

SECURITIES

Fall 2002

bulletin



The downturn in the financial markets and flow of negative reports from corporate America has shaken investor confidence and angered many Americans. Many of us have watched our brokerage accounts and pension funds diminish over the past year.

Congress and federal regulators are dealing with corporate scandals by passing legislation, such as the accounting-reform bill. While I support this federal legislation, it is important to note that we in Illinois have already taken steps to protect investors against these types of fraudulent practices. State regulators, such as the Securities Department, have actively enforced state laws that prohibit sellers of securities from misleading the public, making misrepresentations and engaging in fraud. It was state securities regulators who brought actions against research analysts who issued "buy" recommendations based on business relationships rather than sound research. State regulators also prompted the brokerage industry to change its practice of interfering with customer account transfer requests. No case is too small for state regulators to pursue.

If you believe you have been a victim of fraud, please contact the Securities Department for assistance.

Jesse White
Jesse White
 Secretary of State



Bear market on Wall Street means bull market on fraud

The volatile financial markets and interest rates at 40-year lows have left investors shell-shocked, scared and especially vulnerable to con artists who promise safe and high-yielding havens for their money.

In conjunction with the North American Securities Administrators Association (NASAA), the Securities Department is cautioning investors to be wary of anyone promoting investments that yield "safe" or "guaranteed" returns above prevailing market levels.

"If a company or individual is promising above-market returns at low or no risk, be very skeptical, ask lots of questions and get it in writing," warns Secretary of State Jesse White. "When evaluating any investment, consumers need to keep in mind that the higher the reward, the higher the risk. If a company is promising a high yield and a low risk, it is more likely that fraud is involved."

The bear market on Wall Street and corporate scandals have shaken investors' faith in the market. Record amounts of money are now pouring into savings accounts, in some cases yielding returns below the inflation rate. Low interest rates are particularly hard on seniors or retirees, who depend on interest income. Con artists know investors dependent on interest income are looking for alternatives, so they pitch returns on their investments as "safe and guaranteed."

Many investment vehicles have been singled out as potentially very risky or fraudulent, including:

- \$ short-term promissory notes in little-known companies,
- \$ improperly disclosed callable CDs,
- \$ bogus prime bank schemes, and
- \$ viatical settlements.

The promoters of these schemes promise high returns and low or no risk. The most recent list of Top Ten Investment Scams can be found in the Securities Department's *Investment Guide for Illinois Consumers*. For a copy of the guide, please call 800-628-7937.

Securities fraud costs Illinois investors millions of dollars each year. Before purchasing any investment, call the Illinois Securities Department at 800-628-7937 and ask if the seller and investment are licensed and registered in Illinois. If they are not, they may be operating illegally.

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Investor education targets Chicago area

The Securities Department's Investor Education Division took their message to the streets of Chicago and the surrounding area over the summer.

In May, the Chicago staff distributed pencils and *Investment Guides for Illinois Consumers* to residents of the northwest suburbs during the Flavors of Greece Festival in St. Charles and Harvard Milk Days. June brought two senior events, the Drury Lane Senior Fair and the Better Business Bureau of Chicago's Senior Fair at the James R. Thompson Center in downtown Chicago. The Puerto Rican Parade and Festival was an opportunity to introduce the new Spanish Hotline to consumers. The toll-free number at 888-231-1175 is featured on bookmarks, which also has the Investor's Bill of Rights in both Spanish and English.

The end of June and early July ushered in the Taste of Chicago along the shores of Lake Michigan. The Secretary of State's booth distributed *Investment Guides*, notepads and pencils during the 10-day event as well as answered questions and concerns about today's financial markets. In neighboring Naperville, the Securities Department coordinated with the Senior & Community Services Department to sponsor a booth at the Annual Rib Fest over the July 4th weekend. In August, the department visited the south suburbs during the Taste of Midway festival.

Securities Department staff reported great crowds and strong interest at all the festivals.

Enforcement Administrative Orders May — August 2002

Consent Order of Censure

Shepard & Vrbnac
1 S. Main St., 2nd Floor
Akron, OH 44308

Order of Cancellation

Argus Securities, Inc.
(CRD# 7400)
636 E. Hallandale Beach Blvd.
Hallandale, FL 33009

Order of Revocation

David E. Niederkrome
(CRD# 2220569)
11704 N.E. 98th St.
Kirkland, WA 98033

Orders of Prohibition

Procoso, Ltd.
2507 Brown Bark Dr.
Beavercreek, OH 45431

Belizean Financial Investments, Inc.

P.O. Box 286
Belize City, Belize 11251
BZ

One Up Club

706 Hynds Springs Dr.
Jonesboro, GA 30238

Northwest Insights

15532 SW Pacific Hwy. C-1
Tigard, OR 97062

Jochen Ahsbrock

Hotel Residence DuLac
5 Rue Barrage
B4920 Robertville
Belgium

Wilkins and Associates

P.O. Box 22
Park Forest, IL 60466

Final Chance Financial Group

20 S. LaGrange Rd., Ste. 2-G
Frankfort, IL 60423

Michael Wilkins

3033 Western Ave.
Park Forest, IL 60466

Blue Hill Avenue Film Partners, Ltd.

