

SECURITIES

Winter 2004

bulletin



Each year, millions of dollars are lost through investment fraud. In many cases, these con artists use the same schemes they have used for years, just with different packaging. If we are to protect consumers from these unscrupulous individuals, we must heighten our awareness of what the current “scam du jour” looks like.

The North American Securities Administrators Association recently released its 2004 Top 10 List of Scams, Schemes and Scandals. A few very old scams are still around as well as some with new twists to them. I encourage investors to familiarize themselves with these types of scams so that they can better protect themselves against fraud and unscrupulous dealers. And if you encounter any offer that appears suspicious or too good to be true, please call the Securities Department before committing your hard-earned dollars.

Jesse White

Jesse White
Secretary of State



Top 10 Scams, Schemes & Scandals

- ① **Ponzi Schemes** — Named for swindler Charles Ponzi, these schemes promise high returns and use money from previous investors to pay new investors. Inevitably, the schemes collapse. Con artists typically attribute government intervention as the reason why new investors don't get their promised returns.
- ② **Senior Investment Fraud** — Older investors are being targeted with increasingly complex investment scams involving unregistered securities, promissory notes, charitable gift annuities, viatical settlements and Ponzi schemes, all promising inflated returns.
- ③ **Promissory Notes** — These short-term debt instruments often are sold by independent insurance agents and issued by little-known or non-existent companies promising high returns with little or no risk. These notes become vehicles for fraud when the issuer has no intention or capability of delivering the returns promised by the salesperson.
- ④ **Unscrupulous Brokers** — Despite the stock market's rebound in 2003, there are still a high number of complaints from investors of brokers cutting corners or resorting to outright fraud to fatten their wallets.
- ⑤ **Affinity Fraud** — Scammers often use their victim's religious or ethnic identity to gain their trust and then steal their life savings.
- ⑥ **Insurance Agents/Other Unlicensed Securities Sellers** — While most independent insurance agents are honest professionals, many are lured by high commissions into selling fraudulent or high-risk investments, such as promissory notes, ATM and payphone investment contracts, and viatical settlements.
- ⑦ **Prime Bank Schemes** — The negative publicity of these schemes has caused promoters to avoid explicitly referring to “Prime Banks.” Now, it is common to underplay the role of banks by referring to these schemes as “risk-free, guaranteed high-yield instruments” or something equally deceptive.
- ⑧ **Internet Fraud** — From Web sites that cajole you to “Fire your Boss” and start your own business at home to e-mail offers from individuals from Nigeria or West African governments or business officials in need of help to deposit large sums of money in overseas bank accounts, the Internet has become a lucrative vehicle of fraud for con artists.
- ⑨ **Mutual Fund Business Practices** — Although mutual funds play a tremendous role in the wealth and savings of our nation, ongoing scandals clearly demonstrate that some in the mutual fund industry are putting their own interests ahead of America's 95 million mutual fund shareholders.
- ⑩ **Variable Annuities** — Investors are not being told about high surrender charges and steep sales commissions agents often earn when they move investments into variable annuities. Some investors also are misled with claims of guaranteed returns when variable annuity returns actually are vulnerable to the volatility of the stock market.

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FAQ

Q If I report a complaint to the Securities Department, can I still pursue a private arbitration or civil court action?

A Yes. The department's investigations are administrative and may result in an administrative order, a civil complaint or a criminal referral. In some instances, the civil complaint will seek the return of investor monies. However, investors are encouraged to seek the advice of private counsel with regards to available civil remedies.

Q Will I have to pay anything for the Securities Department's investigation of my complaint?

A No. The department is a division of the Secretary of State and does not charge individual investors any fees.

Q I lost my investment documentation. Can I still file a complaint with the Securities Department?

A Yes. In many instances, the department can obtain copies of documentation from brokerage firms or other sources. Oral testimony and statements also are considered evidence.

If you would like to file a complaint or have an inquiry about your broker or investment adviser, please contact the Securities Department.

Illinois hedge fund operator pleads guilty

Secretary of State Jesse White has announced that Paul House, III, who owned and operated House Asset Management LLC and House Edge of Mt. Zion, pleaded guilty to eight counts of mail fraud in a criminal action involving a fraudulent hedge fund operation. U.S. Attorney of the Central District of Illinois Jan Paul Miller filed the criminal action following an investigation and referral by the Illinois Securities Department.

House founded the fund in March 2000 while working as a registered broker. After his termination from the firm, he continued to operate the fund, collecting about \$3 million from more than 80 investors. Many of the investors had invested retirement savings into the fund through means such as IRA rollovers. In addition to more than \$1 million in trading losses, House took money from the fund for personal use. He sent investor statements misrepresenting the value of their accounts and showing gains when, in fact, the accounts were rapidly losing money.

