

# The Ethical Treatment of **\$**omebody Else's Money

## Straight From The Horses' Mouth

Oct. 1, 2017



### Non-profit to offer investment advice for free

#### **ANNOUNCING: *The MoneyCulture™ Initiative***

We have incorporated a non-profit to provide financial and investment education and information for those who need it. We will be seeking partners to join us in this endeavor to make a more educated investment consumer. We wish to provide pro bono investment advice to beginning savers to modest investors. The cost to the public will be nothing, and we will be looking to professionals to partner with us in the delivery. Please join us in this community enterprise.

Look for more information in OUR October newsletters and on social media.

*The MoneyCulture™ Initiative is a non profit charity organized as a tax exempt Financial Literacy educational organization under IRS section 501(c)-3. We provide the general public with the knowledge, tools and education to help them build and protect their financial future. Our singular mission is to improve financial and investing knowledge. We do that directly to the public by providing a continual flow of unbiased expertise about financial principles in seminars, public presentations, papers, articles, newsletters and online courses. We also endow scholarships and support other educational organizations that advance improved financial literacy.*

***We exist because of donations, so we are seeking to partner with professionals, organizations and individuals who will become Financial Literacy advocates by supporting us and our mission.***

**OUR ADVISOR MEMBERS WILL GET SUBSTANTIAL NATIONAL RECOGNITION**

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## FIDUCIARY FORENSICS

### Small firm Advisory compliance administration starts at \$500 per month

We all know that compliance in the Advisory world is not going to get easier. The smaller Advisory firms: 1-10 members have been forced to gravitate to template driven “shelf” vendors who will tell them what to do for a fee.

NOW, personal customized compliance administration is available from us:

We don't just tell you what to do, we do it for you. If you have 1-3 employees or IARs we will :

- File all ADV filings and all amendments, including annual amendments, and firm and state notice filings.
- Review, update and re-write of all Compliance policies and Procedures to reflect new requirements, including:
  - Compliance Manual
  - Supervisory Manual
  - Code of Ethics
  - Privacy Policy
  - AML
  - Cybersecurity
  - Develop annual compliance training in an online course and keep the required records.
  - Review, monitor and archive all emails (using Outlook tools).
  - Review, monitor personal trading and archive statements.
  - Review and approve marketing and sales material and client communications that are sent to more than one person as that falls under advertising rules.
  - Review and monitor all social media: websites, LinkedIn, Business Facebook, Twitter, etc.
  - Vet any potential new personnel, advisors (if any) with SEC and FINRA ( if applicable)
  - File required regulatory reports such as 13F and 13H via EDGAR, if and when applicable
  - Keep management informed on new issues and regulations and requirements.

**The cost is only \$500 per month  
4-8 employees or IARS, \$1200 per month**

As the firm expands, grows and adds advisors, we will vet the recruits, and register them as appropriate. To monitor emails, personal trading and social media for each additional advisor, it will cost \$50 additional per month.

All our work is done by experienced legal and operational professionals and you get monthly activity reports.

Email us at [legal@howlingwolf.org](mailto:legal@howlingwolf.org)

Contact us on the website at [somebodyelsesmoney.com/compliance](http://somebodyelsesmoney.com/compliance)

Call us at 307-217.1479

### Fact or Fiction:

#### Military Intelligence at work for you

Do you remember?

In the Summer of 2003, the Pentagon announced a startling new financial tactic to root out people who profit from international terrorism. The proposed system, called the Futures Markets Applied to Prediction (FutureMAP), would have involved investors betting small amounts of money that a particular atrocity, such as a terrorist attack or assassination, would occur. The scheme was conceived as part of the failed "Total Information Awareness" program developed by the Defense Advanced Research Projects Agency (DARPA) and promoted via the Internet. TIA would have collected and analyzed a wide variety of electronic information (including emails and financial records) with automatic systems, in an attempt to discover planned terrorist actions or other criminal activity.

