

Vancouver Sun

Burnaby woman learns the perils of dealing with unregistered advisers

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FIFTH IN A SERIES

On Thursday, I reported how Donna Mulder invested \$118,000 in a complicated bond and loan investment scheme at the urging of DSC Lifestyle Services, a Toronto-area financial advisory firm.

It was an investment that Mulder -- a 57-year-old grocery store cashier with little or no investment knowledge -- should never have agreed to.

Key details -- such as how the investment was secured and how it would be repaid -- were extremely vague or non-existent. Even for a financially sophisticated person, it defied rational analysis.

Also, Mulder is a person of limited means. An investment of that magnitude, with its attendant risks, was entirely inappropriate.

Indeed, the investment has already begun to unravel, which has serious potential consequences. Due to a leveraging aspect of the investment, her exposure is twice the \$118,000 that she invested.

The reflex reaction for many readers will be to blame Mulder for her folly. This would be unfair. The root problem is our securities laws, which, under certain conditions, permit people to sell high-risk securities without being licensed.

Unregistered brokers don't have to have any particular financial training, they don't have to do any due diligence on the product they are selling, and they don't have to ensure the investment is suitable for their clients' needs.

More critically, they are usually freelancers. They are not employed by registered investment firms, so if something goes awry, the client has no deep pocket to access.

That Mulder didn't understand the implications of dealing with unregistered sales people is perfectly understandable.

Most people don't, which explains why the investment landscape is littered with so many bodies.

Mulder wanted to learn more about financial matters, which is why she paid \$5,450 to become a member of DSC Lifestyle Services in 2005. She had no idea that she was walking into the lions' den.

The firm is run by president Jeff Eshun, who purports to have a PhD in commerce, but won't say where or when he got it. His right-hand person was Maisie Smith of Langley. Neither is registered to sell securities. (Smith is now selling raw land in Costa Rica).

By joining DSC, Mulder could attend financial workshops and learn about various investment opportunities. One of them, presented by DSC chief financial officer Roger T. Blair, was a charitable tax-donation scheme called the Global Learning Gifting Initiative.

According to Global's website, the program was designed to "help stamp out one of the many faces of poverty by providing individuals with education and learning." Investors were told that, for every \$5,000 cash donation they made, \$30,000 worth of "educational courseware" would be donated to the program. This would trigger a charitable donation receipt for \$35,000, which would generate a tax refund far in excess of the donor's out-of-pocket expense.

This was one of those something-for-nothing investment schemes that Canada Revenue Agency routinely audits, and rejects. But the promoters offered high sales commissions, so there was no shortage of shills who were willing to sell these things.

After listening to Blair's pitch, Mulder donated \$2,500 in 2005 and \$5,000 in 2006. Initially, her tax refund was allowed. But behind the scenes, CRA was investigating this program, and dozens of similar schemes.

In the summer of 2007, CRA announced it was auditing the program, but this did not dissuade Eshun from continuing to promote it.

"We encourage our members who wish to continue supporting this charity with cash donations to do so because the cause is a

just one," he said in a letter to DSC members.

Eventually, CRA disallowed the deductions and reassessed Mulder and thousands of other donors. She is also subject to penalties and interest.

Adding insult to injury, she cannot write off her investment as a capital loss, because it is deemed to be a sham.

This was a relatively small investment for Mulder. Most of her money -- \$254,460 -- was tied up in loans to a private B.C. company, J. V. Raleigh Superior Holdings Inc.

This company featured Eshun and Smith as its sole directors, and Smith's longtime buddy, Glenda Hynes, as its "compliance officer." (Hynes is selling real estate now in Costa Rica with Smith).

By early 2009, all these loans became due and payable, but Mulder didn't receive a cent. She became anxious, but DSC had a way for her to recover some of her money.

Mulder could lend money to a company called Xeris Capital Initiative Ltd. She would get a six-per-cent return over six months, then get back all her capital.

At the time, Mulder did not know that J.V. Raleigh was run by Eshun and Smith. She thought that, by investing in Xeris, she would be dealing with an unrelated third party, thereby spreading her risk.

So in August 2009, she drew down the balance of her line of credit on her home -- an amount totalling \$205,000 -- and loaned it to Xeris.

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Loans documents showed that Xeris was domiciled in the Turks & Caicos, a well-known tax and secrecy haven.

This would be red flag for financially savvy investors, but as noted earlier, Mulder had little or no experience in investment matters.

Mulder received monthly interest cheques from Xeris, as agreed. When the loan matured in January this year, she agreed to re-advance the funds.

She didn't realize that the new loan agreement changed the borrower to a federally incorporated company, 6558887 Canada Ltd.

According to a corporate registry search, the directors of this company are Eshun; Bernadette Bowman, his longtime partner at DSC; and Cara Bowman-DaSilva, who is likely a relative of Bernadette's. Mulder had no idea that they were behind this company until I told her this week.

The renewed loan became due and payable on July 31. Since then, nearly a month has passed and she hasn't received a cent.

Asked whether she expects to get repaid, Mulder said, "I have always expected to get repaid, but it never seems to happen."

NEXT: Mulder is denied a \$2,500 "signing bonus" for joining DSC, based on her "failure to obtain your five-digit claim number within 30 days of the third anniversary of the date of issue and place (the claim number) in the appropriate box on the certificate." Documents show that the operator of this program was the ubiquitous and always enterprising Maisie