

SECURITIES

Winter 2002

bulletin



This issue of the Securities Bulletin includes an article on several Illinois investment brokers who scammed investors out of their hard earned money. At one time, these brokers were registered and worked for registered broker/dealers. It is unfortunate that they strayed from the requirements of their profession and stole people's money.

I want to assure Illinois citizens that the majority of registered investment brokers have a clean disciplinary history and do not engage in fraudulent practices. But it is those few who do that puts us on the defensive and requires us to be extra cautious. Investors should not do business with non-registered individuals promising high rates of return and low risk. Cases involving agents who are not registered with the department often result in losses that cannot be recovered. On the other hand, complaints against registered brokers often can be resolved through the organization through which they are associated.

I also want to remind members of the securities industry that I welcome your help in getting unscrupulous brokers off the street. To file a complaint regarding an investment or to report an individual selling securities who is not registered with the Securities Department, please call my office at 800-628-7937.



Jesse White
Jesse White
 Secretary of State

White announces disciplinary action against eight investment brokers

More than \$4.5 million in fraud alleged

The Illinois Securities Department has taken administrative action against eight Illinois investment brokers for defrauding their clients of more than \$4.5 million. All the brokers are alleged to have withdrawn money from client accounts without the clients' knowledge, converted the money for their personal benefit, or borrowed money from clients in exchange for promissory notes, a practice prohibited in most cases by securities regulations.

"With recent cases like Enron and WorldCom coming to the forefront, it has become critical for securities regulators to take a proactive approach to safeguarding the interests of investors through tougher enforcement," said Secretary of State Jesse White. "Our Securities Department is doing just that, and the investing public can rest assured that we will continue to do everything in our power to ensure the integrity of the securities industry in Illinois."

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"419" schemes on the Internet

The U.S. Department of Justice has advised the public not to respond to e-mail solicitations, faxes or letters claiming to be from individuals living or working in Africa and asking for personal financial information.

In recent months, Internet users throughout the United States have reported a significant increase in e-mails coming from individuals who claim to be foreign nationals. These scams are commonly referred to as "419 fraud," named after the Nigerian penal code. The solicitations vary but typically include references to known historical events, such as well-documented plane crashes resulting in loss of life or widely publicized foreign political upheavals. In each case, the person receiving the solicitation is recruited to help resolve a financial problem involving millions of dollars. The sum of money varies, as does the amount promised for confidential and quick response. In each case, when financial information such as an individual's bank account number has been sent to the originator of the e-mail, substantial loss occurs.

If you have received such an e-mail, do not respond. If you suspect you have been a victim of one of these schemes, contact the U.S. Secret Service at www.ustreas.gov/usss/alert419.shtml, or call 202-406-5850. E-mails received but not responded to may be forwarded to the Federal Trade Commission at uce@ftc.gov for their "spam" database.

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Following are the eight individuals charged by the Illinois Securities Department:

Thomas Thorp, a Peoria broker formerly registered with Lincoln Investment Planning, Inc., was charged with defrauding nearly \$1 million from Peoria-area teachers in a scheme involving the issuance of promissory notes in return for money borrowed by the victims from their tax-deferred annuities.

Rick Burnett, a Mt. Zion broker formerly registered with Bracek and Young Advisors, Inc., was charged with forging a client's name to withdraw \$175,000 from the client's annuity contract and converting the money for his own personal use.

David Novak, a Winnetka broker formerly registered with WMA Securities, Inc., was charged with withdrawing \$100,000 from a client's annuity contract and converting the money for his own personal use and benefit.

John J. Kiley, a Tinley Park investment consultant and president of John J. Kiley Financial, Inc., formerly registered as a broker, solicited investments for two Illinois companies being offered in a private placement. He was charged with misappropriating about \$85,000 from six Illinois investors and another \$50,000 from out-of-state investors.

Paul House III, a Decatur-area investment consultant and managing member of House Asset Management, LLC, was charged with soliciting \$2.9 million from about 100 investors through fraudulent misrepresentations and omissions. During the investigation, the Securities Department uncovered much of the investors' funds being used for his own personal benefit. Two other Decatur-area residents associated with the company also have been charged: **Matt Nolan**, a managing member, and **Brandon Moore**, chief financial officer.

