

UNITED STATES DISTRICT COURT  
DISTRICT OF MASSACHUSETTS

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SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

STEPHEN F. CLIFFORD, D/B/A  
CLIFFORD FINANCIAL ASSOCIATES,

Defendant.

Civil Action No.

JURY TRIAL  
DEMANDED

**COMPLAINT**

Plaintiff Securities and Exchange Commission (“Commission”) alleges the following against Defendant Stephen F. Clifford, d/b/a Clifford Financial Associates (“Clifford” or “Defendant”) and hereby demands a jury trial:

**PRELIMINARY STATEMENT**

1. Beginning no later than July, 2004, and continuing to the present, Clifford, under the rubric of Clifford Financial Associates (“CFA”), acquired control over approximately \$2.9 million in investors’ assets, promising easy access to their funds and guaranteed returns to at least one investor. In many instances, the individuals who provided Clifford with funds for investing had initially entrusted him with managing their investments when he was affiliated with one or another Massachusetts-based investment adviser/broker dealer, LPL Financial Corporation (“LPL”), and Investors Capital Corporation (“ICC”). Clifford encouraged these investors to liquidate the holdings they held with LPL and ICC and sign the money over to CFA. At least eight investors gave their savings - totaling approximately \$2.9 million - to Clifford.

2. In winning the investors' business, Clifford did one or more of the following: (1) misrepresented that Clifford and CFA were registered investment advisors, (2) misrepresented that Clifford and CFA were affiliated with registered investment advisers/broker-dealers; (3) guaranteed a minimum return on investments; (4) promised yearly disbursements and then failed to make such payments in at least one year; and (5) falsely assured investors of the safety of their investments.

3. After gaining control over the investors' funds, Clifford produced sporadic statements or reports purporting to show that the investors were earning money on their investments. When investors asked to get their money back, however, Clifford became evasive. As described in part below, some investors found that they could not withdraw or use their money, despite assurances from Clifford that the funds would be available.

4. On June 4, 2008, Clifford was arrested in Connecticut at the request of Massachusetts authorities. He has been charged with the aggravated rape and kidnapping of his girlfriend's 18-year-old daughter. During a police interview subsequent to his arrest, Clifford said he had "f\*\*\*\*d over a lot of people for their money." He went on to specify, "I'm talking three million dollars.... Hear me, that's three million dollars?"

### **JURISDICTION**

5. The Commission seeks a preliminary and permanent injunction and disgorgement as to Clifford pursuant to Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)] and Section 21(d)(1) of the Exchange Act [15 U.S.C. § 78u(d)(1)]. The Commission seeks the imposition of civil monetary penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

6. This Court has jurisdiction over this action pursuant to Sections 20(d) and 22(a) of the Securities Act [15 U.S.C. §§ 77t(d), 77v(a)], Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), 78aa], and Sections 209(3) and 214 of the Advisers Act [15 U.S.C. § 80b-9(d), 80b-14]. Venue is proper in this District because, among other things, all or most of Defendant's wrongful conduct occurred here and most of the defrauded investors live here.

7. In connection with the conduct described in this Complaint, Defendant Clifford directly or indirectly made use of the mails or the means or instruments of transportation or communication in interstate commerce.

8. The Defendant's conduct involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and resulted in substantial loss, or significant risk of substantial loss, to other persons.

### **DEFENDANT**

9. Defendant Stephen F. Clifford ("Clifford"), 56, a resident of Plymouth, Massachusetts, did business under the name "Clifford Financial Associates" ("CFA"), although CFA does not appear to be a legal entity. Clifford (d/b/a CFA) was registered with the Commission as an investment advisor from January, 1993 through May, 1997. Clifford also was associated with two different Massachusetts-based investment advisers/broker-dealers, LPL Financial Corporation ("LPL"), from August, 1990 to March, 2005, and Investors Capital Corporation ("ICC"), from March, 2005 to December 31, 2007. Most of the victims of the scheme alleged herein first entrusted Clifford with their savings while he was associated with one or the other of these firms. As described below, Clifford continued to hold himself out to

prospective investors as a registered investment advisor even after his registrations and associations ended.

