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Acting California Corporations Commissioner  
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6

7 Attorneys for Complainant

8 BEFORE THE DEPARTMENT OF CORPORATIONS  
9 OF THE STATE OF CALIFORNIA

11	In the Matter of	)	
12	THE CALIFORNIA CORPORATIONS	)	FILE NO. 137937
13	COMMISSIONER,	)	STATEMENT OF ISSUES IN SUPPORT OF
14	Complainant,	)	NOTICE OF INTENTION TO ISSUE ORDER
15	v.	)	DENYING APPLICATION FOR AN
16	MICHAEL E. STEVENSON,	)	INVESTMENT ADVISER CERTIFICATE
17	Respondent.	)	
18		)	
19		)	
20		)	

21 Wayne Strumpfer, Acting California Corporations Commissioner ("Commissioner") of the  
22 Department of Corporations ("Department") alleges and charges as follows:

23 **I. JURISDICTION AND VENUE**

- 24 1. The COMMISSIONER brings this action pursuant to the provisions of California  
25 Corporations Code section 25232 and the rules and regulations promulgated thereunder.
- 26 2. The Commissioner is authorized to administer and enforce the provisions of the  
27 Corporate Securities Law of 1968, Corporations Code section 25000 et seq. and the regulations  
28 thereunder at Title 10, California Code of Regulations.

**II. STATEMENT OF FACTS**

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2           3.       This action is brought in order to deny a certificate of investment adviser to  
3 Respondent Michael E. Stevenson (“Stevenson”) pursuant to Corporations Code section 25232. At  
4 all relevant times Stevenson was the sole proprietor doing business as Stevenson Investment  
5 Adviser. Stevenson has operated as a sole proprietor doing business as Stevenson Investment  
6 Adviser since August 1978 and is located 27131 Sapphire Street, Menifee, California 92584.

7           4.       On November 18, 2005 the Commissioner issued a Desist and Refrain Order  
8 (“Order”) to Stevenson and one of his companies, M.E. Stevenson, Inc. for the unqualified offer and  
9 sale of securities in an investment club offered in the name of SOCM Enterprises, Inc. by means of  
10 material misrepresentations and omissions, and for acting as an investment adviser without having  
11 first secured a certificate from the Commissioner in violation of the California Corporate Securities  
12 Law sections 25110, 25230, and 25401.

13           5.       Stevenson and the owner of SOCM Enterprises, Inc., Steve O. Cooper, Sr. (“Cooper”)  
14 agreed to form an “investment club” of which Stevenson and Cooper would be co-owners and  
15 agreed that the investment club would be offered in the name of SOCM Enterprises, Inc., and  
16 promised investors returns from the trading of options. Stevenson is the founder and president of  
17 M.E. Stevenson, Inc., and agreed to select and place trades on behalf of the investment club and  
18 provided and charged for investment advice under a “Syndicate Agreement” with Cooper.  
19 Stevenson and Cooper agreed to split the profits earned from Stevenson’s trading of investment club  
20 funds without telling the investors.

21           6.       Prior to the Order being issued to Stevenson, the Commissioner issued a Desist and  
22 Refrain Order to Stevenson’s business partner under the Syndicate Agreement, Steve. O. Cooper, Sr.  
23 for the sale of unqualified securities offered in the name of the same investment club SOCM  
24 Enterprises, Inc.

25           7.       On November 15, 2005, Stevenson filed an application for an investment adviser  
26 certificate with the Department. The application revealed that Stevenson has a history of engaging  
27 in investment adviser activities without a license.

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1           8.       The application shows that Stevenson has provided financial planning services, and  
2 the investments made based on those services at the end of his last fiscal year totaled between  
3 \$100,001 to \$500,000 in securities investments. Stevenson also represented in the application for an  
4 investment adviser certificate that he has managed an income producing portfolio for 18 years and  
5 that he has been a sole proprietor doing business as Stevenson Investment Adviser since August,  
6 1978, although no investment adviser license has been issued to that business by the Commissioner.

