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U.S. DISTRICT COURT  
EASTERN DISTRICT OF OHIO  
CLEVELAND

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF OHIO  
EASTERN DIVISION

UNITED STATES OF AMERICA,

Plaintiff,

v.

GEOFFREY W. NEHRENZ,

Defendant.

) INDICTMENT

) CASE NO.

) JUDGE

) Title 15, United States Code, Sections  
) 78j(b), 78ff, Title 17, Code of Federal  
) Regulations, Section 240.10b-5; Title 15,  
) United States Code, Sections 80b-6 and  
) 80b-17; Title 18, United States Code,  
) Sections 1341, 1343, 1957, and 2

1:15CR017  
JUDGE BOYKO

The Grand Jury charges:

I. GENERAL ALLEGATIONS

At all times relevant to this Indictment:

1. Keystone Capital Management, LLC ("KCM") was an investment adviser located in Uniontown, Ohio, an Ohio limited liability company registered as an investment adviser firm, but not registered with the Securities and Exchange Commission (the "SEC").

2. Defendant GEOFFREY W. NEHRENZ was the managing member, president, and chief executive officer of KCM.

3. Defendant, through KCM, provided investment advice to, made the investment decisions for, and managed the assets of, his hedge fund, Keystone Active Trader, LLC (“Keystone”), also registered as a limited liability company in the state of Ohio, but not registered with the SEC.

4. Defendant acted as an investment adviser in that he received compensation for providing investment advice to Keystone.

5. KCM maintained bank accounts at PNC Bank (account numbers x1136 and x0993), Charles Schwab (account numbers x3692), and Penson Financial Services (account number x5622) (collectively, the “KCM bank accounts”).

6. Keystone maintained bank accounts at PNC Bank (account number x6222), Lightspeed Financial (account number x21D6), and Merrill Lynch (account number x1001) (collectively, the “Keystone bank accounts”).

7. Defendant had complete control over KCM and Keystone, overseeing the assets and investment decisions with sole management and investment authority.

8. Defendant was the sole authorized signatory on the KCM bank accounts and the Keystone bank accounts.

## II. THE FRAUDULENT SCHEME

9. To accomplish his fraudulent scheme, from in or around October 2009, through in or around September 2013, Defendant promoted and sold investment contracts to clients in the form of limited partnerships in Keystone. Rather than investing the funds, Defendant used client money for one or more of the following: to (a) pay his personal expenses; (b) pay business expenses to promote and prolong his investment scheme; and (c) make speculative, high-risk

trades with domestic and overseas private placement vehicles without his clients' authority, transactions known as "side pocket investments."

10. Defendant induced potential clients to invest in Keystone by promoting KCM's ability to generate positive investment returns in equity markets while mitigating risk. Defendant told potential clients that KCM was a boutique money management firm dedicated to providing clients with the highest level of investment management and advice.

11. Defendant falsely represented to potential clients that their funds would be pooled, invested during the day in large- and mid-capitalization, publicly traded U.S. securities exclusively, and converted to cash overnight. Defendant further falsely represented that he would limit the amount of illiquid assets in which Keystone would invest to 10% of total assets under management. Defendant also falsely claimed to engage in transactions directly with the equity markets through a direct access trading platform that allowed KCM to pass savings on to clients. These representations appealed to potential clients and induced them to invest.

12. Through KCM, Defendant charged Keystone clients fees for his investment advisory services. He stated to investors that the annual fees would be limited to 2% of assets under management and 20% of all investment gains. To induce high net worth clients to invest in Keystone, Defendant claimed to waive the 20% fee on investment gains. Defendant reserved the right for Keystone to use up to 1% of a client's capital contribution, not to exceed \$25,000, to reimburse KCM for expenses associated with the formation of Keystone, claiming that all remaining initial proceeds of the offering would be invested in securities. Defendant's fees were drawn from Keystone's investment accounts and were reflected on account statements sent to clients.

13. Defendant almost immediately began to use client funds from Keystone to pay his personal expenses. In addition, as the scheme progressed, Defendant transferred approximately \$2.8 million in client funds into illiquid, side pocket investments, which were not the exclusive U.S. equity market investments he promised clients and was well in excess of the 10% limit he had set. Defendant placed his client's monies in these high-risk, side pocket investments contrary to the express direction of his clients or, more commonly, without informing his clients of the investments at all.

14. To conceal his fraudulent scheme, Defendant made available to clients quarterly performance and capital summaries that stated the clients achieved high rates of return when, in truth and in fact, as he then well knew, he was embezzling client funds or losing them in speculative, high-risk side pocket investment trades. To give clients a false sense of security, Defendant agreed to make available balance sheet statements for inspection, and also provided these statements to Keystone accountants that stated all client funds were secure in a custodial Merrill Lynch account when, in truth and in fact, as he then well knew, only fractional amounts were held in this account.

