

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 65151 / August 17, 2011

ADMINISTRATIVE PROCEEDING
File No. 3-14069

In the Matter of

**Timothy M. Gautney, Robert
A. Bellia, Jr., and Erik S. Blum,**

Respondents.

**ORDER MAKING FINDINGS AND
IMPOSING REMEDIAL SANCTIONS
PURSUANT TO SECTION 15(b)(6) OF THE
SECURITIES EXCHANGE ACT OF 1934 AS
TO ERIK S. BLUM**

I.

On September 27, 2010, the Securities and Exchange Commission (“Commission”) initiated proceedings pursuant to Section 15(b)(6) of the Securities Exchange Act of 1934 (“Exchange Act”) against Erik S. Blum (“Blum” or “Respondent”).

II.

Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Making Findings and Imposing Remedial Sanctions Pursuant to Section 15(b)(6) of the Securities Exchange Act of 1934 as to Erik S. Blum, as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

¹ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

1. These proceedings arise out of an investigation into the churning activities of registered representatives (“RRs”) affiliated with Aura Financial Services, Inc. (“Aura”). Aura was a Birmingham, Alabama-based corporation which was registered with the Commission as a broker-dealer from February 1997 until February 2010.

2. Erik S. Blum, 44, of Boca Raton, Florida, was registered with Aura from August 2006 until August 2009, and served as the manager of its Miami branch office, formerly located in West Palm Beach, Florida. He has worked in the securities business since 1987.

3. Between at least January 2008 and December 2008 in Aura’s former Miami, Florida branch office, a former RR largely depleted the funds in two of his customers’ accounts through improper churning.² Blum was responsible for supervising this RR.

4. Two metrics are commonly used to determine whether an account has been churned: the account’s “annualized turnover ratio” and its “cost to equity ratio,” which is also known as its “break even percentage.” An annualized turnover ratio is the number of times per year a customer’s securities are replaced by new securities. It is calculated by determining the aggregate amount of purchases in an account over a given period, calculating the ratio of those aggregate purchases to the account’s average net equity during that period, and then annualizing that ratio. A turnover rate that exceeds six is presumptive of churning. A cost to equity ratio or break even analysis determines the rate of return that an account has to earn on an annual basis just to cover transaction costs, and thus “break even.” Trading practices that require an account to earn returns in excess of 20% just to break even are indicative of possible churning.

5. The RR supervised by Blum churned the accounts of two Aura customers in violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. These customers had annualized turnover rates, as reflected in quarterly reports sent to Blum, of 6 to 54 and cost to equity ratios of 14% to 54%.

6. These two customers opened and funded their accounts after being cold-called by, or otherwise introduced to, the RR. They had their accounts aggressively traded, though neither indicated to Aura an investment objective or risk tolerance supporting that trading. Neither customer had an understanding of the total transaction costs they were incurring by trading through Aura.

² Churning is the excessive buying and selling of securities in a customer’s account by a broker, for the purpose of generating commissions and without regard to the customer’s investment objectives or interest or with the intent to defraud. For churning to occur, the broker must exercise control over the investment decisions in the account, either through a formal written discretionary agreement or otherwise, such as through the customer routinely accepting the broker’s recommendations without question.

7. Aura's Written Supervisory Procedures ("WSP"), dated 2007-2008, and in effect during the time of the churning by the RR, stated, among other things, that a turnover ratio greater than six:

warrant[s] immediate attention and further review of a larger sample size, if applicable. The D[esignated] P[rincipal] should take immediate steps to determine that such trading activity is acceptable to the customer (acknowledgment by customer in writing may be sought), and conforms to the customer's objectives. Otherwise, steps may be taken to close the trading activity in the customer's accounts.

8. At least each quarter, Aura's Compliance Department provided Blum with excerpts of a report containing annualized turnover ratios, break even ratios, and other account metrics for the largest commission producing accounts from their branch. Aura's active account letter procedure, which was unwritten, required Blum to send such letters to all customers whose accounts had turnover ratios greater than six.

9. The active account letters, entitled "Intent to Maintain Active Account," did not explain why Aura was sending the letters to the customers and they were not sent along with cover letters. The body of the form letters did not identify the respective accounts as actively traded or that they had recently shown a certain number of trades or a certain amount of turnover, but stated that "certain clients may wish to engage in more frequent trading in their accounts." The letters included a general disclosure of the risks associated with "frequent" trading and numerous blanks for the customer to complete concerning numbers of trades over the past year, anticipated trades in the future year, investment objective, risk exposure, and other financial information. After the customer filled in the blanks, the firm's procedure contemplated that the customer would sign the letter and return it to the Aura branch where his account was located.

