

INITIAL DECISION RELEASE NO. 648
ADMINISTRATIVE PROCEEDING
FILE NO. 3-15408

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

In the Matter of : INITIAL DECISION ON DEFAULT
: August 5, 2014
JOEL I. WILSON :

APPEARANCES: John E. Birkenheier and Tracy W. Lo, Division of
Enforcement, Securities and Exchange Commission

BEFORE: Brenda P. Murray, Chief Administrative Law Judge

Background

The Securities and Exchange Commission (Commission) issued an Order Instituting Proceedings (OIP) on August 6, 2013, alleging that in SEC v. Wilson, No. 1:12-cv-15062 (E.D. Mich. July 26, 2013), Joel I. Wilson (Wilson) was enjoined from future violations of Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933 (Securities Act); Sections 10(b) and 13(a) of the Securities Exchange Act of 1934 (Exchange Act) and Exchange Act Rules 10b-5, 12b-20, 13a-1, 13a-13, and 13a-14; and Section 206(4) of the Investment Advisers Act of 1940 (Advisers Act) and Advisers Act Rule 206(4)-8. The OIP also alleges that the District Court: (1) ordered Wilson to disgorge \$6,403,580 plus \$290,319 of prejudgment interest, and pay a civil penalty of \$7,500; and (2) barred Wilson from acting as an officer or director of any issuer which has a class of registered securities or which is required to file reports, pursuant to, respectively, Sections 12 or 15(d) of the Exchange Act.

I postponed the hearing and numerous prehearing conferences between August 2013 and June 16, 2014, because the Division of Enforcement (Division) could not locate Wilson for service of the OIP. Wilson was personally served with the OIP on May 15, 2014. According to the Division, the State of Michigan Attorney General's Office brought criminal charges against Wilson subsequent to the OIP and succeeded in having him arrested and extradited from Germany to Michigan, where he was served with the OIP. The Division's previous efforts to serve Wilson with the OIP in Germany had been unsuccessful. See, e.g., Joel I. Wilson, Admin. Proc. Rulings Release No. 1220, 2014 SEC LEXIS 449 (Feb. 6, 2014).

I issued an Order Postponing Prehearing Conference on May 16, 2014, setting a telephonic prehearing conference for June 16, 2014, and stating that I would find Wilson in default if he failed to appear, failed to answer the OIP, or failed to otherwise defend the proceeding. See Joel I. Wilson, Admin. Proc. Rulings Release No. 1441, 2014 SEC LEXIS 1683; see also OIP at 3; 17 C.F.R. §§ 201.155(a), .220(f), .221(f).

Wilson did not appear at the June 16, 2014, prehearing conference, did not file an Answer, and has not otherwise defended the proceeding, and while he was in default, out of an abundance of caution, I requested that the Division file a motion for default, which it did on July 2, 2014. See Joel I. Wilson, Admin. Proc. Ruling Release No. 1530, 2014 SEC LEXIS 2088 (June 17, 2014); see also Richard Kern, Exchange Act Release No. 51115 (Feb. 1, 2005), 84 SEC Docket 2923; David Mura, Exchange Act Release No. 72080, 2014 SEC LEXIS 1530 (May 2, 2014). I allowed Wilson to file an opposition to the Division's motion by August 4, 2014, which he has declined to do. See id. I find Wilson is in default and the allegations in the OIP to be true as to him. 17 C.F.R. §§ 201.155(a), .220(f), .221(f). I take official notice of the filings in the District Court docket from SEC v. Wilson. 17 C.F.R. § 201.323.

Findings of Fact

From May 2007 through May 2009, Wilson worked as a registered representative at Signator Investors, Inc., and from June 2009 through January 2010, he was employed as a registered representative at Chelsea Financial Services. OIP at 1. From 2009 through at least 2012, Wilson owned and controlled Diversified Group Partnership Management (Diversified Group) and American Realty Funds Corporation (American Realty), a publicly traded company. Complaint at 1, 3, SEC v. Wilson (Nov. 15, 2012), Electronic Case File (ECF) No. 1 (Complaint). Wilson also owned and operated W R Rice Financial Services, Inc., a registered broker-dealer, from November 2010 through November 2012, and he was an investment adviser representative for the Diversified Group Advisory Firm, a Michigan-registered investment adviser, from March 2010 through November 2012. OIP at 2. Wilson held Series 6, 7, 24, 53, 63, and 65 securities licenses from FINRA. OIP at 2; Complaint at 4.