15. Defendant disclosed neither the side pocket investments nor his personal use of client funds to clients at the time they agreed to invest, or at any time. Instead, he concealed and disguised his misuse of these funds. Defendant prepared documents for clients and the Keystone accountant with false information about Keystone and KCM. The fraudulent information Defendant provided to the Keystone accountant resulted in incorrect Schedule K-1 Forms being mailed to clients. This resulted in clients paying taxes to the Internal Revenue Service based on fictitious profits from the Keystone investment.

16. When clients asked Defendant to redeem their investments, Defendant made false and fraudulent representations about the status of their investments to delay and lull them into a false sense of security. At times, Defendant used other client funds to honor redemption requests, without disclosing to clients that he was doing so.

17. Defendant made false and fraudulent representations that induced approximately nineteen of his clients to invest in Keystone, including Jeffrey A., Wilson B., Kevin E., Ron H., Steve H., Jeffrey K., Erik K., David K., Greg & Karen L., Greg S., Reba S., Anthony S., Carl S., Greg S., Jennifer S., Mike S., Jeffrey S., Mike T., and Richard D. For example:

a. Based on Defendant's false and fraudulent misrepresentations, Ron H. invested \$350,000 in Keystone through multiple contributions in 2010. Ron H. invested in Keystone based on Defendant's false representations that he would engage in a low-risk trading strategy that would hold cash overnight instead of in equity positions. Defendant made information available to Ron H. on KCM's website that stated Ron H. had a net return of 7.56% for the fourth quarter in 2010. In truth and in fact, as Defendant then well knew, Keystone had a 3.01% profit in October 2010, a -14.6% loss in November 2010, and a -64.77% loss in December 2010. Based on the information Defendant provided, Ron H. falsely believed that his investment was profitable in 2010, when in fact it had lost approximately half of its value. Based on the fictitious positive returns Defendant reported to Ron H., Ron H. made an additional \$100,000 investment in Keystone in 2011.

b. Based on Defendant's false and fraudulent representations, Anthony S. invested \$229,500 in Keystone on or about November 29, 2010. Defendant falsely reported a positive rate of return on KCM's website for the month of December 2010. Believing the positive rate of return to be true, Anthony S. made a redemption request on or about December

31, 2010, in the amount of \$234,000. In truth and in fact, as Defendant then well knew, the actual performance of Keystone for the month of December 2010 was a loss of -64.77%. To lull Anthony S. into a belief that Keystone was making Anthony S. a positive return, Defendant used funds from other clients to honor Anthony S.'s redemption request. Satisfied with the positive return, Anthony S. reinvested the \$234,000 on or about January 5, 2011. On or about February 15, 2011, Anthony S. made an additional investment of \$49,000.

c. The December 31, 2011 Keystone balance sheet that Defendant provided to the Keystone accountant and made available to clients listed \$7,718,433 in cash and cash equivalents being held at Merrill Lynch. In fact, as he then well knew, the Merrill Lynch account had a balance of \$3,477,486.46 as of December 31, 2011. Defendant listed no other investments on the balance sheet when, as he then well knew, approximately \$1,228,000 was invested in high-risk, illiquid side pocket investments throughout, and held at the close of 2011.

18. As clients became concerned about Defendant's investment in the side pocket investments, Defendant lulled clients into believing that these side pocket investments were soon to be profitable, when he then well knew, the side pocket investments were illiquid and not profitable.

19. Defendant induced approximately 19 clients to invest approximately \$7 million into his hedge fund, resulting in losses to his clients in the amount of approximately \$5.5 million.

COUNT 1  
(Securities Fraud)

20. The allegations contained in paragraphs 1 through 19 of this Indictment are repeated and realleged as if fully set forth herein.

Statutory Violation

21. From in or around October 2009, through in or around September 2013, in the Northern District of Ohio, Eastern Division, and elsewhere, Defendant GEOFFREY W. NEHRENZ unlawfully, willfully, and knowingly, by the use of the means and instrumentalities of interstate commerce and of the mails, directly and indirectly, would and did use and employ, in connection with the purchase and sale of securities, manipulative and deceptive devices and contrivances in contravention of Title 17, Code of Federal Regulations, Section 240.10b-5, by:

- a. employing devices, schemes, and artifices to defraud;
- b. making untrue statements of material facts and omitting to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and
- c. engaging in acts, practices, and courses of business which operated and would operate as a fraud upon clients, in connection with the purchase and sale of the securities in Keystone.

All in violation of Title 15, United States Code, Sections 78j(b) and 78ff, and Title 17, Code of Federal Regulations, Section 240.10b-5.

COUNTS 2 through 4  
(Wire Fraud)

The Grand Jury further charges:

22. The allegations contained in paragraphs 1 through 19 of this Indictment are repeated and realleged as if fully set forth herein.

23. From in or around October 2009, through in or around September 2013, in the Northern District of Ohio, Eastern Division, and elsewhere, Defendant GEOFFREY W. NEHRENZ knowingly devised, and intended to devise, a scheme and artifice to defraud and to

obtain money and property by means of false and fraudulent pretenses, representations, and promises.

