

**STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT**

**IN THE MATTER OF: GEORGE ANDREW
WATSON, WATSON FINANCIAL ASSOCIATES,
and WATSON TAX ADVISORY GROUP.**

Case No. 0700485

NOTICE OF HEARING

TO RESPONDENTS:

GEORGE ANDREW WATSON
(CRD # 4012561)
1560 N. SANDBURG TERRACE
#2315
CHICAGO, ILLINOIS 60610

GEORGE ANDREW WATSON
444 SKOKIE BLVD.
SUITE 212
WILMETTE, IL 60091-3074

WATSON FINANCIAL ASSOCIATES
444 SKOKIE BLVD.
SUITE 212
WILMETTE, IL 60091-3074

WATSON FINANCIAL ASSOCIATES
7366 N. LINCOLN
SUITE 305
LINCOLNWOOD, IL 60712

WATSON TAX ADVISORY GROUP
444 SKOKIE BLVD.
SUITE 212
WILMETTE, IL 60091-3074

C0700485
Notice of Hearing

- 2 -

You are hereby notified that, pursuant to Section 11.F of the Illinois Securities Law of 1953 (815 ILCS 5/1, *et seq.*) (the "Act") and 14 Ill. Adm. Code 130, Subpart K (the "Rules"), a public hearing is scheduled to be held at 69 W. Washington Street, Suite 1220, Chicago, Illinois 60602, on the 29th day of April, 2009, at 10:00 a.m., or as soon thereafter as counsel may be heard, before Soula Spyropoulos, Esq., or another duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order shall be entered Finding Respondents George A. Watson, Watson Financial Associates, and Watson Tax Advisory Group in violation of the Act and granting such other relief as may be authorized under the Act including but not limited to the imposition of a monetary fine in the maximum amount of \$10,000.00 per violation pursuant to Section 11.F of the Act, for each and every violation, payable within ten (10) business days of the entry of the Order.

The grounds for such proposed action are as follows:

BACKGROUND INFORMATION

1. George Andrew Watson (Respondent "Watson" or, collectively with Respondent Watson Financial Associates and Watson Tax Advisory Group, "Respondents") is an individual whose last known residential address is 1560 North Sandburg Terrace, suite #2315, Chicago, Illinois 60610.
2. From January of 2005 through June of 2008 Watson was an Investment Advisor Representative for USA Wealth Management, LLC., a federally covered Investment Advisory Firm. Watson's registration is recorded by the Centralized Registration Depository ("CRD"), maintained as a cooperative venture by the State regulatory agencies and a non-governmental, self-regulating securities industry organization, as registrant number 4012561.
3. Watson's registration reported that he did business as an investment advisor representative of USA Wealth Management, operating out of the 7366 North Lincoln Street, suite #305, in Lincolnwood, Illinois office.
4. Watson also does business as Watson Financial Associates, (Respondent "WFA", or collectively with Respondents Watson and Watson Tax Advisory Group, "Respondents.") which is an unincorporated entity controlled by Watson and operating from 444 Skokie Boulevard in Wilmette, Illinois, as well as 7366 N. Lincoln Street address, the location of the USA Wealth Management office.
5. WFA is not registered to offer or sell securities, or provide investment advisory services, in the State of Illinois, nor is WFA incorporated in Illinois or registered as a foreign entity doing business in or from Illinois.
6. Watson also does business as Watson Tax Advisory Group (Respondent "WTAG", or collectively with Respondent Watson and WFA, "Respondents.") is

also an unincorporated entity controlled by Watson and operating from 444 Skokie Boulevard in Wilmette, Illinois.

7. WTAG is not registered to offer or sell securities, or provide investment advisory services, in the State of Illinois, nor is WTAG incorporated in Illinois or registered as a foreign entity doing business in or from Illinois.
8. During the time of the activities complained about, Watson was not registered to offer or sell securities or provide investment advisory services in the State of Illinois except as a representative for USA Wealth Management.
9. Nevertheless, as described more fully below, Respondents Watson, WFA, and WTAG offered investment advisory and financial planning services to the public.