On November 15, 2012, the Commission filed a nine-count Complaint in the U.S. District Court for the Eastern District of Michigan, alleging that from 2009 through the filing of the Complaint, Wilson, a resident of Saginaw, Michigan, acting through companies he owned and controlled, obtained funds from investors through the purchase and sale of securities by employing fraud and deceptive measures. Complaint at 1-3.

The Complaint alleged that from September 2009 through October 2012, Wilson personally and through persons working for him raised approximately \$6.7 million from approximately 120 residents of Michigan and Indiana who invested in unregistered securities offerings issued by Diversified Group. Complaint at 2, 6. Wilson engaged in a scheme to defraud investors by making multiple misrepresentations and omissions of material facts about the use of investor funds and the risk and profitability of the investments. OIP at 2. Several persons invested a significant portion of their retirement savings in these unregistered securities. Complaint at 7. Among the numerous violations, (1) Wilson used investor funds to make unsecured loans to his companies inconsistent with what he told investors; (2) Wilson's real

estate business earned insufficient income to pay investors their interest and principal as promised; (3) new investor funds were being used to pay interest to previous investors; (4) investors received account statements falsely reflecting that the real estate business was successful; and (5) Wilson used investor funds to make unauthorized purchases. OIP at 2; Complaint at 2, 10-13. Wilson prepared brochures and directed others to provide information to make investors believe their investments were guaranteed. Complaint at 9. In addition, American Realty made several misrepresentations in Commission filings, which were signed by Wilson. Complaint at 16-18, 22-24.

On July 26, 2013, a second amended final judgment was entered against Wilson, permanently enjoining him from future violations of Sections 5(a), 5(c), and 17(a) of the Securities Act, Sections 10(b) and 13(a) of the Exchange Act and Rules 10b-5, 12b-20, 13a-1, 13a-13, and 13a-14 thereunder, and Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder; and permanently enjoining Wilson from aiding and abetting any violation of Section 13(a) of the Exchange Act and Exchange Act Rules 13a-1 and 13a-13 in SEC v. Wilson. Second Amend. Final Judgment, SEC v. Wilson, ECF. No. 88 (Amended Final Judgment). The Court ordered Wilson to disgorge \$6,403,580 plus \$290,319 of pre-judgment interest and to pay a civil penalty of \$7,500. Id. at 8. Wilson was also barred from acting as an officer or director of any issuer which has a class of securities registered pursuant to Section 12 of the Exchange Act or which is required to file reports pursuant to Section 15(d) of the Exchange Act. Id.

Conclusions of Law

This proceeding was instituted pursuant to Section 15(b) of the Exchange Act and Section 203(f) of the Advisers Act, which empower the Commission, when it is in the public interest, to take certain actions where a person enjoined from violations of provisions of the federal securities statutes was associated with a broker-dealer or an investment adviser, respectively, at the time of the misconduct. The criteria for making a public interest determination are:

[T]he egregiousness of the defendant's actions, the isolated or recurrent nature of the infraction, the degree of scienter involved, the sincerity of the defendant's assurances against future violations, the defendant's recognition of the wrongful nature of his conduct, and the likelihood that the defendant's occupation will present opportunities for future violations.

Steadman v. SEC, 603 F.2d 1126, 1140 (5th Cir. 1979), aff'd on other grounds, 450 U.S. 91 (1981) (quoting SEC v. Blatt, 583 F.2d 1325, 1334 n.29 (5th Cir. 1978)). See Donald T. Sheldon, 51 S.E.C. 59, 86 (1992), aff'd, 45 F.3d 1515 (11th Cir. 1995); Joseph J. Barbato, 53 S.E.C. 1259, 1281 n.39 (Feb. 10, 1999). The Commission has determined that it is necessary to articulate with specificity why the facts and circumstances of the particular case warrant an industry-wide bar. Ross Mandell, Exchange Act Release No. 71668, 2014 WL 907416 (Mar. 7, 2014).

