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Bad Investment Advice Can Turn a Free Meal Costly

By MILT FREUDENHEIM

TWO financial advisers regaled Marilyn and Paul Johnson a few years ago with free lunches and dinners at local country clubs and a celebrity chef's restaurant in Kenosha, Wis., 40 miles south of Milwaukee. The Johnsons were fed prime rib and fancy desserts and heard promises of 12 percent returns on sure-thing investments.

After one hearty meal, the advisers, Gregory Oldham and his son-in-law Glenn Harris, visited the Johnsons at their Pleasant Prairie home and persuaded Mr. Johnson to sign papers enabling Mr. Oldham to cash a \$120,000 certificate of deposit that the Johnsons had at their bank, said Mrs. Johnson, now 74, whose husband died in 2008.

While the advisers deny misleading the Johnsons, Mrs. Johnson said she and her husband were not in a position to make well-informed decisions.

"We were frugal but not very smart about money," she said. "We didn't have the right knowledge to ask the right questions."

The Johnsons, who were living on his retirement, lost most of their money. They were hardly alone.

"Financial fraud is the No. 1 consumer protection issue for AARP," said Andres Castillo, who heads an AARP program that monitors free lunch seminars and similar presentations. In an AARP survey last year of people 55 and older, 9 percent said they had attended a free financial seminar within the last three years. That translates into approximately 5.9 million people, the group said.

And the offers for free financial seminars kept on coming. More than half of the survey respondents who received one by mail or e-mail said they had received five or more invitations since 2006.

Mr. Oldham promised high returns, Mrs. Johnson said, that would soon repay an \$8,000 penalty that they incurred for cashing the C.D. early. With the money from the C.D., he bought them annuities at an insurance company that soon went bankrupt and disappeared into a merger, Mrs. Johnson said. When most of their money was returned, Mr. Oldham persuaded them to buy Endeavor funds, which invested in real estate.

The funds, managed by Endeavor Partners and Endeavor Capital Management Group, were "highly risky, unregistered securities," the Securities and Exchange Commission later charged. The Johnsons and about 90 other Endeavor investors "were elderly and of limited means," and lost a large part of their savings, the

S.E.C. claimed in a civil lawsuit filed in October in Federal District Court in Brooklyn. The defendants include Mr. Oldham, Mr. Harris and others involved in the Endeavor sales.

Mr. Oldham said in a telephone interview that his clients were made “fully aware” of the nature of the Endeavor funds. But, he added, “We trusted people we shouldn’t have trusted.” He said he wished he had never sold the funds.

Mrs. Johnson said she and her husband ended up losing \$70,000. Another Endeavor investor, Raymond Katt of Racine, Wis., said in a state court lawsuit that he had invested \$200,000 after he was told he would get a 20 percent return. In fact, he received \$2,000 a month for about a year. Then, he said, the payments stopped and he was told he could not withdraw his \$200,000. A judge dismissed his suit and said he must take his case to arbitration.

In all, the 90 investors in New York, Florida, Wisconsin and elsewhere invested \$12 million in Endeavor funds, the S.E.C. said.

Joseph C. Peiffer, a New Orleans lawyer who represents financial fraud victims, said the problem was far broader than the Endeavor case, noting that at least \$100 million had been returned to investors around the country after an array of S.E.C. complaints, financial industry arbitration and lawsuits.

“If a person tries to sell you something, ask two questions,” Lori Schock, head of the S.E.C. Office of Investor Education and Advocacy, said: “Are they licensed?” and “Is the product registered?”

To check on securities sales representatives, she said, consult BrokerCheck, operated by the Financial Industry Regulatory Authority, known as Finra, at finra.org/investors/ToolsCalculators/BrokerCheck; or the S.E.C.’s investor education site, sec.gov/investor/brokers.htm; or call Ms. Schock’s office at 800-732-0330, extension 6.

Consumers can learn whether an insurance agent or company is licensed in their state by calling their state insurance department. The North American Securities Administrators Association offers a map at nasaa.org. Click on a state to find contact information for the group’s members.

In Florida, which has 2.9 million residents age 65 or older, insurance regulators have been campaigning to rein in the free lunch approach, said Alex Sink, Florida’s chief financial officer.

“Free lunches are very common all over the state,” she said. “They are very attractive to low-income and moderate-income seniors and retirees.” Ms. Sink has been lobbying the Legislature to make a felony of “egregious examples” of problematic sales to investors.

That would include “twisting and turning of annuities,” said Lori Parham, the Florida director of AARP, which co-sponsors a program in the state called Safeguarding Our Seniors. Twisting, she said, is misleading customers to get them to change an annuity policy or buy a new one, while turning is switching annuity policies within the same company to “get a commission every time.”

The measure passed the State Senate unanimously last year but was held up in the House, where lobbyists opposing the bills were active, Ms. Sink said.

On another front in Florida, Stephen Brace, 62, was sentenced last year to 25 years in prison after pleading guilty in state court to investment fraud involving restaurant seminars in Pensacola. He was ordered to repay \$2.19 million to Florida residents who bought nonexistent securities in “a classic [Ponzi scheme](#),” the Florida Office of Financial Regulation said.

In a federal case in Louisiana, David L. McFadden, 62, a former broker for Securities America, a brokerage firm based in Omaha, was sentenced in January to five years in prison. He pleaded guilty to misleading customers by falsely claiming he had a license as a certified public accountant.

He talked more than 100 oil refinery and chemical plant workers into taking early retirement, mainly from Exxon, according to court documents, and sold them annuities and [mutual funds](#) he said would make them financially independent.

The victims “lost millions of dollars of life savings after following advice that benefited no one other than Securities America and its representative,” said James S. Shorris, head of enforcement at Finra.

Court papers filed by Mr. Peiffer, the lawyer, estimated that Mr. McFadden had earned \$1 million to \$1.5 million a year.

Securities America, part of [Ameriprise Financial](#), based in Minneapolis, agreed, without admitting wrongdoing, to pay \$16.3 million in fines and restitution in a Finra proceeding, as well as sums that have been held secret in separate court cases on behalf of victims.

“Being smart really doesn’t matter,” said John Gannon, head of investor education at Finra. “The scammers are using psychology to get you to buy. You can be a genius, but you are going to make an emotional decision. Your smarts aren’t going to play into the equation.”

Marilyn Johnson, in Wisconsin, said she had learned to be ultracautious. “I don’t put a dime into anything,” she said.