10. Blum failed reasonably to supervise the RR, from January 2008 through December 2008 while he was registered with Aura and subject to Blum's supervision in Aura's Miami, Florida branch office. The level of trading in the accounts churned by the RR was high enough to warrant increased review and customer contact. As reflected in the quarterly reports for 2008 sent to Blum, the RR's two victims had annualized turnover rates of 6 to 54 and cost to equity ratios of 14% to 54%.³

11. With each successive quarter of 2008, the RR's victims' turnover rates and cost to equity ratios increased in value. One of his victims appeared on the report sent to Blum in the first quarter with a turnover rate of 6 and a cost to equity ratio of 14%. In the second quarter, that victim's turnover rate increased to 33 and his cost to equity ratio increased to 23%. The RR's second churning victim appeared on the report with a turnover rate of 7 and a cost to equity ratio of 19%. In the third quarter, these victims appeared on the report with turnover rates of 41 and 9 and cost to equity ratios of 36% and 32%, respectively. By the fourth quarter, one victim had a

³ Aura's WSPs provided, among other things, that an account with a turnover ratio greater than two and less than or equal to six "warrants further review."

turnover rate of 54 and cost to equity ratio of 54%. The turnover rate for the second victim was blank on this report although his cost to equity ratio was shown as 43%.

12. The high levels of trading were repeatedly brought to Blum's attention and Blum sent out active account letters after receiving the quarterly compliance reports indicating high levels of trading. During his investigative testimony, Blum conceded that sometimes the letters were signed and returned by the customers without the customers' having provided the information requested in the letters. In those cases, the RR would contact the customer and complete the form based on the information provided by the customer. The two customers whose accounts were churned told the staff that they did not fill out the information contained in the active account letters and one of these customers did not recall receiving the letter and questioned whether he actually signed the letter.

13. Blum treated the active account letter as a "negative response letter." In effect, Blum expected the letter to be returned if the customer had a problem with the account. If the letters were not returned or were missing information, his practice was not to contact customers himself. Instead, Blum left it to the RRs to follow-up with their customers. Blum failed to take any steps to modify his practice in the face of repeated red flags of excessive trading in the RRs customers' accounts.

14. The RR supervised by Blum was the subject of complaints that would have reinforced the need to contact customers, where unusual trading was apparent. The RR's history at the time the Commission filed its complaint showed two pending customer complaints: One complaint filed in June 2008 cited unauthorized trading. A second complaint filed in September 2008 alleged \$150,000 in damages for not following customer instructions.

15. If Blum had reasonably followed-up on the red flags of high trading in the accounts of the RR, it is likely that he would have prevented or detected the RR's violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

16. As a result of the conduct described above, Blum failed reasonably to supervise the RR within the meaning of Section 15(b)(4)(E) of the Exchange Act, as incorporated by reference in Section 15(b)(6) of the Exchange Act.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent Blum's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 15(b)(6) of the Exchange Act, Blum shall be, and hereby is barred from association in a supervisory capacity with any broker, dealer, investment adviser, municipal securities dealer, or transfer agent, with the right to reapply for association after two (2) years to the appropriate self-regulatory organization, or if there is none, to the Commission.

Any application for permission to engage in a supervisory capacity by Blum will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against Blum, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

B. Blum shall pay disgorgement of \$4,753, prejudgment interest of \$355.47 and a civil penalty of \$10,000 to the Commission. Payment shall be made in the following installments: \$419.68 a month for 36 months. Payment is due on the 15th of each month. The first payment will be made within 21 days of the date of this Order. If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of disgorgement and prejudgment interest, plus any additional interest accrued pursuant to SEC Rule of Practice 600 and 31 U.S.C. § 3717, shall be due and payable immediately, without further application. Payments shall be: (A) made by wire transfer, United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Accounts Receivable, Securities and Exchange Commission, 100 F Street N.E., Mail Stop 6042, Washington, DC 20549; and (D) submitted under cover letter that identifies Blum as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Kristin B. Wilhelm, Division of Enforcement, Securities and Exchange Commission, 3475 Lenox Road N.E., Suite 500, Atlanta, Georgia 30326-1232.

By the Commission.

Elizabeth M. Murphy
Secretary