Vincent Williams, a Chicago-area investment adviser formerly registered as Vincent Williams & Co., was charged with defrauding multiple investors out of \$182,000 originally solicited for IRA investment accounts. He also was charged with soliciting \$92,000 from investors for a real estate rehab project. These funds remain unaccounted for.

All these individuals have been permanently prohibited from selling securities in Illinois. The Securities Department's investigations continue, and actions against more brokers are likely. Under the Illinois Securities Act, cases brought by the department could be referred to various state and federal prosecutors for criminal action.

investment **TIPS**


- Be diligent about checking out the registration of investment brokers.
- Request a periodic review of your portfolio from your broker.
- Do not loan money to a broker for them to use as an investment.


Investor Education takes its message to Illinois schools


Fall was a busy time for the Securities Department's Investor Education Division. Presentations were given at 25 senior and civic club meetings throughout Chicago and northern Illinois. Several festivals, including Rockford's Labor Day weekend celebration "On the Waterfront," Rail Splitter Days in downstate Lincoln and Galena's Country Fair over Columbus Day weekend, offered Securities staff the opportunity to talk with people about the recent events on Wall Street and in Washington D.C. and how they affect us here in Illinois. The fall Senior Expo at Drury Lane in Oakbrook Terrace drew throngs of seniors, who took home *Investment Guides for Illinois Consumers*, pencils and notepads provided by the department.

With the end of the fairs and festivals season, the Investor Education Division has turned its focus on students. The department sponsored a booth and gave a workshop on Financial Literacy 2010 at the Illinois Business Education Association's 40th Annual Fall Conference at the Crowne Plaza in Springfield on Nov. 7-8. Teachers from across the state received a free curriculum for teaching the basics of savings and investing in their consumer education, business and home economics classes. More than 70 teacher's guides were distributed, and several teachers made arrangements to have Securities Department staff come to their high schools and talk to students. School presentations will continue through the winter and early spring.

Audit Division Report

 The Audit Division has increased its presence in areas where a number of unregistered offices have been conducting business. Besides examining these branches, the division has turned the information over to the Registration Division for further processing.

 The division is continuing its emphasis on conducting examinations of broker/dealers who operate from bank locations. In addition, division staff will focus on the sale of Mutual Fund B shares to determine if requirements are being met.

 All auditors have familiarized themselves with the new NASAA auditing module and are prepared to use it when the timetable is finalized.

Enforcement Administrative Orders

August — November 2002

Order of Prohibition

David Novak (CRD # 2700222)
950 Westmoor Rd.
Winnetka, IL 60093

A-1 Financial and Consolidation
6655 N. Avondale Ave.
Chicago, IL 60631

Americash, Inc.
7100 W. Camino Real, Ste. 310
Boca Raton, FL 33434

Century Investment Group
68 Royal Hospital Rd.
Chelsea, London, SW3 UK

EasyDVD.com LLC
Comics & Comix, Inc.
Ross A. Rojek
4135 Northgate Blvd., Ste. 5
Sacramento, CA 95834

Newlife Trade Group, Ltd.
100C SE First St.
Mineral Wells, TX 76067

Nexus Investment Group
15 King Charles St.
London, UK

Nirobe International, Inc.
12-14 Circular Rd.
Douglas, IM3 IRC
IM

Anthony B. Phillips (CRD # 2436301)
148 Glen Lake Dr.
Bolingbrook, IL 60440

Prime Gold
1 Fabrick St.
Bromhof, Randburg
South Africa

Anthony B. Taves
1519 Council Rd.
Somonauk, IL 60552

Venture Trading Company
1121 W. Oakdale, 3b
Chicago, IL 60657

Vincent Williams
11270 S. Champlain Ave.
Chicago, IL 60628

Order of Revocation

Brent A. Nelson (CRD # 3026585)
3218B Warren Sharon Rd.
Vienna, OH 44473

Jose L. Serrano, Jr.
(CRD # 2616498)
5110 W. Drummond
Chicago, IL 60639

Order of Denial

Chesapeake Securities
(CRD # 14161)
Research Corporation
40 W. Chesapeake Ave.
Towson, MD 21204