24. On or about the dates listed below, in the Northern District of Ohio, Eastern Division, and elsewhere, Defendant, for the purpose of executing and attempting to execute the foregoing scheme and artifice, transmitted, and caused to be transmitted, writings, signs, signals, pictures, and sounds by means of wire and radio communication, in interstate and foreign commerce, to wit: electronic transfers of funds, in the approximate amounts described below, from accounts described below, into PNC Bank accounts for Keystone maintained by Defendant, in Uniontown, Ohio, each transmission constituting a separate count of Wire Fraud:

COUNT	DATE	AMOUNT	TRANSMITTED FROM	TRANSMITTED TO
2	11/23/2011	\$477,792.06	First National Bank of Omaha in Omaha, Nebraska	PNC Bank in Uniontown, Ohio
3	11/30/2011	\$110,307.34	Chase Manhattan Bank in New York, New York	PNC Bank in Uniontown, Ohio
4	12/14/2011	\$313,697.00	Union Bank, N.A. in Los Angeles, California	PNC Bank in Uniontown, Ohio

All in violation of Title 18, United States Code, Sections 1343 and 2.

COUNT 5  
(Mail Fraud)

The Grand Jury further charges:

25. The allegations contained in paragraphs 1 through 19 of this Indictment are repeated and realleged as if fully set forth herein.

26. From in or around October 2009, through in or around September 2013, in the Northern District of Ohio, Eastern Division, and elsewhere, Defendant GEOFFREY W.

NEHRENZ did devise and intend to devise a scheme and artifice to defraud and to obtain money and property by means of false and fraudulent pretenses, representations, and promises.

27. On or about March 27, 2013, in the Northern District of Ohio, Eastern Division, and elsewhere, for the purpose of executing the foregoing scheme and artifice to defraud, and attempting to do so, Defendant did knowingly place and caused to be placed in an authorized depository for mail matter one envelope, containing a Form K-1 for Reba S., to be delivered by mail according to the direction thereon to an address in Uniontown, Ohio.

All in violation of Title 18, United States Code, Sections 1341 and 2.

COUNT 6

(Fraud by an Investment Advisor)

The Grand Jury further charges:

28. The allegations contained in paragraphs 1 through 19 of this Indictment are repeated and realleged as though fully set forth herein.

29. From in or around October 2009, through in or around September 2013, in the Northern District of Ohio, Eastern Division, and elsewhere, Defendant GEOFFREY W. NEHRENZ, acting as an investment adviser with respect to Keystone Active Trader, LLC, in connection with investment advisory services, willfully and knowingly used the mails and other means and instrumentalities of interstate commerce, directly and indirectly, (a) to employ a device, scheme and artifice to defraud a client and prospective client; (b) to engage in a transaction, practice, and course of business which operated as a fraud and deceit upon a client and prospective client; and (c) to engage in an act, practice, and course of business which was fraudulent, deceptive, and manipulative, to wit, Defendant persuaded clients to entrust him with their investment monies by promising to invest their monies in safe investments using conservative strategies when, in fact, he misappropriated client monies, made investments that

were high-risk and speculative, and provided clients with false and fraudulent documentation to conceal his scheme and artifice to defraud.

All in violation of Title 15, United States Code, Sections 80b-6 and 80b-17.

COUNT 7  
(Money Laundering)

The Grand Jury further charges:

30. On or about December 19, 2011, in the Northern District of Ohio, Eastern Division, and elsewhere, Defendant GEOFFREY W. NEHRENZ did knowingly engage and attempt to engage in a monetary transaction, by, through, and to a financial institution, affecting interstate and foreign commerce, in criminally derived property of a value greater than \$10,000, that is, wire transferring \$156,000 from the Keystone Active Trader, LLC account maintained at PNC Bank, account number x6222, to Blackthorn Equity Partners, LLC's account maintained at Guaranty Bank, account number x1482, such property, to wit, the funds drawn from said account number x6222, having been derived from a specified unlawful activity, that is wire fraud, in violation of Title 18, United States Code, Section 1343.

All in violation of Title 18, United States Code, Section 1957.

COUNT 8  
(Money Laundering)

The Grand Jury further charges:

31. On or about December 19, 2011, in the Northern District of Ohio, Eastern Division, and elsewhere, Defendant GEOFFREY W. NEHRENZ did knowingly engage and attempt to engage in a monetary transaction, by, through, and to a financial institution, affecting interstate and foreign commerce, in criminally derived property of a value greater than \$10,000, that is, wire transferring \$84,000 from the Keystone Active Trader, LLC account maintained at

PNC Bank, account number x6222, to Consumer Cash Systems, LLC's account maintained at First Citizens Bank & Trust, account number x7935, such property, to wit, the funds drawn from said account number x6222, having been derived from a specified unlawful activity, that is wire fraud, in violation of Title 18, United States Code, Section 1343.

All in violation of Title 18, United States Code, Section 1957.

Original document - - Signatures on file with the Clerk of Courts, pursuant to the E-Government Act of 2002