RESPONDENTS' "FREE LUNCH" AND SEMINAR MAILING

10. Respondent Watson, through WFA, and WTAG, uses targeted mailings inviting recipients to attend a seminar promising beneficial financial planning, investment, and tax advice.
11. Respondents, in certain targeted mailings directed to older recipients ("Retiree Mailings"), describe Watson as a specialist in the "pre-retiree and early retiree market."
12. To induce the targets of his Retiree Mailings to attend his seminars, and ultimately become investment advisory clients, Watson promises free dinners for attending and makes several representations and promises including that during the free dinner Watson will teach the recipient:

"Why you should FIRE your broker and STOP paying commissions";

"How to design your portfolio so you can MAXIMIZE income for life";

"Why you should NEVER buy traditional long-term care insurance"; and

"How to STRETCH your IRA into a MILLION DOLLAR Family Legacy."

[Capitals/emphasis in original]

13. Respondents' Retiree Mailings stated that Watson is an Investment Advisor Representative, but made no mention of USA Wealth Management.

**RESPONDENTS HAD NO REASONABLE BASIS TO RECOMMEND
THE EXCHANGE OF INVESTOR'S ANNUITY**

14. Investor is a resident of Illinois of retirement age whose spouse had been diagnosed as having Alzheimer's disease.
15. At the time of the activities described below, Investor was age seventy-five (75).
16. Respondents mailed Investor a Retiree Mailing, and in late December of 2003 Investor attended Respondents' seminar.
17. Investor met with Watson after the seminar and informed Watson of Investor's financial situation, including the medical care needs of Investor's spouse.
18. Watson told Investor that the purchase of an Allianz 5% Bonus PowerDex Elite equity indexed annuity ("Allianz Annuity") would provide the additional financial security Investor required.
19. Investor had already purchased an annuity several years ago, and Watson, having discovered this, urged Investor to exchange the existing annuity for the Allianz Annuity, commonly referred to as "switching" annuities
20. At the time that Watson recommended Investor to switch annuities, the original annuity had no surrender penalty and provided approximately one hundred and forty-five thousand dollars (\$145,000.00) in insurance coverage that Investor could have withdrawn the needed funds from.
21. By switching the existing annuity to the Allianz Annuity Watson caused Investor to be subject to a commission charge on the Allianz Annuity and, contrary to Investor's investment objectives, made the needed finances illiquid for at least ten years or be subject to surrender penalties.
22. When Investor contacted Allianz to inquire about the Allianz Annuity and the ability to make partial withdrawals Investor was told, for the first time, about the surrender penalties, tax liabilities associated with the product, as well as the illiquidity of the money placed into the Allianz Annuity.
23. For instance, Investor was only able to withdrawal approximately seven thousand dollars (\$7,000.00) per year from the Allianz Annuity, on which tax liability attached.
24. The Allianz Annuity Watson sold Investor had a ten-year accumulation period and would not provide Investor monthly income without surrender penalties until Investor was eighty-five (85) years old.

25. Watson also failed to disclose to Investor the risks associated with the Allianz Annuity; namely, that the purported 5% bonus for purchasing the product would not be placed into Investor's principal for five years, and that Investor would have to annuitize the product when she was eighty-five years old for the bonus to apply and for any gains that Annuity may have produced to be retained.
26. Watson's baseless recommendation that resulted in financial hardship for Investor and Investor's spouse while providing Watson with an excessive commission; the only reason Watson recommended the product to Investor.

