

**FINANCIAL INDUSTRY REGULATORY AUTHORITY**  
**OFFICE OF HEARING OFFICERS**

<p>Department of Enforcement,</p> <p style="text-align: center;">Complainant,</p> <p>v.</p> <p>Ami Kathryn Forte (CRD No. 2457536)</p> <p>and</p> <p>Charles Joseph Lawrence (CRD No. 3131566),</p> <p style="text-align: center;">Respondents.</p>	<p>DISCIPLINARY PROCEEDING No. 2016049321302</p> <p>HEARING OFFICER: MC</p> <p><b><u>ORDER ACCEPTING OFFER OF SETTLEMENT</u></b></p> <p>Date: October 21, 2019</p>
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**INTRODUCTION**

Disciplinary Proceeding No. 2016049321302 was filed on December 20, 2018, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA or Complainant). Respondent Ami Kathryn Forte submitted an Offer of Settlement (Offer) to Complainant dated October 15, 2019. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Complaint (as amended by the Offer), and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a

party, to the entry of findings and violations consistent with the allegations of the Complaint (as amended by the Offer), and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

## **BACKGROUND**

**Ami Kathryn Forte** first registered with a FINRA member firm in 1994. From January 2000 through April 2016, Forte was registered as a General Securities Representative through Morgan Stanley (CRD No. 149777) or its predecessor firms. On April 22, 2016, Morgan Stanley filed a Uniform Termination Notice for Securities Industry Registration (Form U5) noting that it had terminated Forte's registration due to "[c]oncerns relating to disclosed arbitration award involving former client and conduct at issue therein, including without limitation adherence to industry rules and/or firm policy regarding use of trading discretion, concealed personal relationship with client and timely reporting of liens." On March 21, 2018, Forte was registered as a General Securities Representative through another FINRA member firm. On October 17, 2018, the FINRA member firm filed a Form U5 terminating Forte's registration. Although Forte is no longer registered or associated with a FINRA member, she remains subject to FINRA's jurisdiction for the purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because (1) the Complaint was filed within two years after the effective date of termination of Respondent's registration with the FINRA member firm, namely, October 17, 2018, and (2) the Complaint charges her with misconduct committed while she was registered or associated with a FINRA member.

**Charles Joseph Lawrence** first registered with a FINRA member firm in 1998. From December 1998 through April 22, 2016, Lawrence was registered as a General Securities

Representative through Morgan Stanley or its predecessor firms. Lawrence is currently registered with another FINRA member firm.

## **FINDINGS AND CONCLUSIONS**

It has been determined that the Offer be accepted and that findings be made as follows:<sup>1</sup>

### **SUMMARY**

From September 2011 through June 2012 (the “Relevant Period”), while registered with member firm Morgan Stanley, Respondents Ami Kathryn Forte and Charles Joseph Lawrence exploited RS, a 79-year-old customer suffering from severe cognitive impairment. Forte and Lawrence engaged in quantitatively unsuitable trading in RS’s accounts, generating more than \$9 million in commissions in less than one year.

RS was Forte’s customer since the late 1990s when they began a romantic relationship. Through her personal, brokerage, and business relationships with RS, Forte occupied a position of trust and confidence with RS that continued until his death in mid-2012.

During the Relevant Period, Forte and Lawrence met and spoke frequently with RS and knew he suffered severe cognitive impairment. Yet, Forte and Lawrence never reported RS’s condition to Morgan Stanley. Instead, Forte and Lawrence increased their level of trading in RS’s accounts in the months after RS’s diagnosis. Indeed, during the ten-month period from September 2011 through June 2012, after RS had been diagnosed with severe cognitive impairment, Forte and Lawrence effected more than 2,800 trades in RS’s accounts, generating over \$9 million in commissions. In addition, many of these transactions involved unsuitable

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<sup>1</sup> The findings herein are pursuant to Respondent Forte’s Offer of Settlement and are not binding on any other person or entity named as a respondent in this or any other proceeding.

short-term trading of long-term investment products, such as income-producing bonds with long-term maturity dates.

Forte violated FINRA Rule 2010 and willfully violated MSRB Rule G-17 by aiding and abetting Lawrence's excessive trading and churning of RS's accounts in violation of Securities Exchange Act of 1934 ("Exchange Act") Section 10(b), Exchange Act Rule 10b-5, and FINRA Rule 2020.