The rationale behind FutureMAP is incomprehensibly Machiavellian, but logical, given a certain sense of absolute military *realpolitik*, stripped of civil concerns. Terrorists might purchase holdings in whatever attack they planned, then sell short. According to DARPA data mining and analysis of trends can also be used to predict future activity (an assumption anyone with real-world market experience should question implicitly). By monitoring trading activity, the Pentagon would be able to discern the nature of planned Terrorist attacks, or to discover the perpetrators of an atrocity after the fact.

Republicans and Democrats alike were quick to disown the plan, calling it "stupid", "ridiculous" and "grotesque". The pentagon subsequently scrapped FutureMAP at the end of July, 2003. The Total Information Awareness program itself came under heavy criticism over privacy concerns and was abandoned in September, 2003.

It went underground under the code name "Basketball." According to a 2012 New York Times article, the legacy of Total Information Awareness was "quietly thriving" at the National Security Agency (NSA).

**FACT.**

#### LottoRock

Rock and Roll Plus, a touring support company for "A" list performers conceived of the idea for the first lottery that presents a personal concert with "your favorite rock and roll (country / sports) artists".

The brainchild of LA tour support, Dan Melson, the idea has yet to hit ground. There are legal complications with a US lottery, so there is an international venue to consider as the sponsor. Then, there's taxes. Seed money to get A listers' support would run in the tens of millions.

The basic idea was founded on a mistake made by Led Zeppelin in 2007. Led Zeppelin held a once only "reunion show" with ticket availability held by an international internet raffle. If you received a winning raffle number then you could purchase one ticket for \$250. The seat was pre-determined by computer; thus you had no choice of location or "seating partner". You were responsible for your own travel and lodging.

According to promoter Harvey Goldsmith: "entry numbers (hits on the website) for the first three days (Thursday thru Saturday) were 670,000,000". Had the band charged one dollar per entry they would have made \$670 million dollars. The final entry number exceeded the population of planet earth.

The details of R & R + plans are confidential, but if you want to contact Dan Melson, you can do so through me at [john@somebodyelsesmoney.com](mailto:john@somebodyelsesmoney.com).

## MONEYCULTURE CONTINUED...

### CDOs

The synthetic collateralized debt obligation (CDO) is back. A decade ago, investors' bad bets on CDOs helped fuel the worldwide financial crisis. Billed as safe, they turned out to be anything but. Now, more investors are returning to CDOs, amid concerns that excess is seeping into the aging bull market. In the United States, the CDO market sank steadily in the years after the financial crisis but has been fairly flat since 2014. In Europe, the total size of the market is rising again—up 5.6 percent annually in the first quarter of the year and 14 percent in the last quarter of 2016, according to the Securities Industry and Financial Markets Association.

### Bitcoin news

As JP Morgan CEO Jamie Dimon continues to rail against Bitcoin and its imitators, along comes Coinflash, an AP that takes the spare change left over from your purchases during the week and uses that cash to invest in the cryptocurrency of your choice. You select accounts for Coinflash to connect with. There's a \$1 per month charge, but they say they'll stop deducting if you stop investing. That's if you can contact them.

What could go wrong? I wonder what Dimon would say about this idea?

## Dante's Corner

### New candidates

September 28, 2017 early AM. Report from Virgil Bernice, currently located in the picturesque fifth circle of Hell. Our research has indicated that on September 27, 2017, the Securities Exchange Commission announced two new pending enforcement actions in Federal court.

First: The SEC alleges that Eric Pulier defrauded Computer Sciences Corporation ("CSC") out of over \$98 million in connection with its November 2013 acquisition of ServiceMesh, Inc. ("SMI"), Pulier's privately-owned cloud software startup. Pulier's fraudulent conduct included paying about \$2.5 million in bribes to third parties to assist his scheme, making material misrepresentations to CSC and its auditors, and circumventing CSC's internal accounting controls.

Pulier was a major shareholder of SMI when it was sold to CSC in 2013. The sale included a \$98 million "earn-out payment" that depended on SMI's stand-alone sales meeting a certain target for a period after the acquisition. Pulier bribed two executives of the Commonwealth Bank of Australia ("CBA") to enter into contracts with CSC in December 2013 and January 2014, which increased SMI/CSC's revenues by over \$10 million. But for these two contracts, SMI would not have met the threshold for an approximately \$98 million earn-out payment under the sales contract with CSC. As a major shareholder of SMI, Pulier received over \$30 million of the \$98 million earn-out payment.