WATSON FILED A FALSE REGISTRATION APPLICATION

27. The CRD is instrumental in protecting the investing public from unscrupulous securities brokers and financial advisors.
28. CRD registrations are, for the most part, public information and provide information beyond the registrant's name, address and employer.
29. A registrant's CRD profile will also provide information on the disciplinary history of the registrant, customer complaints filed against the registrant, as well as certain civil and regulatory actions that have been filed against the registrant.
30. The investing public can access CRD profiles to assist in making a decision on whether to retain a salesperson or financial advisor.
31. The regulators of the securities industry use information registrants provide in their CRD profiles to better identify potential threats to the investing public.
32. It is the responsibility of the registrant to update the information of his or her CRD profile by truthfully answering Disclosure Questions presented on a registrant's Form U4.
33. Watson was a respondent in an Illinois Attorney Registration and Disciplinary Commission ("Commission") action in 2004 in which his license to practice law was suspended for ninety (90) days.
34. The Commission's Complaint against Watson details Watson's conduct in representing clients in bankruptcy proceedings. Watson charged three separate clients to represent them in bankruptcy, but failed to file any of the clients' bankruptcy petitions, refused to refund the fees he charged them, and with one client, Watson made unauthorized debits from that client's checking account.
35. Disclosure question 14.F. of the CRD Form U4 asks:

C0700485
Notice of Hearing

- 6 -

“Have you ever had an authorization to act as an attorney, accountant, or federal contractor that was revoked or suspended?”

36. Despite having had his authorization to act as an attorney suspended in 2004, Watson falsely answered no.
37. The activities described in paragraphs twelve through twenty (12-20), above, constitute the activities of an Investment Advisor as defined in Section 2.11 of the Act.
38. The activities described in paragraphs twelve through twenty (12-20), above, constitute the activities of an Investment Advisor Representative as defined in Section 2.12b of the Act.
39. Section 12.A of the Act provides it shall be a violation of the provisions of this Act for any person to offer or sell any security except in accordance with the provisions of this Act.
40. Section 12.C of the Act provides that it shall be a violation of the Act for any person to act as an investment advisor or investment advisor representative, unless registered as such, where such registration is required under the Act.
41. Section 8.A of the Act states that every investment advisor and investment advisor representative shall be registered as such with the Secretary of State.
42. Respondents Watson, WFA and WTAG are not registered as investment advisors.
43. Respondent Watson is not registered as an investment advisor representative for Respondent WFA or Respondent WTAG.
44. Respondents Watson, WFA and WTAG have violated Sections 12.A and C of the Act.
45. Section 12.F of the Act provides that it shall be a violation of the provisions of the Act for any person to engage in any transaction, practice or course of business in connection with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof.
46. Section 12.G of the Act provides that it shall be a violation of the provisions of the Act for any person to obtain money or property through the sale of securities by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

C0700485
Notice of Hearing

- 7 -

47. Section 12.I of the Act provides that it shall be a violation of the provisions of the Act for any person to employ any device, scheme or artifice to defraud in connection with the sale or purchase of any security, directly or indirectly.
48. Respondent Watson, by advertising that he is an Investment Advisor Representative without disclosing his affiliation with USA Wealth Management, has violated Sections 12.A, F, G and I of the Act.
49. Section 12.F of the Act provides that it shall be a violation of the provisions of the Act for any person to engage in any transaction, practice or course of business in connection with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof.
50. Section 12.G of the Act provides that it shall be a violation of the provisions of the Act for any person to obtain money or property through the sale of securities by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.
51. Section 12.I of the Act provides that it shall be a violation of the provisions of the Act for any person to employ any device, scheme or artifice to defraud in connection with the sale or purchase of any security, directly or indirectly.
52. Section 12.J of the Act states that it shall be a violation of the provisions of the Act for any person, when acting as an investment advisor, by any means or instrumentality, directly or indirectly: (1) to employ any device, scheme or artifice to defraud any client or prospective client; (2) to engage in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client; or (3) to engage in any act, practice, or course of business which is fraudulent, deceptive or manipulative.
53. Rule 130.853 of the Rules and Regulations Under The Illinois Securities Law of 1953 states that effecting or causing to be effected by or for any client's account, any transactions of purchase or sale which are excessive in size or frequency or unsuitable in view of the financial resources and character of the account, shall constitute an act, practice, or course of business on the part of the registered investment advisor or its representative effecting such transactions or causing the transactions to be effected that is fraudulent, deceptive or manipulative.
54. Respondents, by making recommendations, without a reasonable basis, to Investor to purchase the above-described annuity for the sole purpose of obtaining commissions on the sale of said annuity, have violated Sections 12.A, F, G, I and J of the Act.
55. Section 12.E of the Act provides that it shall be a violation of the provisions of this Act for any person to make, or cause to be made, in any application, report or