### **RELATED PARTIES**

10. Investors Capital Corporation is a Massachusetts corporation with its principal place of business in Lynnfield, Massachusetts. Investors Capital has been dually registered with the Commission as an investment adviser since 2003 (SEC No. 801-62341) and as a broker-dealer since 1992 (SEC No. 8-45054).

11. LPL Financial Corporation is a California corporation with its principal place of business in Boston, Massachusetts. LPL has been dually registered with the Commission as an investment adviser since 1975 (SEC No. 801-10971) and as a broker-dealer since 1973 (SEC No. 8-17668).

### **FACTS**

#### **A. Clifford Lured Investors by Promising Guaranteed Returns, Safe Investments, and Easy Access to Funds**

12. Since at least July, 2004, Clifford has raised approximately \$2.9 million from at least eight investors located primarily in Massachusetts (and one in Florida), including senior citizens who have invested their retirement savings. Clifford had provided several of the investors with financial advisory services when he was affiliated with LPL and/or ICC.

13. Clifford raised these funds primarily by convincing his brokerage clients to transfer their assets to CFA after his LPL and ICC affiliations had ended. Clifford encouraged his clients to liquidate their brokerage accounts at LPL and ICC, and to invest these funds in what Clifford described to some of these investors as a "Custodial Account" or "Special Account"

with CFA, which appears to be a d/b/a for Clifford. The investor checks made payable to Clifford Financial Associates appear to be endorsed by Clifford.

14. To lure his brokerage clients to shift their assets into the Custodial Account, Clifford often represented to investors that he would manage their money by moving it from the Custodial Account into attractive investments and then back into the Custodial Account when he sold off the investments. In one instance, Clifford represented to an investor that the investor's investment would receive a guaranteed rate of return. Clifford told many of the investors that their funds would be "safe" in the Custodial Account and that the funds would be available to them as needed. Clifford described the Custodial Account to one investor as an "annuity."

15. Investors understood that Clifford and CFA were agreeing to manage their funds and they understood Clifford would invest in some type of securities. Investors did not have fee arrangements with Clifford, but several reported that they understood he was being compensated through commissions.

16. In converting their brokerage accounts to an investment with Clifford and CFA, investors typically withdrew funds directly from their brokerage accounts at either ICC or LPL and then wrote a personal check, cashiers check or money order made out to CFA. Clifford appears to have endorsed these checks and money orders and deposited them into a bank. At least eight investors followed this type of process with Clifford, providing him with a total of approximately \$2.9 million in funds.

**B. Investors Entrusted Their Savings to Clifford and Cannot Get Them Back**

17. One investor ("Investor A") from whom Clifford obtained funds for investment knew Clifford because he had been the financial advisor to Investor A's step-father and mother

for many years. When the investor's stepfather died in late 2007, Investor A inherited \$1.5 million in securities which Clifford managed in Investor A's stepfather's account at ICC. Clifford and Investor A agreed that it made financial sense to diversify the holdings in the ICC account, which were heavily concentrated in the stock of one company. Clifford then recommended that Investor A liquidate the ICC account and invest the funds with CFA. Clifford told Investor A that Clifford and CFA could guarantee Investor A a 7% return on the investment. Based on this guarantee, Investor A agreed to the liquidation but believed that Clifford was going to reinvest the inheritance in a different, diversified ICC account for Investor A's benefit. Subsequently, Investor A provided Clifford with a check for \$1,500,000 drawn from his ICC account to be invested consistent with their previous discussions.

18. During some of their meetings in the past year or so, Clifford gave various business cards to Investor A. All of the business cards identify Clifford as a "registered representative" and his firm, Clifford Financial Associates, as a "registered investment advisor." These business cards also had the name of Linsco Private Ledger, which is the same entity as LPL, a registered broker-dealer, in large print at the bottom.