## FACTS

### **I. RS Opens Brokerage Accounts with Forte, and Forte Establishes The Forte Group with Lawrence**

In the late 1990s, while registered with another FINRA member firm, Forte met RS and began a romantic relationship with him. Shortly thereafter, RS opened a brokerage account with Forte as broker of record.

In January 2000, Forte became registered with Morgan Stanley DW Inc., the predecessor firm to Morgan Stanley. RS concurrently opened multiple accounts at Morgan Stanley and soon transferred his brokerage accounts there. Forte served as broker of record on all of RS's accounts.

During the Relevant Period, RS had a total of approximately \$192 million in the following six accounts (the "RS Accounts") at Morgan Stanley:

- a. Account No. XXX914, [RS] Revocable Trust;<sup>2</sup>
- b. Account No. XXX666, RMS Limited Partnership;
- c. Account No. XXX616, RMS Limited Partnership;
- d. Account No. XXX800, RMS Limited Partnership;

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<sup>2</sup> Account numbers have been partially redacted with XXX. Forte was also the broker of record on several other accounts that RS maintained at Morgan Stanley. However, the activity in those accounts is not relevant to the allegations asserted within this Order.

- e. Account No. XXX645, [RS] Foundation; and
- f. Account No. XXX901, Interphase, Inc.

In 2001, Forte established The Forte Group at Morgan Stanley, which she headed as Senior Vice President, to assist with handling her accounts, including the RS Accounts. Lawrence joined The Forte Group at its inception and by 2009 Forte had tasked him with entering most of The Forte Group's day-to-day trades in the RS Accounts. Nevertheless, Forte remained in near daily contact with RS, was the broker of record on the RS Accounts, and had overall responsibility for the trading strategy and day-to-day trading in the RS Accounts.

Forte received substantial financial benefits from the trading in the RS Accounts which, as alleged below, was unsuitable and excessive. During the Relevant Period, which covers a span of ten months, trading in the RS Accounts generated over \$9 million in commissions, most of which was paid to Forte.

RS's accounts generated approximately 94 percent of Forte's commission revenues and allowed Forte to garner the number one ranking on Barron's Top 100 Women Financial Advisors list for 2010, 2011 and 2012, and to rank number 25 on Barron's Top 100 Financial Advisors list in 2012.

Lawrence received no commissions from the trading activity in the RS Accounts. Instead, he was paid an annual salary ranging from \$100,000 to \$150,000 as a member of The Forte Group. Lawrence also received a bonus, which ranged from \$75,000 to \$200,000, and which he negotiated with Forte annually.

## **II. By September 2011, RS Exhibits Severe Cognitive Impairment**

By at least September 2011, and until his death in August 2012, RS was suffering from severe cognitive impairment. During this period, RS was mentally and physically debilitated and unable to manage his daily care.

RS's cognitive impairment and lack of capacity were apparent to his family, employees, caregivers, and medical and mental healthcare providers. They were also apparent to Morgan Stanley employees, including Forte and Lawrence.

Multiple treating physicians, some as early as 2008, determined that RS suffered from dementia or Alzheimer's or both. In February 2008, a treating physician, Dr. BM, prescribed an Alzheimer's drug for RS after RS's wife noticed he was having memory difficulties. In August 2008, a neurologist, Dr. WH, noted during a hospital visit that RS may have Alzheimer's. In 2009, Dr. BM recommended that RS no longer engage in certain activities, such as driving.

By the fall of 2011, RS regularly exhibited signs of confusion and severe mental impairment, including failing to understand basic concepts involving money and his own net worth.

Between September 15, 2011 and January 12, 2012, at least four separate physicians on approximately five occasions diagnosed RS with severe cognitive impairment. Among other specific observations, physicians noted that RS exhibited weak short-term memory recall, was vulnerable to exploitation, was unable to manage his finances, and had an inability to perform, among others, the following tasks:

- a. simple arithmetic;
- b. identify a triangle or a circle;
- c. name more than five animals in a minute;

- d. name a vegetable within 15 seconds; and
- e. remember he had three children (he believed he had five).

On June 20, 2012, RS was admitted to the hospital, where Dr. WH, the neurologist who suspected RS was suffering from Alzheimer's in 2008, evaluated him. Dr. WH concluded that RS "has apparently become demented since" that time.

On June 26, 2012, Dr. LG, a psychologist, examined RS while he was hospitalized. Based upon that examination, on July 2, 2012, Dr. LG issued the Examining Committee Report Following Petition to Determine Incapacity. She reported that RS suffered from severe cognitive failure in all areas, and in particular that RS has "very limited knowledge/comprehension of finances."