David Ferdinandi
(CRD # 2048284)
6680 N. Van Ness Blvd.
Fresno, CA 93711

Moishe Zelcer
(CRD # 1300480)
1202 59th St.
Brooklyn, NY 11219

Order of Cancellation

Alexander, Wescott & Co., Inc.
(CRD # 35935)
421 Broad St.
Utica, NY 13501

Blackwood Securities, Inc.
(CRD # 44669)
40 Wall Street, 29th Floor
New York, NY 10005

One Financial Center
Brokerage, Inc. (CRD # 41369)
311 S. Wacker Dr., Ste. 1950
Chicago, IL 60606

Sartena Securities, Inc.
(CRD # 40816)
43 W. 16th St., Ste. 2H
New York, NY 10011

Order to Cease and Desist

All American Greeting Cards
Sandra Rich
2020 N.E. 163rd St., Ste. 202
North Miami, Florida 33162

Allied American Systems, Inc.
7025 Beracasa Way, #204
Boca Raton, FL 33433

Mortgage Reduction System
Equity Corp.
4818 Coronado Pkwy.
Cape Coral, FL 33904

World-Wide Coffee, Inc.
1515 Cypress Dr.
Jupiter, FL 33469

Easier access to investment adviser registration forms

To improve access to forms and information on the investment adviser registration process, the Securities Department now offers a complete registration packet and instructions on the Secretary of State's Web site at www.cyberdriveillinois.com (click Departments, then Securities). The online instruction and registration packet contains the following information:

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- ☞ A description of Investment Adviser Registration Depository (IARD) forms required for filing online. Links to an online user's manual with a complete explanation of all required forms also is available.
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- ☞ A complete description of the required filings to be made directly to the Securities Department as part of the registration application process, along with all required state forms.
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- ☞ A step-by-step description of the process for establishing online entitlement for use of the IARD system by firms seeking registration approval.
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- ☞ A complete listing of exam testing sites in Illinois where investment adviser representatives may take exams online. The listing includes addresses, phone numbers and office hours.
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- ☞ A helpful link to an online Q & A section, which provides additional information about the IARD system.

June 30, 2003

Broker/Dealers

Reports of branch offices due to the Securities Department.

December 1, 2003

**Business Brokers/
Loan Brokers**

Loan Brokers

Renewal forms for calendar year 2004 due back to the Securities Department.

December 31, 2003

Broker/Dealers

Designated principal filing statements due to the Securities Department.

**Registered Investment
Advisers**

Designated principal filing statements and reports of branch offices due to the Securities Department.



About the Illinois Securities Department

The Illinois Securities Department receives numerous inquiries from attorneys regarding private remedies for victims of securities fraud. Civil and private remedies are set forth in Section 13 of the Illinois Securities Law. This section describes the restitution process, sets forth the statute of limitations and provides authority for circuit

courts to grant a *“permanent or preliminary injunction or temporary restraining order or rescission of any sales or purchases of securities determined to be unlawful under this Act.”*

Attorneys are reminded that Section 13(G)(2) states that a copy of the complaint shall be served on the Secretary of State. In many cases, the Securities Department has initiated complaints and administrative actions based upon the receipt of complaints in private actions. Although the department’s investigation generally includes interviews with the plaintiff and the sharing of documents, the time spent working with the department can be of benefit to the plaintiff’s civil action. The Securities Department has subpoena powers and its investigators are trained to analyze financial statements and trace funds. Subsequent to the department’s investigation, if an administrative hearing is held and a final order is issued, a plaintiff might use the findings in the order as collateral estoppel in a civil proceeding.

If you have any questions regarding private or civil remedies under the Illinois Securities Law, please call 312-793-3384.

Tanya Solov
Director, Illinois Securities Department