

THE COMMITTEE.
PARLIAMENTARY JOINT COMMITTEE ON CORPORATIONS AND
FINANCIAL SERVICES.

SUBMISSION FROM.

Gordon and Jane Zinn

THIS IS A COPY OF A LETTER THAT WE PRESENTED TO THE
HONOURABLE MR. BERNIE RIPOLL M.L.A . (I am not sure if it was submitted
by Mr. Ripoll)

However this letter differs in that it has a post script.

THE REAL STORY..It is about time someone told the real story about Storm
Financial, instead of all the hocus-pocus that the so-called Financial Editors are
reading into the story “after the fact.” They seem to have all of the know-how now, as
to why this so called “cult following” got themselves into what they call justifiable

trouble. Storm has been around for a long time, how come these so called experts took so long to “discover them.”

My own story about Storm Financial or Ozdaq, as they were then called, began in May 2002. After an unsuccessful period with a Financial Company called “Garvan”. My wife and myself were looking around for better retirement advice. Garvan had recommended to me to take out an allocated pension for my retirement. Their projected figures did not look that good but I agreed to go with their recommendations, as there would not be any tax paid. After signing all of the necessary paperwork, I found that the ATO had taken the sum of \$26,000 out for tax. My wife and I immediately got to work to get the whole thing reversed. After numerous months of terrible paperwork from Garvan, We eventually got things back to scratch. The last straw was when my advisor told me that no one on an allocated pension ever made money on it.

This was when we started to “shop about” for something better. We did not want to be a burden on our country, so I was adamant that I did not want an age pension. This eventually took us (my wife & myself) to a MONEY EXPO at the convention center in Brisbane. We were looking for something different to get us through to our old age. This was about the time that there were advisors advocating hedge funds and the like, which we knew absolutely nothing about. The normal financial advisor-cum tax accountants were not offering much, unless you had lots of money. If this was the case you could just put it in a bank and settle back for the rest of your life. Why then would you need an advisor for that?

We noticed a particular company called Ozdaq Securities that had a lot of people interested in what that had to say. One of the people representing Ozdaq was a friend of my wife, so we had a chat to her and explained to her just what we were looking for.

We then had to attend at least two meetings that I can remember, of about two to three hours each before we were invited for an interview. We were told that not all of the people who go to the meetings would be invited for an interview and that the “stats” for interviews was about one in four that were finally invited for an interview.

At both of these meetings it was made clear that property was much on the negative side and that the way to go was in the market. Also that if we followed the recommendations we would be looked after, if not we could go our own way.

We decided to go ahead with Ozdaq and had a meeting with their representative at Holland Park. We did not agree with their first proposal as we thought that it was going too far into debt to start off. Their proposal was to use \$400,000 of my super and to get a margin loan for a further \$400,000 to invest in an MLC (as we preferred and had been with them previously) Index fund. We finally agreed on \$250,000 of margin loan from Colonial Geared Investments. The total Investment was:

Date of purchase 21/6/2002 MLC Masterkey Unit Trust-Share Index Fund
Amount invested \$400,000

Cash Reserves

Date of opening 1/7/2002 Macquarie CMT

Amount \$59,000

Ozdaq Securities fees

Date 14/6/2002 Amount \$45,214.

Date of purchase 5/7/2002 MLC Masterkey Unit Trust-Share Index Fund

Amount invested \$250,000 (margin loan amount)

We felt comfortable with this and watched our spending budget carefully.

We had further reviews on:

17/9/2003 5/2/2004 16/7/2004 27/10/2004 28/1/2005

During this time we had notification on 30/1/2004 that Ozdaq Securities had to change their name (complaints from NASDAQ) and had changed to Storm financial. My wife expressed her concerns at such a name for a financial company.

On our last review with our Holland Park advisor on January 28 2005 we had increased our margin loan by \$103,630 to \$353,575.06.

Comprising :

<u>MLC Masterkey Unit Trust-Share Index Fund</u>	<u>\$100,000 additional</u>
<u>Storm Financial fees</u>	<u>\$3,630</u>

Our Holland Park advisor retired around the middle of the year 2005 and we were then welcomed to Storms head office at Newstead. Impressive building, impressive systems, where we were welcomed by George Cassimatis, son of Emmanuel Cassimatis, founder of Ozdaq/Storm as our now current Storm advisor.

Things immediately started happening. We were told we were geared too low and that we were not motoring along like we thought we were but were almost stationary. By 11 July 2006 our margin loan increased by a further \$50,000 and from then on our reviews were usually to draw down and then borrow more to reinvest. All along during our entire meetings and investor updates the push was away from real estate and into the market.

