance to help with this.

I hope that this parliamentary enquiry will dig much deeper into the causes of this disaster than I have been able to elaborate upon in this short letter.

I would make myself available for interview in regard to anything about Storm that could be useful.

My last task before Storm called in Worrell's as administrator was to make full copies of **all** data held by the company including a full working copy of Phormula (the software which Storm Financial used for all its client related business), all correspondence (email, fax, and scanned letters). This data was to be stored on computers at the Cassimatis private residence in Townsville. This was to be complete before the Administrators were called in on Friday the 15th January 2009.

Submission by Allan McDonald
Ex Storm Financial employee.