As set forth below, Forte and Lawrence continued to trade in the RS Accounts throughout this period. Indeed, on the date of Dr. LG's examination, Lawrence entered at least eight trades in the RS Accounts.

On July 20, 2012, following a competency hearing in the Circuit Court for Pasco County, Florida, RS was found "totally without capacity to care for [his] person or property." The basis was a diagnosis of "Alzheimer's or vascular dementia, or both." In support of its determination, the Circuit Court found:

He suffers from nearly constant confusion and his memory is impaired. He is highly susceptible to exploitation and undue influence. His judgment is impaired. He lacks insight into his current health problems and limitations. As a result, he lacks the capacity to manage his property or to meet the essential requirements of his health and safety.

### **III. During the Ten Months Before RS Died, Forte and Lawrence Exploit RS's Vulnerable Mental and Physical Condition to Unsuitably and Excessively Trade His Accounts**

During the Relevant Period, Forte and Lawrence were in frequent contact with RS and were aware of his severe cognitive impairment. Lawrence met or spoke with RS almost daily. Forte communicated with RS almost daily by telephone, attended many meetings with RS at Morgan Stanley, and she and her group were deeply involved in most of RS's financial affairs. Further, Forte's and RS's personal relationship continued until shortly before June 20, 2012, when RS was hospitalized for the last time before his death.

Despite this awareness, neither Forte nor Lawrence reported RS's vulnerable mental condition to Morgan Stanley.

To the contrary, throughout this period, Forte and Lawrence continued to actively trade the RS Accounts.

Indeed, over the two-month period from January through February 2012, following a physician's evaluation that specifically noted RS's vulnerability to exploitation, Forte and Lawrence *increased* the level of trading in the RS Accounts to roughly twice the average volume compared to the preceding five years.

Throughout the Relevant Period, Forte and Lawrence exercised control over the RS Accounts.

First, Forte and Lawrence were able to exercise control over the RS Accounts due to RS's vulnerable physical and mental state.

Second, nearly all trades in the RS Accounts during the Relevant Period were marked "solicited," and RS did not reject any trades proposed by The Forte Group.



Also, Forte and Lawrence exercised control over the RS Accounts by exercising discretion without authorization.

RS never granted discretionary authority of any kind to The Forte Group regarding any of his accounts. The Morgan Stanley Compliance Manual (§ 8.7.2.1) in effect during the Relevant Period prohibited use of discretion without authorization.

Nevertheless, Lawrence often entered trades without contacting RS. In fact, Lawrence entered trades for RS even during periods when RS was hospitalized and unable to communicate with Forte and Lawrence. For example:

- a. RS was admitted to the hospital on September 15, 2011, and was discharged on September 18, 2011. Among the “DISCHARGE DIAGNOSES” was “Altered mental status, confusion, with . . . the ultimate diagnosis of dementia.” Lawrence effected 13 transactions in the RS Accounts during that time, generating \$38,067 in commissions and sales credits.
- b. On October 28, 2011, RS visited the hospital in anticipation of surgery on October 31, 2011. Lawrence effected 32 trades in the RS Accounts during that four-day period, 13 of which trades occurred on the day of the surgery, generating \$177,007 in gross commissions.
- c. From May 14 to May 17, 2012, RS had multiple doctor visits, was out of contact with anyone from Morgan Stanley during that time, and did not communicate by telephone. Lawrence effected 42 transactions in the RS Accounts in this time, generating \$19,934 in commissions and sales credits.
- d. Neither Forte nor Lawrence was in contact with RS from June 20, 2012, forward. RS entered the hospital on June 20, 2012, and was not discharged

until July 5, 2012. Among the “DISCHARGE DIAGNOSES” was “Severe Alzheimer dementia with acute worsening,” and the Discharge Summary noted that RS was “severely demented and required a lot of care at the bedside.” Between June 20 and 29, 2012, Lawrence effected 86 trades in the RS Accounts, generating \$137,953 in commissions and sales credits.

Forte and Lawrence exploited RS’s vulnerable state and their control over RS’s accounts by engaging in quantitatively unsuitable trading in his accounts.

Indeed, during the Relevant Period, which spanned just ten months, Forte and Lawrence effected more than 2,800 trades in the RS Accounts.

Over half of the 2,800 trades involved long-maturity bonds, including municipal bonds. Moreover, these bond trades accounted for over 80 percent of the dollar value of the trades in these accounts.

