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Client wins $74K from Wells Fargo for unsuitable investment strategy

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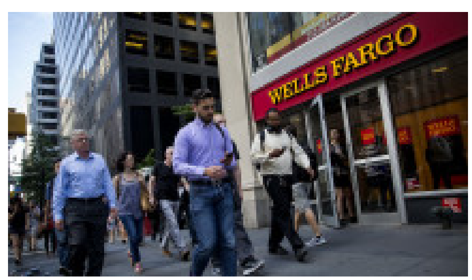
Andrew Wilkinson's adviser was supposed to help him manage the $430,000 he inherited from his great grandfather. Instead she recommended an imprudent investment strategy that earned fees and commissions for her company but wrecked his inheritance, Wilkinson, a former Wells Fargo client, claimed in a FINRA arbitration proceeding against the bank.

Image: Bloomberg



The three arbitrators sympathized with his complaint, ordering Wells Fargo to pay Wilkinson $74,000 in damages and $25,000 in legal fees.

Wilkinson, a high school-educated carpenter with limited financial knowledge and a substance-abuse problem, received $207,000 in cash and securities valued at $224,000 as beneficiary of his great grandfather's trust in January 2005. When he was introduced to Angela Ostendarp, a certified financial planner at Wells Fargo in Charlotte, N.C., he told her that he did not have a job at the time and that he needed the money to pay for his children's education, buy a small farm and cover his living expenses, according to an arbitration filing.

Even though he had no liquid assets and no income, Ostendarp nevertheless invested the cash entirely in mutual funds, leaving him with no money, said Wilkinson's attorney, Randall Place of Florida law firm Place & Hanley.

"My client basically was very unsophisticated," Place said. "He never had a steady income."

Margin loan

Ostendarp also placed him in a margin loan account, which gave him the ability to write checks. What Wilkinson didn't understand—and wasn't told—was that each time he wrote a check he was, in fact, borrowing money against the value of the securities held in his brokerage account, according to the arbitration filing.

"He thought he was withdrawing his own money, but what was really happening was it was creating a loan balance that was secured by the stock," Place said.

By the end of 2006, Wilkinson's portfolio was valued at $420,000 but had a margin balance of more than $100,000. That's because he bought a $65,000 farm, unwittingly paying for it on margin at an interest rate of 10.625%. He had also paid for his sons' tuition, back child support and other expenses, again not realizing that he was borrowing money to pay for these things.

"He didn't know he was in a loan until the broker's assistant told him that," Place said.

Neither Ostendarp nor her attorney, Demian Betz, an in-house attorney at Wells Fargo, had any comment.

Wilkinson's portfolio took a devastating turn for the worse in 2008, plunging in value to $230,000 with more than $120,000 in margin. That left the portfolio with a net asset value of just over $100,000, according to Place.

Because the value of the portfolio could not cover what Wilkinson had unknowingly borrowed, Ostendarp had to sell off securities to pay off the heavily margined account.

Despite the decline, Ostendarp continued to assure Wilkinson that everything was fine and that he should "stay the course" and "trust her," Place said in the arbitration filing.

In fact, in September 2011, Ostendarp sent Wilkinson a letter wishing him a happy 55th birthday and recommending that he "go out and buy himself the little speedster he'd always dreamt about," Place said. She sent the letter when Wilkinson's account asset value was a mere $38,000.

In May 2013, Ostendarp dropped Wilkinson as a client. At that point, the account had a net asset value of just over $20,000.

Triple dipping

Place rebuked Wells Fargo and Ostendarp for "triple dipping" on Wilkinson's inheritance, noting that Ostendarp earned over 3.5% in commissions on the sale of mutual funds that left him without cash to pay for his stated objectives. He blasted her for tricking him into a margin loan with extremely high borrowing costs, at times exceeding 10%. On top of that, he said, she moved Wilkinson's brokerage account to a fee-based account, charging a 1% annual fee.

In short, Wells Fargo was "motivated by earning fee and commission revenue rather than ensuring Drew met his objectives," Place argued.

Place noted that Wilkinson could have bought his farm in cash had Ostendarp not tied up all his money in mutual funds and put him in a situation where he unknowingly was borrowing funds on margin. As a result, he wound up paying 10.625% on the loan to buy the farm, when the average mortgage rate was around 5.75%.

Place summed up the saddest aspect of Wilkinson's story: "He had 430,000 bucks. Now he's on food stamps," Place said.

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