7           9.       Stevenson also falsely represented in his investment adviser application that his  
8 business partners Steve O. Cooper, Sr. and SOCM Enterprises, Inc. under the Syndicate Agreement  
9 had not been issued the Desist and Refrain Order by the Commissioner on August 15, 2005.  
10 Specifically, Stevenson falsely represented that no business partners had been found by the  
11 Commissioner to have been involved in a violation of investment-related regulations or statutes, had  
12 not been entered an order in connection with an investment-related activity, and has not been  
13 prevented by order from associating with an investment-related business and whose activity has been  
14 restricted.

15           10.       Stevenson's last filing to the Commissioner for an investment adviser certificate was  
16 on December 13, 2005. At no time did Stevenson ever amend any of his filings to become an  
17 investment adviser to disclose as required the fact that he had been subject to the Commissioner's  
18 Order issued November 18, 2005 and served upon him on December 5, 2005.

19       **III.    STEVENSON SHOULD BE DENIED AN INVESTMENT ADVISER CERTIFICATE**  
20       **PURSUANT TO CORPORATIONS CODE SECTION 25232 FOR ACTS COMMITTED AS**  
21       **SPECIFIED UNDER SUBSECTIONS (d) and (e).**

22           11.       Corporations Code section 25232 provides, in pertinent part:

23                   The commissioner may, after appropriate notice and opportunity for  
24 hearing, by order censure, deny a certificate to, or suspend for a period not  
25 exceeding 12 months or revoke the certificate of, an investment adviser, if  
26 the commissioner finds that the censure, denial, suspension, or revocation is  
27 in the public interest and that the investment adviser, whether prior or  
28 subsequent to becoming such, or any partner, officer or director thereof or  
any person performing similar functions or any person directly or indirectly  
controlling the investment adviser, whether prior or subsequent to becoming  
such, or any employee of the investment adviser while so employed has  
done any of the following:

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(d) Is or has been subject to...(3) any other order of the commission or any administrator, association, or exchange referred to in this subdivision which is or has been necessary for the protection of any investor.

(e) Has willfully violated any provision of . . . Title 4 (commencing with Section 25000)... or of any rule or regulation under any of those statutes, or any order of the commissioner which is or has been necessary for the protection of any investor.

12. Stevenson is subject to a Desist and Refrain Order issued by the Commissioner on November 18, 2005, which is necessary for the protection of investors. Stevenson, therefore, should be denied a certificate as an investment adviser pursuant to Corporations Code section 25232 for acts enumerated under subsection 25232(d)(3).

13. Stevenson has willfully violation provisions of Title 4, commencing with Section 25000, when he unlawfully sold unqualified securities in the investment club in the form of investment contracts in violation of section 25110 of the Corporate Securities Law.

14. Section 25110 of the Corporations Code provides in pertinent part:

It is unlawful for any person to offer or sell in this state any security in an issuer transaction...unless such sale has been qualified...or unless such security or transaction is exempted...

15. Stevenson and Cooper agreed to form a so-called "investment club" of which they would be co-directors. They created agreements for the club by adapting forms they downloaded from the Internet site of a securities broker-dealer and agreed that the investment club would be offered in the name of SOCM Enterprises, Inc. Stevenson and Cooper promised investment club members returns from the trading of options.

16. Interests in the investment club offered by Stevenson are securities in the form of investment contracts. The Department of Corporations has not issued a permit or other form of qualification authorizing the offer or sale of interests in the investment club offered by Stevenson.

17. By offering and selling the interests in the investment club, Stevenson has willfully violated provisions of Title 4, commencing with Section 25000, by unlawfully offering and selling unqualified securities in the form of investment contracts in violation of section 25110 of the Corporate Securities Law. Stevenson, therefore, should be denied a certificate as an investment

1 adviser pursuant to section 25232 of the Corporations Code for acts enumerated under subsection  
2 25232(e).

3 18. Stevenson willfully violated provisions of Title 4, commencing with Section 25000,  
4 when he unlawfully provided and charged investors in the investment club for investment advice,  
5 and when he admitted in his application for an investment adviser certificate to engaging in  
6 investment adviser activities without having first secured a certificate from the Commissioner in  
7 violation of section 25230 of the Corporate Securities Law.