"Brokers who deal in fraud not only steal the money entrusted to them by their clients, but also undermine the integrity of the financial marketplace," said U.S. Attorney Miller. "Federal law provides serious penalties and long-term consequences for those who abuse the public's trust for personal gain."

Sentencing for House is set for April 8, 2004. He faces a maximum of 20 years in prison for each count of fraud and may be ordered to pay restitution to the victims.

"We can restore investor confidence by taking the crooks off the streets — whether it's off our neighborhood streets or Wall Street," said Secretary of State Jesse White. "The Securities Department is committed to working with the U.S. Attorneys' office to put these white collar criminals behind bars."

House was the subject of a civil injunctive action in June 2002 by the Securities and Exchange Commission that froze the assets of the hedge fund and found various violations of the federal securities laws. The criminal case was the result of an investigation by the Illinois Securities Department, the U.S. Postal Inspection Service, and the Federal Bureau of Investigations.

New tool in investor education

Earlier this year, U.S. Senate Resolution 48 cited a 2002 study by the Jump\$tart Coalition for Personal Financial Literacy, which found that "high school seniors know even less about credit cards, retirement funds, insurance and other personal finance basics than seniors did five years ago." And studies by student loan organization Nellie Mae show that 95 percent of all college graduate students and 78 percent of undergraduate students have credit cards. The same study indicates that students carried an average of four credit cards, and the average credit card debt was \$2,748 for undergraduates and \$4,776 for graduate students.

Because students are prime targets for credit card companies, it is more important than ever to educate young people about financial basics and the dangers of credit card debt. The Securities Department is pleased to announce the launch of a new program called Credit Safe. Developed by the Illinois Institute of Technology Interprofessional Projects, the program is an interactive teaching tool designed to help students understand credit and how it affects their personal finances. Credit Safe is available to teachers, parents and students free on the Secretary of State Web site at www.cyberdriveillinois.com.

Illinois Securities Department

800-628-7937 • 888-231-1175 (Spanish line)

Enforcement Administrative Orders

October 2003 — January 2004

Consent Order of Censure

Polite and Company (CRD# 18182)

156 N. Main, Ste. 204
Edwardsville, IL 62025

Philip Lee Polite (CRD# 824866)

156 N. Main, Ste. 204
Edwardsville, IL 62025

Consent Order of Censure and Fine

Scott C. Winters (CRD# 2598188)

8163 Sunset Rd.
Willowbrook, IL 60527
c/o Nexus Advisors, Inc.
One Tower Lane, Ste. 1700
Oakbrook Terrace, IL 60181

Order of Cancellation

Mercator Associates, LLC

c/o Lynn Challenger (CRD# 112903)
22 Bush St., Ste. 845
San Francisco, CA 94104

Consent Order of Revocation

Bryant F. Thompson (CRD# 1127521)

2305 Buckminster Circle
Orlando, FL 32803
c/o American Heritage Church Finance, Inc.
2008 Curry Ford Rd.
Post Office Drawer 19408
Orlando, FL 32814

Vikram V. Naik (CRD# 3152134)

3205 San Juan Trail
Brookfield, WI 53005
c/o Visun Securities Corporation
2505 N. 124th St., Ste. 205
Brookfield, WI 53005

Order of Revocation

Joseph T. Pagano, Jr. (CRD# 2594494)

511 83rd St.
Brooklyn, NY 11209

Anthony L. Debenedictis (CRD# 2326689)

84 Festival Ct.
White Plains, NY 10603
c/o Westrock Advisors, Inc.
230 Park Ave.
New York, NY 10169

Richard D. Russell, St. (CRD# 1464018)

1928 Dorset Dr.
Wheaton, IL 60187

Patricia Bisch Green (CRD# 1320375)

419 Sandman St.
Houston, TX 77007
c/o SWS Financial Services
1201 Elm St., Ste. 3500
Dallas, TX 75270

Order of Cancellation

Thomas K. Vandiver, as Trustee

For the Liquidation of
Clearing Services of America, Inc.
P.O. Box 753, Midtown Station
New York, NY 10018

William E. Hopkins & Assoc., Inc.

c/o William E. Hopkins, II (CRD# 46947)
3339 N. Highland Ave.
Jackson, TN 38305

Consent Order of Prohibition

Wes Becker

8220 E. 850 North Rd.
Stanford, IL 61774

Consent Order of Prohibition and Fine

Steve Wireman

17238 E. 2740 North Rd.
Bismarck, IL 61814

Summary Order to Cease and Desist

Q-2 Synergy, Inc.,

a/k/a Freedom Systems International
2954 N.W. Astor St.
Camas, WA 98607

Dudley Gee

2954 N.W. Astor St.
Camas, WA 98607

American Cash Flow Corp.