All of these bonds were income-producing products intended for customers with long-term investment time horizons and carried substantial commissions.

Nevertheless, Forte and Lawrence routinely sold these products after holding them for just weeks or months.

In many instances, Forte and Lawrence’s trading activity included moving in and out of positions in the same bond in a matter of a few weeks. For example:

- a. From January 10, 2012 to February 28, 2012, the [RS] Revocable Trust (account no. XXX914) bought and sold millions of dollars of Santander UK PLC Bonds (maturity October 26, 2029) a total of six times — six buys and six sells — and generated almost \$140,000 in commissions. Had RS only

purchased the bond once on January 10, 2012 and sold on February 28, 2012, the commissions would have been around \$18,000 (over seven times lower).

- b. From September 20, 2011 to January 10, 2012, the [RS] Revocable Trust account bought and sold millions of dollars in American International Group (“AIG”) Bonds (maturity March 15, 2058) 11 times, for approximately 11 times the commission had the bonds been bought and sold once.
- c. From September 20, 2011 to January 31, 2012, the [RS] Revocable Trust account bought and sold millions of dollars in AIG Bonds (maturity March 15, 2037) six times, for approximately six times the commission had the bonds been bought and sold once.
- d. From January 17, 2012 to February 24, 2012, the [RS] Revocable Trust account bought and sold millions of dollars in AXA SA Bonds (maturity December 15, 2030) four times, for approximately four times the commission had the bonds been bought and sold once.

During the Relevant Period, Morgan Stanley had four categories of investment objectives, which were, in order of increasing aggressiveness, “income,” “capital appreciation,” “aggressive income,” and “speculation.” As of September 2011, the primary account objective for the RS Accounts was “income.” The short-term trading of bonds and overall frequency of trading effected by The Forte Group was not consistent with this objective.

Between March and July of 2012, RS’s account objectives were changed to riskier and more aggressive account objectives, including “speculation,” and the previous primary account objective, “income,” was made the secondary, tertiary or last objective.

RS never directed, authorized or consented to these changes to his investment objectives. Nevertheless, the trading that took place thereafter was unsuitable and excessive both under RS's previously recorded account objectives and as modified in Morgan Stanley's account records.

On June 20, 2012, RS was hospitalized for the last time. From this point until his death in August 2012, no one from The Forte Group had any contact with RS. Nevertheless, trading in the RS Accounts continued until June 29, 2012 and included over \$14 million in transactions.

**FOURTH CAUSE OF ACTION**  
**Aiding and Abetting Violations of Section 10(b) of the Securities**  
**Exchange Act of 1934, Exchange Act Rule 10b-5, and FINRA Rule 2020**  
**(FINRA Rule 2010 and MSRB Rule G-17)**

Aiding and abetting a violation of Exchange Act Section 10(b), Exchange Act Rule 10b-5 and FINRA Rule 2020, violates FINRA Rule 2010 and MSRB Rule G-17.

Lawrence, in his position as a member of The Forte Group servicing Forte's client, RS, engaged in primary violations of Exchange Act Section 10(b), Exchange Act Rule 10b-5 and FINRA Rule 2020 by churning the RS Accounts, by use of the means or instrumentalities of interstate commerce, or of the mails, or of a facility of a national securities exchange, and in connection with the purchase or sale of a security.

Forte knowingly or recklessly rendered substantial assistance to Lawrence's violations by (i) hiring Lawrence for the purpose of executing the excessive trading in the RS Accounts; (ii) assisting Lawrence in exercising control over the RS Accounts by exploiting her personal and business relationships, and resulting position of trust and confidence, with RS; and (iii) directing and condoning the excessive trading activity that Lawrence executed.

Forte was aware that her role was part of an overall activity that was improper.

As a result of the foregoing conduct, Forte aided and abetted Lawrence's violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and FINRA Rule 2020 in that she

knowingly or recklessly rendered substantial assistance to Lawrence in committing these violations, and thereby violated FINRA Rule 2010 and willfully violated MSRB Rule G-17.

Based on the foregoing, Respondent violated FINRA Rule 2010 and willfully violated MSRB Rule G-17.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

### **SANCTIONS**


It is ordered that Respondent be barred from association with any FINRA member firm in any capacity.

The sanctions herein shall be effective on a date set by FINRA staff. A bar or expulsion is effective upon approval or acceptance of this Offer.

SO ORDERED.

FINRA

Signed on behalf of the  
Director of ODA, by delegated authority

  
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