I find an industry-wide bar, preventing Wilson from participating in the securities industry and from participating in any penny stock offering, to be necessary and appropriate to protect the public for the following reasons.

Egregiousness and Recurrence of Wilson's Actions

Wilson was ordered to disgorge approximately \$6.4 million, representing ill-gotten gains, as a result of fraudulent actions over a three-year period that caused approximately 120 investors, many of whom used the proceeds from the sale of their annuities or IRA investments, and for some a significant portion of their retirement funds, to purchase unregistered securities. Violations of the antifraud provisions of the securities acts are especially serious and merit the severest of sanctions. Vladimir Boris Burgarski, Exchange Act Release No. 66842 (April 20, 2012), 103 SEC Docket 53374, 53381 (quoting Marshall E. Melton, 53 S.E.C. 695, 713 (2003)). Wilson used at least \$582,000 of investor funds for his personal use.¹ Wilson distributed monthly statements to investors that contained false information. He has admitted that the signatures on certain offering documents that his staff provided to FINRA appear to be fabricated.

Degree of Scierter Involved

The basis for the injunction is, in part, based on the commission of violations that require a showing of scienter. Wilson's six securities licenses, which indicate an understanding of the laws and regulations that govern the conduct of securities markets, evince that his knowing and intentional violations of the securities laws were performed with high culpability.

Recognition of Wrongful Conduct

Wilson has not defended his conduct before the District Court or in this administrative proceeding. By not participating, Wilson forfeited his opportunity to admit to wrongdoing and to provide assurances that illegal activity would not continue if he were allowed to continue to participate in the securities industry.

Likelihood of Opportunities for Future Wrongdoing

There is nothing in the record that provides any assurance that Wilson, age thirty-one when the OIP was issued, would not repeat his prior conduct if given an opportunity to do so.

Order

I ORDER, pursuant to Section 15(b) of the Securities Exchange Act of 1934 and Section 203(f) of the Investment Advisers Act of 1940, that Joel I. Wilson is BARRED from associating with a broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization, and from participating in an offering of penny stock, including acting as any promoter, finder, consultant, agent, or other person who engages in activities with a broker, dealer, or issuer for purposes of the issuance or trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock.

¹ The Court's Amended Final Judgment entered by default states that its findings are based on the Commission's Complaint and other filings. Most of the facts are from the Complaint.

This Initial Decision shall become effective in accordance with and subject to the provisions of Rule 360. See 17 C.F.R. § 201.360. Pursuant to that Rule, a party may file a petition for review of this Initial Decision within twenty-one days after service of the Initial Decision. A party may also file a motion to correct a manifest error of fact within ten days of the Initial Decision, pursuant to Rule 111. See 17 C.F.R. § 201.111. If a motion to correct a manifest error of fact is filed by a party, then that party shall have twenty-one days to file a petition for review from the date of the undersigned's order resolving such motion to correct a manifest error of fact.

The Initial Decision will not become final until the Commission enters an order of finality. The Commission will enter an order of finality unless a party files a petition for review or motion to correct a manifest error of fact or the Commission determines on its own initiative to review the Initial Decision as to a party. If any of these events occurs, the Initial Decision shall not become final as to that party. In addition, a respondent has the right to file a motion to set aside a default within a reasonable time, stating the reasons for the failure to appear or defend, and specifying the nature of the proposed defense. 17 C.F.R. § 201.155(b). The Commission can set aside a default at any time for good cause. Id.; see Alchemy Ventures, Inc., Exchange Act Release No. 70708, 2013 SEC LEXIS 3459, at *5-6 (Oct. 7, 2013).

Brenda P. Murray
Chief Administrative Law Judge