However at no stage were we willing to mortgage neither our house nor my wife's investment property.

We had further reviews with George Cassimatis on:

21/10/2005 4/4/2006 27/9/2006 15/1/2007 29/5/2007 27/8/2007
8/1/2008 22/1/2008(this step we did not take)

On March 20 2006 my wife agreed to mortgage her inherited property at Ballina. My wife stipulated that this investment was to be kept as an entirely separate investment, which was for our son and daughter-in-law to assist them to purchase a home in Melbourne.

Mr. Cassimatis chose to ignore this and put it into our total investment. He stated that at any time he could extrapolate the relative amount of this investment from our main investment. Of course maybe he could but did not do as he was requested.

Since early in our investment life under Ozdaq Securities and later as Storm Financial we were told that we would soon be able to monitor our portfolio through their web site. The early Ozdaq web site was very poor and really only gave a weekly or so up date on overall news. The later Storm web site at NO STAGE allowed us to get into our portfolio and monitor our investments. *This was a major flaw that would not allow us to track our investment data on a real time basis.* The only way we could monitor our investment portfolios was through the individual financial groups, such as MLC and later Challenger Financial Services Group. Of course this information was at times a week old, at best two days old and completely useless. Like closing the gate after the horse has bolted. ***I feel strongly that had individual clients been able to regularly monitor their investments, on the so called Storm web site that they would have been able to be in better position to do something to protect themselves before the crunch, when Storm failed to act to protect their clients.***

By this time our margin loan was \$547,202.95.

October 18 2006 our margin loan increased by a further \$70,000 to bring our total loan to \$617,202.26.

In July 2005 we were advised that Storm Financial were looking at using Challenger Financial Services as a fund for future investments, our first investment was effective 11 July 2005 and consisted of \$25,000 in both the Resources and Technology Trust. We were advised that their fees were lower than that of MLC and also that it gave Storm flexibility in investing or drawing down from three individual markets. Initially we were skeptical with Challenger & stated that we preferred to stay with MLC but we were told that Challenger had lower fees & could be divided into more asset classes & it was the same as the All Ords. However my wife and I had heard that Challenger was part of the Packer business and my wife was adamant that she wanted nothing to do with the Packers as she did not want anything to do with them and their gambling empire.

Again this request was ignored by Mr.Cassimatis.

Further borrowings:

19 December 2006 \$70,000

22 January 2007 \$150,000 took our margin loan to a total of \$848,358.95

We were advised in mid 2007 to prepay our margin loan interest for the following year, which added a further \$72,413.8 to our already speedily growing margin loan debt.

Further borrowings of another \$85,000 increased our loan to the million-dollar mark. This started to look frightening.

27 August 2007 saw a further \$179,000 added to our ever-increasing debt. ***By now I could not figure just why Colonial Geared Investments kept increasing our margin loan limits.***

By January the market had dropped a significant amount, about 13 to 15% and we received a call from Storm for a further review.

Alarm bells should have been ringing but we went along in blind trust that these people knew just what they were doing as all **advisors had a minimum of a masters degree in finance.**

They then wanted us to mortgage our principal place or residence, our home and borrow more to get into the market before it went back up. We were not keen on doing anything further at this stage as we were in “no mans land” as far as we were concerned.

Mr.Cassimatis assured us that it was a wonderful opportunity in get in early and invest in a rising market. We asked what would happen if the market fell like the ‘30’s. He was adamant that if this happened the world would cease to function as we know it and that no one would have anything left anyway.

Throughout all of our interviews with Mr.Cassimatis had showed great proficiency with the gigantic screened computer system that told all and left no one in doubt that Storm was “on top” of everything with all this information coming in by the second.....in total command.

Reluctantly we agreed that they were in control and knew exactly what they were doing. **Personally I began to wonder quietly just whose side they were on, our side or the banks. It seemed strange just when we were due for a review our maximum loan figure kept magically increasing.**

With all these thoughts and with an absolute trust in that they knew what they were doing we went ahead with their recommendation. So on 22January 2008 we mortgaged our home with the Bank of Queensland for \$288,000, 80% of its total value. Our advisor Mr. Cassimatis appeared surprised at the high lending rate. Together with more margin loans we were now up to a total of \$1,239,422.08 with another increase on our Credit Limit to \$1,500,000 from Colonial Geared Investments.