8 19. Section 25009(a) of the Corporations Code defines “investment adviser” and provides  
9 in pertinent part:

10 “Investment adviser” means any person who, for compensation, engages  
11 in the business of advising others, either directly or through publications or  
12 writings, as to the value of securities or as to the advisability of investing in,  
13 purchasing or selling securities....

14 20. Section 25230(a) of the Corporations Code provides in relevant part as follows:

15 It is unlawful for any investment adviser to conduct business as an  
16 investment adviser in this state unless the investment adviser has first  
17 applied for and secured from the commissioner a certificate, then in effect,  
18 authorizing the investment adviser to do so or unless the investment adviser  
19 is exempted by the provisions of Chapter 1 (commencing with Section  
20 25200) of this part or unless the investment adviser is subject to Section  
21 25230.1.

22 21. Stevenson and Cooper agreed that investment funds paid to SOCM Enterprises, Inc.  
23 by club members would be transferred to M.E. Stevenson, Inc. for trading. They agreed that the  
24 option trading would be performed by a “syndicate” comprised of M.E. Stevenson, Inc. and SOCM  
25 Enterprises, Inc., but that Stevenson would be the only person responsible for selecting and placing  
26 trades on behalf of the investment club. Stevenson received compensation for his investment adviser  
27 services to the investment club.

28 22. Further, Stevenson willfully violated provisions of Title 4, commencing with Section  
25000, in statements made to the Commissioner in his application for an Investment Adviser  
Certificate in violation of section 25230 when he admitted to providing financial planning services,  
and that the investments made based on those services at the end of his last fiscal year totaled

1 between \$100,001 to \$500,000 in securities investments. Further, Stevenson has admitted that he  
2 has managed an income producing portfolio for 18 years and that he has been a sole proprietor doing  
3 business as Stevenson Investment Adviser since August, 1978, although no investment adviser  
4 license has been issued to that business by the Commissioner.

5 23. Stevenson has conducted business in California as an investment adviser without  
6 having first applied for and secured a certificate authorizing him to do so. Stevenson willfully  
7 violated provisions of Title 4, commencing with Section 25000, when he engaged in investment  
8 adviser activities for the investment club, and when he disclosed investment adviser activities in his  
9 application for an investment adviser certificate to the Commissioner in violation of section 25230 of  
10 the Corporate Securities Law. Therefore, Stevenson should be denied a certificate as an investment  
11 adviser pursuant to Corporations Code section 25232 for acts enumerated under subsection  
12 25232(e).

13 24. Stevenson willfully violated provisions of Title 4, commencing with Section 25000,  
14 when he unlawfully offered and sold investment club interests by means of misrepresentations and  
15 omissions of material fact in violation of section 25401 of the Corporate Securities Law.

16 25. Section 25401 of the Corporations Code provides in pertinent part:

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18 It is unlawful for any person to offer or sell a security in this state or buy  
19 or offer to buy a security in this state by means of any written or oral  
20 communication which includes an untrue statement of material fact or omits  
21 to state a material fact necessary in order to make the statements made, in  
22 the light of the circumstances under which they were made, not misleading.

23 26. Pursuant to a two-page "Syndicate Agreement" that was signed by Stevenson and  
24 Cooper, Stevenson agreed that any profits that were earned from his trading of options with  
25 investment club funds above the earnings promised to club members would be split equally between  
26 Stevenson's and Cooper's respective corporations. They agreed that every month, each could elect  
27 either to withdraw or reinvest their half of the profits, or any portion of those profits as each  
28 preferred. Investment club members were not informed of the "Syndicate Agreement" or of the fact  
that Stevenson and Cooper had an agreement to split any profits the investment club obtained from  
option trading in excess of members' earnings.