9107 Wilshire Blvd, Ste. 500
Beverly Hills, CA 90210

Cahoots Production, Inc.

9107 Wilshire Blvd., Ste. 500
Beverly Hills, CA 90210

Michael Erwin

9107 Wilshire Blvd., Ste. 500
Beverly Hills, CA 90210

J. Max Kirishima

9107 Wilshire Blvd., Ste. 500
Beverly Hills, CA 90210

Frank Beaudette

762 W. Roanoke Ct.
Palatine, IL 60067

First Liberty Financial

19800 MacArthur Blvd., Ste. 300
Irvine, CA 92612

David G. Gocłowski

d/b/a D T Associates
2 Shore Rd.
Clinton, CT 06413

Ernest D. Noy

d/b/a Network Capital Funding
Resources
300 W. North Ave., Apt. 504
Chicago, IL 60610

LK Management Co., Inc.

15456 Venture Blvd., Ste. 203
Sherman Oaks, CA 91403

Chris Morgan

c/o LK Management Co., Inc.
15456 Venture Blvd., Ste. 203
Sherman Oaks, CA 91403

Larry Kransney

c/o LK Management Co., Inc.
15456 Venture Blvd., Ste. 203
Sherman Oaks, CA 91403

United States Private Investment Fund

P.O. Box 9881
Greensboro, NC 27429

Alan Misale

12800 82nd Ave.
Palos Park, IL 60464

Billy Lee Pollard

2460 Peachtree Rd., Ste. 1203
Atlanta, GA 30305

New rules require use of IARD to register investment advisers

The Securities Department has filed new administrative rules that require Form ADV, Form ADV-W, Form U-4 and Form U-5 to be filed electronically with the department via the Investment Adviser Registration Depository (IARD) system operated by NASD. Firms and individuals covered by this new requirement include:

- X Federally covered investment advisers currently on notice in Illinois;
- X State-registered investment advisers currently registered in Illinois;
- X Investment adviser representatives currently registered in Illinois; and
- X New applicants for registration.

The new rules require all investment adviser firms and their representatives to create an electronic record on the IARD by making a "transition" filing and the filing of Form U-4 no later than Nov. 1, 2002. New applications for registration or notice filings received by the Securities Department on or after Oct. 1, 2002, also are required to file via the IARD system.

The IARD system first became operational in January 2001, when federally covered investment advisers began to make all their filings on the system as required by the U.S. Securities and Exchange Commission (SEC).

Like its counterpart, the CRD system, which has been in use since the early 1980s for the registration of broker/dealer firms and their employed salespersons, the Internet-based IARD system creates a one-stop electronic filing system for investment advisers.

Advantages include:

- X Elimination of paper filings;
- X Satisfies SEC and most state notice/registration filing requirements;
- X Automatic payment of state notice or registration fees; and
- X Enhanced public access to information about a firm.

The IARD system was developed by the SEC and the North American Securities Administrators Association (NASAA). The IARD was built and is operated by the National Association of Securities Dealers Regulation, Inc. (NASDR).

An online guide to the IARD system, called the Firm User's Manual, has been created specifically for investment adviser firms to guide users through the IARD process. The manual allows you to view information online or print all or part of the manual. The manual may be accessed at www.iard.com/firm_users_man.asp.

Additionally, the SEC has compiled a listing of Questions & Answers concerning the use of the IARD system by investment advisers at www.sec.gov/divisions/investment/iard/iardfaq.shtml.



IARD meetings held

The Securities Department's Registration Section conducted a series of informational meetings over the past two months to help investment advisers make the transition to the new IARD system.

Meetings were held in Springfield at the Illinois State Library on August 27, at Alumni Hall at Southern Illinois University - Edwardsville on August 30 and at the James R. Thompson Center in Chicago on September 5.

Any investment adviser or investment adviser representative who was not able to attend one of the three informational meetings and who has questions concerning the transition to electronic filing is encouraged to call the Securities Department at 800-628-7937.



Steve Stalcup, assistant director of Registration for the Securities Department, helps a senior citizen with the Investor Quiz offered by the department at the 2002 Illinois State Fair. The department gave out free piggy banks to all those who completed the Investor Quiz.

Audit Division Report



The Securities Department's Audit Division is in the process of assimilating the new NASAA audit module into the audit progression in an effort to be up to speed when the new SEC regulations are finalized.



The division is taking a concentrated evaluation of broker/dealers operating from Credit Union locations to insure compliance with Illinois Securities Department rules and regulations.



A review of the federal government's treasury regulations pertaining to money laundering was conducted and all auditors were made aware of what to evaluate regarding these matters.



The combined SEC, NYSE, NAASA and Securities Department's examination of a branch of a major broker/dealer was conducted. The finalized deficiency letter was sent to the firm, and the firm's response was reviewed and filed by the department. All auditors who participated in this examination received a great deal of educational benefits based on the review of the nationwide examination.

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312-793-3384

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of securities registration, please contact:**

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U.S. Postage
PAID
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Spfld, IL