19. Investor A received two account statements from Clifford, for periods ending December 31, 2007 and March 31, 2008, each purporting to show a 7% rate of return on Investor A's investment.

20. In mid-May, 2008, after learning of an inheritance tax bill for approximately \$250,000, Investor A contacted Clifford to withdraw the funds from his ICC account. Before Investor A agreed to invest with him, Clifford had told Investor A that it would not be difficult to get money if he needed it, and would take about two weeks. In mid-May, Investor A made

several attempts to reach Clifford by telephone in order to request the funds to pay the tax liability that was due no later than June 9, 2007. Investor A left messages at Clifford's phone number, but did not receive any return calls from Clifford. Clifford sent Investor A an email message on May 27, 2008, promising him the money by June 9, 2008. Despite Clifford's promise, the money was not paid, and Investor A has been unable to contact Clifford since the June 9 deadline.

21. Another investor ("Investor B") and her husband entrusted all of their investments to Clifford over ten years ago. Clifford represented himself to Investor B as a registered investment advisor affiliated with LPL. For years, Investor B and her husband converted their annuity payment checks into cashier's checks made out to Clifford and CFA, understanding that he would invest the money on their behalf.

22. In or about March 2003, Investor B asked Clifford to give her some of her money so she could pay off her son's home mortgage. Clifford persuaded Investor B that rather than pay off the entire mortgage it made more investing sense for Investor B to make her son's monthly mortgage payment. Investor B reluctantly agreed with Clifford's recommendation and Clifford set up a payment plan for the monthly payment.

23. In or about February, 2005, Investor B again told Clifford that she wanted to pay her son's mortgage in full. On this occasion, Clifford agreed and liquidated Investor B's LPL account and Investor B received a check from LPL for approximately \$168,000. At Clifford's recommendation, Investor B paid off her son's mortgage, then reinvested the remaining funds (\$80,000) with CFA. Investor B understood that Clifford would re-invest the \$80,000 for her benefit.

24. Investor B received no account statements from CFA during the time her funds were invested there. Her most recent account statements date from July and August, 1999, and are from LPL. In about December, 2007, Investor B got a letter from Clifford saying that she and her husband held approximately \$72,000 in an annuity, as well as \$746,000 invested with CFA.

25. In or about April, 2008, Investor B contacted Clifford and told him that she wanted to withdraw some of the money she had invested with Clifford in order to make a gift to each of her four children. Clifford first tried to convince Investor B to delay making the withdrawal until 2009, but when Investor B insisted that he comply with her requests, Clifford refused and told her that her money was “where no one would be able to find it.” After that discussion, Investor B consulted a lawyer, who sent a letter to Clifford on her behalf. Despite repeated attempts by telephone, Investor B and her counsel have been unable to contact Clifford since sending the letter.

**C. Clifford’s Arrest on June 4 and his Post-Arrest Statements**

26. On June 4, 2008, a Massachusetts court issued a warrant for Clifford’s arrest in connection with the alleged kidnapping and rape of his girlfriend’s 18-year-old daughter. Clifford was arrested by Connecticut State Police at Foxwoods Resort & Casino.

27. Detectives from Bourne, Massachusetts, where the alleged sexual assault had occurred, interviewed Clifford at the Connecticut State Police barracks. During the interview, according to the detective who interviewed Clifford, Clifford stated, “I f\*\*\*\*d over a lot of people for their money. . . . I’m talking three million dollars. . . . Hear me, that’s three million dollars.” According to the detective who interviewed Clifford, Clifford also said that his theft of client funds was going to catch up with him and that he had no more money. The same detective

also reported that Bourne Police found over \$20,000 in cash at the scene of the alleged rape, along with a note to the alleged victim's mother reading, in part, "Do not tell anyone about this money." (Emphasis original.)

