

## MADOFF CASE NOT ISOLATED

# Ohioans taken in by Ponzi schemes

Monday, December 22, 2008 3:11 AM

**BY STEVE WARTENBERG**

THE COLUMBUS DISPATCH

The self-proclaimed financial adviser was "sweet as punch" until the day he got control of Claire Aberasturi's money, \$374,000 she inherited after her father's death in 2005.

Then Jerry Rose changed, intimidating the Cincinnati woman, refusing to send financial statements or tell her how he'd invested her money, she said.

In July 2007, the truth came out: Rose wasn't a financial adviser at all but the man behind an elaborate Ponzi scheme that conned 200 people out of a possible \$25 million.

The recent arrest of Bernard Madoff, accused of running a \$50 billion Ponzi scheme that netted famous victims such as Steven Spielberg, New Jersey Sen. Frank Lautenberg and Nobel laureate Elie Wiesel, brought to light a scam experts say is quite common -- even in Ohio.

"On a smaller scale (than the Madoff con), this goes on all the time," said Columbus attorney David Meyer, who represents Ponzi victims.

"I see tragedy after tragedy in this business, people's lives ruined," he said. "I'll tell my wife, I'll never see anything this bad -- and then the next month, I see something worse."

There have been more than 1,400 Ponzi scheme victims in Ohio and at least \$133 million in losses since 1999, said Harvey McCleskey, who leads the enforcement section of the Ohio Department of Commerce's Division of Securities.

Examples can be found close to home.

## Don't be a victim

Ponzi schemes can ruin people financially. To protect yourself, experts suggest heeding this advice:

- If it sounds too good to be true, it usually is. Promises of above-market returns are a red flag.
- It is safer to work with a broker or financial adviser from an established firm.
- Before signing anything, check out the prospective adviser or broker and his company by doing an online

- Former Columbus financial adviser Von Cummings was sentenced in June to 40 months in prison after losing more than \$8.3 million of his client's money in a Ponzi scheme.
- Westerville's David C. Cahall was sentenced in 2006 to five years in prison for stealing \$1.86 million from investors whom he promised a quick 20 percent to 30 percent profit if they would loan him money to purchase discount clothing.
- And Rose, the Hamilton man who ripped off Aberasturi, 31, an employee of a children's theater, was sentenced to 20 years in jail.

"I feel very violated, like I have been financially raped," Aberasturi said. "It's this scab that keeps getting picked off."

A Ponzi scheme is one in which someone promises high returns to investors and then uses the money from new investors to pay off earlier investors, all the while skimming off a portion. It is named after Charles Ponzi, who in the 1920s conned thousands of New England residents into investing in a postage-stamp speculation scheme, according to the U.S. Securities and Exchange Commission.

"We hear about them because usually it's the last ones in who don't get paid back," McCleskey said, adding that early investors in a Ponzi scheme often receive much of what they've been promised -- and help spread the word to new marks.

"It can work as long as too many investors aren't asking for too much back all at the same time," he said.

Ponzi schemes are sometimes coupled with an affinity fraud, a scam in which someone targets family members and friends, members of their place of worship, or community groups with which they are affiliated.

"When they start with their friends and families, they're the ones who usually get paid back," McCleskey said. "It's the ones their family and friends solicit who are left with nothing."

An example, he said, is Lawrence Nallie, who in July was charged with bilking 13 central Ohio residents out of \$187,000. He was a prominent member of Columbus' black community and former manager of boxer James "Buster" Douglas.

"He had been a licensed securities broker with American Express, but even after (he lost his license) he continued to operate as an

search to see if there is anything that might suggest a problem.

Also, call the Investor Protection Hotline -- 1-800-788-1194 -- of the Ohio Department of Commerce's Division of Securities to learn whether your prospective adviser is licensed to sell securities, has been disciplined and whether the securities he is selling have been properly registered.

- If you establish an account and your adviser becomes difficult to reach, this could be a sign of a problem.
- You should receive confirmations of trades and monthly or quarterly statements. If you don't, this also could be a red flag.
- Carefully review your account statements. For

American Express agent," McCleskey said.

This is a tactic other Ponzi scheme operators utilize, said Kelly Igoe, the state securities division's coordinator of outreach and education.

"There have been a couple of cases where the person was licensed, lost their license and moved down a floor in the same building and their clients didn't know (they were no longer with the brokerage firm)," she said. "If you see something odd, a move or a different address on the letterhead, that's a red flag."

Other red flags are financial advisers who promise too-good-to-be-true returns or push complicated, hard-to-understand financial products. Some Ponzi scheme operators send out fake financial statements to clients.

"Usually they don't look remotely real," said Clint Edgington, president of Beacon Hill Investment Advisory of Columbus. He has been a consultant to broker dealers investigating Ponzi schemes.

Frank Gruttadauria, a Lehman Brothers broker in Cleveland, added a devious wrinkle to this ploy, Edgington said.

"He got into the main database and changed all his client's addresses to a P.O. box, his P.O. box, and he got all their statements -- and then sent them fake ones," he explained.

Gruttadauria was eventually caught and sentenced in 2002 to seven years in federal prison.

However, a "rogue" dealer from a legitimate and reputable broker dealer is rare, McCleskey said.

"It happens, but there is so much internal oversight it is very difficult to get away with," he said.

Some Ponzi scheme operators don't start off with the intention of ripping off clients.

"I've seen instances where it started out more innocently, when he took a loan from a client -- which is not right or legal -- and lost that money," Edgington said. "Then he needed more money and he had to steal from Peter to pay Paul and it creates a cascade effect."

Once the bubble bursts and the scheme is exposed, it is extremely difficult to get any money back without legal help, said Meyer. He represents Aberasturi and 93 others victimized by Rose's Ponzi scheme.

They are not suing Rose, who is in prison and has limited assets, but instead are going after Raymond James Financial Services.

information on how to do this: [Click here](#).

The Securities and Exchange Commission has information on selecting an adviser: [Click here](#).

For more information -- and examples of Ohio Ponzi schemes -- go to *Wallet Watch*, the *Dispatch's* new personal-finance blog: [Click here](#)

Sources: Ohio Department of Commerce's Division of Securities and David P. Meyer & Associates

Rose did not work for Raymond James, but he had an account at a Cincinnati-area office and deposited his client's money in his account, Meyer said.

He believes there were enough warning signs that the brokerage firm should have contacted authorities, such as an unusual number of transactions. The company's failure to do so makes them liable, Meyer contends.

"It is Raymond James' position that we cannot and do not comment on pending litigation," said attorney Mike Ungar of the Cleveland law firm Ulmer & Berne, which is representing the brokerage firm.

Aberasturi, who lost about \$250,000 a week after she became engaged, is hopeful she'll recover at least part of that sum.

Aberasturi had been able to get some of her money back before Rose was arrested. She used it for a down payment on a modest house, some renovations -- and had hoped to get more of her money from Rose to pay for her wedding.

"Fortunately I'm married now, otherwise I probably would have lost my house," she said, adding that she has learned several valuable lessons from the ordeal.

"If I'm ever in a position to invest again, I'll first put it in an FDIC-insured account," Aberasturi said.

Then, she said, she'll meet with several different financial advisers and pepper them with a list of questions, check them out with regulatory agencies "to see who's shady" and make sure the adviser is licensed to sell securities. Rose wasn't.

"When this happens to you," Aberasturi said, "you start doing research, and I found out this is so much more rampant than I ever thought."

[swartenberg@dispatch.com](mailto:swartenberg@dispatch.com)

---

©2008, The Columbus Dispatch, Reproduction prohibited