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Money adviser facing big suit

News

By MARG. BRUINEMAN BARRIE EXAMINER

Posted 3 hours ago

A multimillion-dollar lawsuit against a local financial adviser has evolved into a class action lawsuit.

Former Phelpston farmer George French is suing David Karas, Investia Financial Services Inc., Money Concepts (Barrie), Diamond Tree Capital Inc., and Financial Victory Associates Inc. for \$2 million. His original suit, filed in June, has been amended into the form of a class action, with French as the representative plaintiff.

It now includes \$50 million in punitive and/or exemplary damages. The suit also seeks reimbursement of commissions and fees and recovery of life insurance premiums.

French claims he lost \$880,000. "The allegations are without merit and they will be vigorously protested in the courts," said lawyer Ian Epstein, representing Karas and the companies, with the exception of Investia. "We don't believe that the claim has merit."

John Hollander, of Ottawa law firm Doucet McBride LLP, said about 45 families are part of the suit or are in the process of being involved. He anticipates that number to increase. Two meetings have been scheduled Oct. 19 for current clients and for those interested in the suit. But, he adds, only those who worked directly with Karas can be part of the action.

The Ottawa firm, which specializes in financial suits, has joined with Toronto class action specialists Thomson, Rogers in this lawsuit.

Karas ran Money Concepts in Barrie and appeared regularly in the media as a financial expert.

The Money Concepts franchise in Barrie was that company's top Canadian branch for sales performance between 1988 and 2009, and top international branch from 1993 to 2009, according to the claim.

The local franchise no longer exists.

The suit alleges that Karas encouraged people to borrow money to invest in mutual funds, "without discussing the risk to clients ... and the conflict of interest.

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"We're saying that involves very high risk," Hollander said. "In each case, he promised this would be a panacea to

their financial problems."

The more clients borrowed for investment, the more compensation Karas was paid, according to the statement.

For the clients, the rewards didn't match. Problems then occurred when the bottom dropped out of the stock market and the value of the investments plummeted. For many, that resulted in more debt than assets.

French and his late father, Elmer, ran a farm north of Barrie. They invested their savings in guaranteed investment certificates (GICs), but when his father died in 1999, the son inherited the farm and their joint savings.

The claim states French, a 58-year-old former dairy farmer, hoped to protect \$300,000 in savings for retirement by seeking financial advice. But the market took a severe downward turn and French's portfolio was "decimated," according to the claim.

Hollander says his client began with \$350,000 and ended up owing \$500,000.

The claim states Karas advised and arranged for French, who never married and has no dependants, to purchase life, critical care and long-term care insurance, even though he had no plans to leave behind an estate. The \$22,000 in annual premiums were also more than French's disposable income.

French had been dealing with Karas since 2003. His portfolio contained high-risk investments, such as smaller companies or those in emerging markets, according to the claim.

The claim states Financial Victory was supposed to provide computer-generated market-timing alerts at specified percentage points that would signal the appropriate time to buy or sell mutual funds. That didn't happen.

But the practice of leveraging money for investment isn't wrong, said Epstein. He also suggested that the case doesn't fit within the definition of a class action.

"There's a huge question whether or not it's appropriate to have this certified as a class action," he said. "That's a long and difficult process."

Karas' lawyer said a statement of defence won't be filed until after the case goes through the certification application, expected in about a year's time.

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