



COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

TO: EDITORS, NEWS DIRECTORS
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PENALTY ORDERED IN SALE OF UNSUITABLE INVESTMENT TO ELDERLY WIDOW

PHOENIX—The Arizona Corporation Commission ordered a \$5,000 penalty against Norman L. Paulsrud of Fountain Hills, Arizona for selling an unsuitable investment to an eighty year-old retired widow. According to the Order, Paulsrud drove an eighty year-old retired widow to her bank in August of 1997. He directed the widow to liquidate her certificate of deposit (CD) so she could invest the proceeds into the John Hancock High-Yield Bond Fund. At the time, Mr. Paulsrud was registered as a securities salesman with John Hancock Distributors, Inc. In liquidating her CD, the woman incurred an early withdrawal penalty.

The Fund invests primarily in higher-yielding — but high risk — corporate bonds. Since the bonds in the Fund are not of investment grade, the fund has the highest risk of all six income funds offered by John Hancock.

At the time of her investment, the widow's estimated annual income was only \$10,000. Her only investment experience was limited to certificates of deposit. The Commission determined that the investment was not suitable for the widow in light of her age, income, limited financial resources and investment experience.

The Commission order further states that John Hancock rescinded the transaction and has allowed the investor to retain all dividends paid while she held this investment. John Hancock also reimbursed her for the early withdrawal penalty she paid upon liquidating her CD. Mr. Paulsrud was terminated as a securities salesman by John Hancock in December of 1998. Mr. Paulsrud has not reapplied for registration as a securities salesman in Arizona.

In taking this action, Corporation Commission Chairman Carl Kunasek stated that “The Commission will continue to ensure that securities salesmen are making recommendations that fit the investment objectives of their clients.” Commissioner Jim Irvin said, “the suitability of an investment is more important than making a sale. I expect every broker or dealer to put their clients’ needs ahead of their own pocketbook.” Commissioner William Mundell added, “securities salesmen in Arizona are expected to act professionally and ethically and to provide advice to their clients that fit their clients’ financial objectives and circumstances.”

Mark Sendrow, Director of the Commission’s Securities Division, cautioned investors about changes in investment products suggested by their brokers: “Be sure that the product is in line with your goals and objectives. If you have questions, call us. The Division has materials that can help you avoid suitability problems by giving you a list of questions to ask your broker.” Sendrow encouraged the public to call the Securities Division at (602) 542-4242 or to visit the Division web site at www.ccsd.cc.state.az.us for more information on dealing with brokers.

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