At the time of the fraudulent conduct, Pulier was an Executive Vice President of CSC. In that position, Pulier falsely attested that CSC had not entered into any contracts with any side agreements and that there had not been any fraud in connection with an audit of SMI's stand-alone sales for the purposes of the earn-out payment. Pulier knew these representations were false because he had offered to pay bribes to two CBA executives to obtain the sales contracts that achieved the earn-out milestone. On March 17, 2015, the New South Wales Police arrested the two CBA executives for their receipt of bribes. CSC put Pulier on administrative leave shortly thereafter, and he resigned from CSC in April 2015.

The SEC seeks permanent injunctive relief against Pulier for violations of the antifraud, accounting, and related provisions of the federal securities laws, disgorgement of his ill-gotten gains with prejudgment interest thereon, civil penalties, and an officer and director bar.

Next: The second matter concerns two fraudulent securities offerings carried out by Edward Chen, his wife, Jean Chen, and several entities they control. In doing so, they have misappropriated millions of dollars of investor money, much of it in cash, and cashier's checks. The Chens offered and sold securities in two projects under the federal EB-5 immigration program administered by the United States Citizenship and Immigration Services ("USCIS"), which allows foreign investors to apply for green cards as long as their investments meet certain criteria under the program. Home Paradise Investment Center LLC ("Home Paradise"), an entity controlled by Edward Chen, is the "regional center" designated by USCIS to sponsor these EB-5 offerings.

### Dante's Corner Continued...

As of April 2017, Home Paradise has raised over \$22.5 million from 45 investors in two offerings: (1) a \$9.5 million offering by GH Investment LP ("GH 2 Investment"), which was supposed to invest in the development, renovation and operation of an interior design center in Ontario, California; and (2) a \$13 million offering by Golden Galaxy LP ("Golden Galaxy"), to invest in a five-floor, 80-unit condominium project in Los Angeles, California. Home Paradise continues to promote these two projects on the Chinese language website of its Chinese affiliate aimed at investors in China.

The Chens' misappropriation of investor money has been staggering.

On the GH Investment offering alone, the defendants misappropriated at least \$8.6 million, more than 91% of the approximately \$9.5 million raised. In doing so, they: (1) diverted millions of dollars to fund the Chens' purchase of residential real estate; (2) transferred investor money to Chen-controlled entities; and/or (3) withdrew investor funds in cash and to purchase cashier's checks in Jean Chen's name. The offering proceeds were supposed to be used to develop and operate a design center, but no center is being renovated or operated; in fact, Home Paradise has done little more than rent space in a half-empty warehouse. And the Chens misled investors (and the USCIS) about the size of that space, the square footage of which was a critical component to the estimated number of new jobs the project would support. A doctored lease for the warehouse, signed by Edward Chen, on behalf of GH Design, as the lessee, was provided to investors and submitted to the USCIS. This fake lease vastly overstated the warehouse's size and monthly rent, and replaced the name of the true lessor with Four Star Realty Group, an entity controlled by Jean Chen, which received approximately \$3.7 million of investors' money. The Chens have similarly misappropriated investor funds on the Golden Galaxy offering. Of the approximately \$13 million raised to date for the Golden Galaxy offering, about \$3.5 million was diverted to the Chens in the form of cashier's checks to Jean Chen that she has used toward the purchase of residential real property, taken in cash, or transferred to other Chen-controlled entities.

Approximately \$2.7 million of Golden Galaxy investor funds has not been spent yet. Of the funds raised to date between the two EB-5 offerings, the Chens have misused and/or misappropriated approximately \$12.1 million. In addition, there are millions of dollars of investor funds still under the Chens' control. Given their past conduct, the SEC believes that there is every reason

to believe that the Chens, unless immediately enjoined, will continue to misuse and misappropriate investor funds.

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