C0700485
Notice of Hearing

- 8 -

document filed under this Act or any rule or regulation made by the Secretary of State pursuant to this Act, any statement which is false or misleading with respect to any material fact.

56. By making a false statement on his U4 application regarding his suspension to practice law, Respondent Watson has violated Sections 12.A and E of the Act.
57. Section 8.E(1) of the Act states that the registration of a salesperson or an investment advisor representative may be revoked if that salesperson and investment advisor representative:
 - a. Has engaged in any unethical practice in connection with any security, offer or sale of securities, or in any fraudulent business practice.
(815 ILCS 5/8.E(1)(b))
 - b. Has violated any of the provisions of this Act.
(815 ILCS 5/8.E(1)(g))
 - c. Has made any material misrepresentation to the Secretary of State in connection with any information deemed necessary by the Secretary of State to determine a salesperson's, investment advisor's, or investment advisor representative's business repute or qualifications.
(815 ILCS 5/8.E(1)(h))
 - d. Has conducted a continuing course of dealing of such nature as to demonstrate an inability to properly conduct the business of a salesperson, investment advisor, or investment advisor representative.
(815 ILCS 5/8.E(1)(m))
58. By virtue of the above-described activities, Respondent Watson's registrations as a salesperson of securities and as an investment advisor representative are subject to revocation.
59. Section 11.F(2) of the Act provides, *inter alia*, that the Secretary of State may permanently prohibit the offer or sale of securities, as well as permanently prohibit from acting as an investment advisor or investment advisor representative, after an opportunity for a hearing.
60. By virtue of the above-described conduct, Respondents are subject to permanent prohibition from offering or selling securities in or from Illinois, or from acting as investment advisors or investment advisor representatives.

C0700485
Notice of Hearing

- 9 -

PENALTIES

1. By virtue of the conduct described above, the Department requests the Honorable Hearing Officer to recommend a finding that:
 - a. Respondents violated Sections 12.A and C of the Act for not registering as Investment Advisors pursuant to Section 8.A of the Act;
 - b. Respondent Watson Violated Sections 12.A, F, G, I and J of the Act for advertising that he is an Investment Advisor Representative while withholding his affiliation with USA Wealth Management.
 - c. Respondents violated Sections 12.A, F, G, I and J of the Act for the Annuity sold to Investor;
 - d. Respondent Watson violated Sections 12.A and E of the Act for filing a false CRD U4;
 - e. Respondents be fined \$10,000.00 per violation of the Act, pursuant to Section 11.E(4) of the Act;
 - i. Respondent Watson be fined a total of one hundred and forty thousand dollars (\$140,000.00);
 - ii. Respondent Watson Financial Associates be fined a total of seventy thousand dollars (\$70,000.00); and
 - iii. Respondent Watson Tax Advisory Group be fined a total of seventy thousand dollars (\$70,000.00).
 - f. Respondents be charged the costs of the investigation, all reasonable expenses, including attorney fees and witness fees, incurred, pursuant to Section 11.E(4) of the Act;
 - g. Respondents be permanently prohibited from offering and selling securities in Illinois pursuant to Section 11.E(2) of the Act; and

You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130) (the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

C0700485
Notice of Hearing

- 10 -

Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

DATED: This 20th day of March 2009.



JESSE WHITE
Secretary of State
State of Illinois

Attorney for the Secretary of State:
Jason Chronopoulos
Office of the Secretary of State
Illinois Securities Department
69 West Washington Blvd., Suite 1220
Chicago, Illinois 60602
JChronopoulos@ilsos.net