1           27.     Stevenson willfully violated provisions of Title 4, commencing with Section 25000,  
2 when he unlawfully offered and sold investment club interests by means of misrepresentations of  
3 material fact and by means of communications which have omitted material facts necessary in order  
4 to make the statements made, in the light of the circumstances under which they were made, not  
5 misleading, in violation of section 25401 of the Corporate Securities Law. Therefore, Stevenson  
6 should be denied a certificate as an investment adviser pursuant to section 25232 of the Corporations  
7 Code for acts enumerated in subsection 25232(e).

8           28.     Stevenson has willfully violation provisions of Title 4, commencing with Section  
9 25000, when he failed to disclose in his application for an investment adviser certificate the fact that  
10 his business partner had been issued a Desist and Refrain Order and when he failed to amend his  
11 filings to disclose the fact that he had been issued the Order by the Commissioner on November 18,  
12 2005 in violation of section 25166 of the Corporate Securities Law.

13           29.     Corporations Code section 25166 provides in relevant part:

14                     It is unlawful for any person willfully to make any untrue statement of a  
15                     material fact in any application, notice, or report filed with the  
16                     commissioner...or willfully to omit to state in any such application, notice,  
                          or report any material fact which is required to be stated therein.

17           30.     The instructions for the filing of an investment adviser application define “advisory  
18 affiliate” to mean (1) all “officers, partners, or directors (or any person performing similar  
19 functions);” and (2) “all persons directly or indirectly controlling or controlled by [the applicant]...”  
20 Under the Syndicate Agreement, Steve O. Cooper, Sr. and SOCM Enterprises, Inc. were partners of  
21 Stevenson and therefore advisory affiliates who were jointly responsible for the option trading  
22 performed on behalf of the investment club. Therefore, Cooper and SOCM Enterprises, Inc., as  
23 advisory affiliates of Stevenson under the Syndicate Agreement, were required to be disclosed by  
24 Stevenson on his investment adviser application filings. Specifically, Stevenson falsely represented  
25 that no advisory affiliates had every been found to have been involved in a violation of investment-  
26 related regulations or statutes, or that in the past ten years, no order had been entered in connection  
27 with an investment-related activity, or had been prevented by order from associating with an  
28 investment-related business or had activity restricted. The fact of Cooper and SOCM Enterprises,

1 Inc.'s Desist and Refrain Order issued August 15, 2005 is material and is required to be stated in an  
2 application for an investment adviser certificate.

3 31. Once Stevenson had been issued the Order on November 18, 2005 and served on  
4 December 5, 2005, at no time did Stevenson amend his investment adviser application filings to  
5 disclose the fact that the Commissioner had issued him the Order. This fact is material and its  
6 failure to be disclosed is in violation of section 25166 of the Corporations Code.

7 32. Stevenson has willfully violated provisions of Title 4, commencing with Section  
8 25000, by violating section 25166 of the Corporate Securities Law, when he willfully and falsely  
9 stated in his application the material fact that his business partners, Steve O. Cooper, Sr. and SOCM  
10 Enterprises, Inc. under the Syndicate Agreement had not been issued the Desist and Refrain Order  
11 on August 15, 2005. Furthermore, Stevenson willfully violated section 25166 when he failed to  
12 amend his application and willfully omitted to disclose the material fact that he had been issued the  
13 Order on November 18, 2005. Therefore, Stevenson should be denied a certificate as an investment  
14 adviser pursuant to Corporations Code section 25232 for acts enumerated under subsection  
15 25232(e).

16 **IV. RELIEF REQUESTED**

17 WHEREFORE, based upon the foregoing, the Commissioner finds it is in the public interest  
18 to deny an investment adviser certificate to Michael E. Stevenson, pursuant to Corporations Code  
19 section 25232 for willful acts committed as specified in sections 25232 (d) and (e).

20 WHEREFORE, IT IS PRAYED that Respondent Michael E. Stevenson be denied an  
21 investment adviser certificate pursuant to Corporations Code section 25232.

22  
23 Dated: February 21, 2006

WAYNE STRUMPFER  
Acting California Corporations Commissioner

24  
25 By: \_\_\_\_\_  
LINDSAY B. HERRICK  
26 Corporations Counsel  
Enforcement Division  
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