Because we had prepaid our margin loan interest for the year 2008 the loan was growing monthly, a fact that caused me great concern. I thought that we have to get out of this grip that they have on us.....but how. We appeared to be in far too deep for people such as we were.

The margin loan continued its growth monthly until it reached a pinnacle of \$1,466,883.04, absolutely frightening.

All along Storm kept saying that this level was OK, our LVR in June 2008 was 65.52%

Apparently, nowhere, at any time after we had completed our mortgages did Storm include the mortgage in our LVR, only the margin loan. Flawed from the first mortgage.

Our worries were growing, especially with the meltdown in America. We expressed our concerns to Mr. Cassimatis who e-mailed to me on Tuesday 22 July 2008 some examples regarding Opes Prime and Storm’s position with respect to us. (See e-mail dated Tuesday 22 July 2008 from George Cassimatis to Jane & Gordon.)

So with all this newfound confidence we began to plan our holiday with some of Storm clients to South Africa, organized by Escape Travel in Townsville, part of a special trip put together by Scenic tours for Storm financil. Our participation in the trip was funded completely by our own money, which to me, appeared “really over the top” with regard to normal holiday travel cost, I complained to my wife that I could personally arrange a similar trip for less than half the price and see the same things but stay in less salubrious accommodation.

Whilst we were overseas the Australian market commenced its fall and continued on right to our return. Things really started to get me down, the market was freefalling and Storm was doing nothing. I had received an e-mail from Emanuel Cassimatis saying that if we had not received an earlier e-mail request to change at least 50% of our portfolio to cash then sign and return the form.

We rang and made an appointment with George Cassimatis for October 14 at 3.30pm. In between I had to come to terms with the death of my eldest brother. We attended his funeral on the 14th October and left the get together to meet up with Storm in Newstead. George Cassimatis went through the normal routine that all was in control and that we convert to 100% cash, as the call would be then at 100%, so we were safe. We signed the forms to allow our portfolio to go to cash and with his assurance that we would be safe.

On 12th November we attended a Storm Investor Update presented by Emmanuel Cassimatis at the Hilton Hotel. The attitude of the attendees at the foyer before moving in to the meeting was very somber, not at all like all the previous Storm updates.

Emmanuel Cassimatis explained the world financial position regarding the ongoing and never ending American sub-prime debacle and how the American banks had on sold the mortgages to the world banks causing untold devastation and that the whole world financial systems were, to use his words ”like running a car without oil”. Associating oil with cash, meaning the world was suffering a shortage of cash. It was not what we actually came to hear. We wanted to know just what Storm was doing and going to do to save most of us from bankruptcy. We did not receive any assurances or decisions on just what they were to do. Question time and only selected questions were answered. When one persistent person eventually got to ask “Just what was Cassimatis going to do if the market got to the magical 3,300” points was greeted by some derision from the hard core Storm clients and answered by Cassimatis by. “I don’t want to think about that”.

“Wow” I thought this guy has lost it, how the hell will we ever get out of this debacle. He really did not have a clue. Out side after the meeting the assembled Storm clients were “shell shocked” and some had already been sold out by the likes of Macquarie and were in negative territory. What do we do?

On Friday 5 December we received our statements that we had been cashed out of the market by both MLC and Challenger on 27/11/2008. That’s ok George said we could go to 100% on cash.

On Friday 12 December at 3.30pm we received through the mail, two letters from a John Clothier of Colonial Geared Investments. See applicable letters. One stating that 'on 4th December 2008, Colonial received clear instructions from the principals of Storm Financial that all margin loans accounts geared at greater than 90% should be redeemed to avoid the potential for a negative equity on your account'. The other letter received the same day stated that 'the loan status was now in margin call & Colonial required a further \$190,614 payable by 16/12/2008. Apparently Clothier wasn't aware of what was happening in his own department.

I went into shock, and then I rang my wife, who was with our grandchildren at that time and told her the shocking news. I rang George Cassimatis at Storm, trying to speak with him and was told he would ring back. He did not. By 5pm I rang again and was told he had left, so I made an appointment for 10 am Monday morning 15 December. I was a bit frantic by now and then rang George Cassimatis on his mobile phone. He said he would be at work on the following morning Saturday, so to come in then.

We arrived Saturday morning to be greeted by "nothing has changed". We presented Mr. Cassimatis with the letter from Clothier and asked how could we owe this amount as Colonial had already closed our account and were fully paid out. He said that this was typical of Colonial as they and their records were in a mess. Mr Cassimatis seemed to think that at that time we were not too bad off and he told us our problem was cash flow. We knew this as we had cash flow problems from day one with Storm. His recommendation was to get a job or at least a part time job. At 69...for me impossible...my wife 63...out of the workplace for 10years, highly improbable.