### **FIRST CLAIM**

#### **Fraud in the Purchase or Sale of Securities in Violation of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder**

28. Plaintiff Commission repeats and realleges paragraphs 1 through 27 above.

29. By engaging in the conduct described above, Defendant Clifford, directly or indirectly, acting knowingly or recklessly, in connection with the purchase or sale of securities, by the use of means and instrumentalities of interstate commerce, or of the mails, or a facility of a national securities exchange: (a) has employed or is employing devices, schemes or artifices to defraud; (b) has made or is making untrue statements of material fact or has omitted or is omitting to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading; and (c) has engaged or is engaging in acts, practices or courses of business which operate as a fraud or deceit upon certain persons.

30. By engaging in the conduct described above, Defendant Clifford violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder.

### **SECOND CLAIM**

#### **Fraud in the Offer or Sale of Securities in Violation of Section 17(a) of the Securities Act**

31. Plaintiff Commission repeats and realleges paragraphs 1 through 27 above.

32. By engaging in the conduct described above, Defendant Clifford, directly and indirectly, in the offer or sale of securities by the use of the means or instruments of transportation or communication in interstate commerce or by the use of the mails: (a) acting knowingly or recklessly, has employed or is employing devices, schemes or artifices to defraud; (b) has obtained or is obtaining money or property by means of untrue statements of material fact or omissions to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) has engaged or is engaging in transactions, practices or courses of business which operate as a fraud or deceit upon purchasers of the securities.

33. By engaging in the conduct described above, Defendant Clifford violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

### **THIRD CLAIM**

#### **Fraud by An Investment Adviser in Violation of Sections 206(1) and (2) of the Advisers Act**

34. Plaintiff Commission repeats and realleges paragraphs 1 through 27 above.

35. Clifford was an “investment adviser” within the meaning of Section 202(a)(11) of the Advisers Act [15 U.S.C. § 80b-2(a)(11)].

36. By engaging in the conduct described above, Defendant Clifford, by use of the mails or any means or instrumentality of interstate commerce, directly or indirectly, acting intentionally, knowingly or recklessly: (a) has employed or is employing devices, schemes, or artifices to defraud; or (b) has engaged or is engaging in transactions, practices, or courses of business which operate as a fraud or deceit upon a client or prospective client.

37. By engaging in the conduct described above, Defendant Clifford violated Sections 206(1) and (2) of the Advisers Act [15 U.S.C. §§ 80b-6(1), (2)].

**PRAYER FOR RELIEF**

WHEREFORE, the Commission requests that this Court:

A. Enter a preliminary injunction, order freezing assets and order for other equitable relief in the form submitted with the Commission's motion for such relief;

B. Enter a permanent injunction restraining Defendant and each of his agents, servants, employees and attorneys and those persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, including facsimile transmission or overnight delivery service, from directly or indirectly engaging in the conduct described above, or in conduct of similar purport and effect, in violation of:

1. Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5]; and
2. Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

C. Enter a permanent injunction restraining Defendant and each of his agents, servants, employees and attorneys and those persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, including facsimile transmission or overnight delivery service, from directly or indirectly engaging in the conduct described above, or in conduct of similar purport and effect, in violation of Sections 206(1) and (2) of the Advisers Act [15 U.S.C. § 80b-6(1), (2)];

D. Require Defendant to disgorge his ill-gotten gains and losses avoided, plus pre-judgment interest, with said monies to be distributed in accordance with a plan of distribution to be ordered by the Court;

E. Order Defendant to pay an appropriate civil monetary penalty pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)];

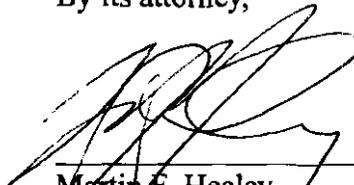
F. Retain jurisdiction over this action to implement and carry out the terms of all orders and decrees that may be entered; and

G. Award such other and further relief as the Court deems just and proper.

Respectfully submitted,

**SECURITIES AND EXCHANGE  
COMMISSION,**

By its attorney,



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