255 S. Orange Ave., Ste. 600
Orlando, FL 32801

Quarters Only, Inc.

47 W. 34th St., Ste. 524
New York, NY 10001

Consent Order of Dismissal

CMG Institutional Trading, LLC (CRD# 47264)

123 N. Wacker Dr., Ste. 1150
Chicago, IL 60606

Introducing Brokers Alliance, Inc. (CRD# 103280)

190 S. LaSalle St., Ste. 700
Chicago, IL 60603

MLC Ventures, LLC (CRD# 104378)

1 Embarcadero Center, Ste. 500
San Francisco, CA 94111

Investment Solution, Inc. (CRD# 119468)

9A Riverbend Dr. South
Stamford, CT 06906

NYPPE, LLC (CRD# 47654)

5 Old Field Point Rd.
Greenwich, CT 06830

Jack D. Stone (CRD# 437327)

100 E. Bellevue, #15A
Chicago, IL 60611
c/o Birkelbach Investment Securities, Inc.
208 S. LaSalle St., #1700
Chicago, IL 60604

Capital Access, Ltd. (CRD# 24898)

1420 Fifth Ave., #1775
Seattle, WA 98101

Order of Dismissal

Fiserv Securities, Inc. (CRD# 14285)

One Commerce Square
2005 Market Square
Philadelphia, PA 19103-3212

Order of Denial

Daniel J. Russell (CRD# 1990504)

1519 Bates Ct.
Schaumburg, IL 60193
c/o High Mark Securities, Inc.
500 S. Florida Ave., 4th Fl.
Lakeland, FL 33801

Consent Order of Suspension

Kelly J. Woitel (CRD# 840853)

619 N. Russell
Geneseo, IL 61254

Consent Order of Withdrawal

Nicholas G. Tsikiktas (CRD# 2871712)

P.O. Box 81
Ashland, NY 12407

Barry Chaskes (CRD# 2228700)

229 Rues Ln.
East Brunswick, NJ 08816
c/o Maxim Group LLC
99 Sunnyside Blvd.
Woodbury, NY 11797

Adam Mosslih (CRD# 2601978)

2 Clearbrook Ct.
Matawan, NJ 07747
c/o Benchmark Securities Group, Inc.
825 Eastgate Blvd., Ste. 100
Garden City, NY 11530

Broker-dealer “designated principal”

The Illinois Securities Law of 1953 requires a securities dealer registered with the Securities Department to provide information at the time of application, and annually thereafter, of the person(s) who will serve as “designated principal.” A designated principal is “any officer, director, partner, member, trustee or manager of such dealer who is responsible for the supervision of the securities activities in this State of salespersons and for management of the daily business operations in this State of such dealer,” (815 ILCS 5/2.8a). The Securities Department requires an annual updated filing (due by December 31) from broker-dealers regarding their

designated principals for the coming year. Changes in a firm’s designated principal that occur during the year should be reported in writing to the department within 10 business days of the change.

Designated principals are expected to maintain current knowledge of the law’s administrative rules and statutory requirements affecting broker-dealers. They also must meet the department’s examination qualification requirements as outlined in the rules. The Securities Law of 1953 is available at www.cyberdriveillinois.com, or by calling the Securities Dept.

June 30, 2004

Broker/Dealers

Responses concerning annual reports of branch offices due to Securities Department.

December 1, 2004

Business Brokers/

Loan Brokers

Renewal forms for calendar year 2005 due to Securities Department.

December 31, 2004

Broker/Dealers

Designated principal filing statements due to Securities Department.

Registered

Investment Advisers

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

Congratulations



Harmening named EOM

Bill Harmening, chief special agent for the Securities Department, was named Secretary of State Employee of the Month for December 2003. Bill received his award from Secretary of State Jesse White at a reception in his honor at the Securities Department's Springfield office.

Bill was instrumental in the passage of SB 1865 (PA 93-580), which granted sworn officer status to select Securities Department investigators and allows the Secretary of State to seek seizure and forfeiture of assets acquired through violation of the Securities Law. Bill heads the department's team of investigators and has been at the helm of many important investigations resulting in criminal actions against securities con artists.



Secretary of State Jesse White presents Bill Harmening his EOM award in December.