At 1.33pm he e-mailed his Colonial contact, Mr.Kamal Arnaout. See copy of fax.

On the 16th December 2008 I received an e-mail from Mr. Cassimatis sent by Mr. Arnout confirming we were \$68,045.54 in credit. See copy of fax. From this point onwards things just seemed to fall apart around us. Storm were going to sue the CBA for reducing the margin loan ratio, a bit like suing "CITY HALL" ...forget it. Then CBA gave Storm a day to pay their debt... What debt? Weren't they just a financial advisor?

So what do they do? Oh well! We will just go into receivership, the hell with our clients.

Since that horrible end of the year 2008 it has an unbelievable grind daily to keep up with the ever-arriving letters with windows, ongoing e-mails and the rather shattering down to earth, lining up at Centrelink to see if we can survive this disgusting debacle that has taken over our lives.

Since this debacle we have had a lot of moral support from friends within and without Storm clients as well as having to learn to do without a financial advisor, probably a good idea, considering our past record with them and gradually claw our way back.

We are left with a mortgage on two of our properties, totaling \$512,000, on my wife's family home and our own home with little capital to do anything to be able to support ourselves for the rest of our lives. So we have gone from being what we thought

would be not a burden on our society and country to now having to have our country and society support us.

The most interesting point out of all of this is that we signed the documents on 14th October 2008 to convert 100% of our investments to cash. To this day we do not know just who was holding this request to cash out document or if any action was taken was by Storm Financial or Colonial Geared Investments acting on this request. We received notification from both MLC & Challenger that we were cashed out of our investments on the 4th & 5th December 2008. We thought that this was part of the cash out process until we received the two letters mentioned previously.

Gordon & Jane Zinn

Date 17th March 2009

A post script to this submission relates to an article appearing in the Courier Mail dated 24/7/2009 under the heading “Storm loans often broke BoQ policy”. My wife and myself were particularly interested in the second last paragraph regarding BoQ’s role after 2004 when it stressed its network was based on “face to face, customer-focused delivery”.

We had two mortgage loans with BoQ, one on our principal place of residence and the other on my wife’s inherited rental property. Both of these loans were processed directly through Storm’s Brisbane based office and at no time did we meet or have contact with any person from BoQ. At this time we had a large margin loan with the CBA’s Colonial Geared Investments.

After the collapse of Storm Financial we made a telephone appointment to meet with the BoQ North Ward representative (where the loans were taken out) as we no longer had a financial advisor and our accountant advised us to pay off our mortgages. We assumed that the North Ward branch was based in Brisbane but we were informed, much to our surprise, that the branch was in Townsville. We had no idea that the loans had been arranged through the Townsville BoQ office. So it would have been difficult to have face to face contact with that representative. Also nowhere in the BoQ’s Consumer Lending Application details did it take into account in the “total value of liabilities,” the value of our margin loan with CGI. All of these details were filled in later by Storm Financial.

Summarising;

- **Our Risk Profile should have stayed at our original setting of 38.46% Recommended maximum allowable LVR of 60.34%**
- **Establishing the Clients Risk Profile:** one of the key functions of the financial planner is to determine the risk profile of the client so that the financial plan mirror this profile. If the client tends to be a worrier, periods of market decline, which in equity investments are more or less inevitable, could

create personal problems. The financial planner needs to perceive this psychological attitude to risk in the client and perhaps limit investment in high risk areas. The financial planner would have to weigh up the possible long-term benefits of this type of investment against the fact that for considerable periods the worry associated with declining values may affect the client's well-being and peace of mind. (DFP page 6 Fundamentals of Investment Planning)

- **Education requirement: was advised as being Masters Degree in Financial Planning for all of Storm's Advisors.**
- **Members of the Financial Planning Association.**
- **Approved by ASIC**
- **Approved by APRA**
- **1987 crash-expectations that systems had been put in place that would safeguard us from exposure to this risk. Storm financial would have trigger points. Storm Financial S-Force (see attached "George Cassimatis" 22 July 2008.**
- **Signed form to be cashed out on 14th October 2008.**
- **Did not expect to be over expose in the Margin Loan and believed we would be advised if we were in such a position.**
- **Cashed out on 27th November 2008 at 95.57%.**

We believed that we were in good hands and put our trust in the Storm System.
We certainly were fooled.