

UNITED STATES OF AMERICA
before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933

Release No. 9687 / December 10, 2014

SECURITIES EXCHANGE ACT OF 1934

Release No. 73803 / December 10, 2014

INVESTMENT ADVISERS ACT OF 1940

Release No. 3977 / December 10, 2014

INVESTMENT COMPANY ACT OF 1940

Release No. 31368 / December 10, 2014

ADMINISTRATIVE PROCEEDING

File No. 3-16312

In the Matter of

SCOTT M. STEPHAN,

Respondent.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 8A OF THE SECURITIES ACT
OF 1933, SECTIONS 15(b) AND 21C OF
THE SECURITIES EXCHANGE ACT OF
1934, SECTIONS 203(f) AND 203(k) OF
THE INVESTMENT ADVISERS ACT OF
1940, AND SECTION 9(b) OF THE
INVESTMENT COMPANY ACT OF
1940, MAKING FINDINGS, AND
IMPOSING REMEDIAL SANCTIONS
AND A CEASE-AND-DESIST ORDER
AND NOTICE OF HEARING**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”), and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”) against Scott M. Stephan (“Respondent” or “Stephan”).

II.

In anticipation of the institution of these proceedings, 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 Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Sections 15(b) and 21C of the Securities Exchange Act of 1934, Sections 203(f) and 203(k) of the Investment Advisers Act of 1940, and Section 9(b) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order and Notice of Hearing (“Order”), as set forth below.

III.

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

A. SUMMARY

1. This case involves misconduct by Scott M. Stephan, joint owner of Prestige Wealth Management, LLC (“Prestige” or “General Partner”), an unregistered investment adviser to a hedge fund called Prestige Wealth Management Fund, LP (“Prestige Fund” or the “Fund”). Stephan made false and misleading statements in connection with the Prestige Fund, for which Stephan was the portfolio manager.

2. In 2007, Stephan began working for his longtime friend, Timothy S. Dembski (“Dembski”), and Dembski’s business partner, Walter F. Grenda, Jr. (“Grenda”). At the time, Dembski and Grenda jointly owned Reliance Financial Group (“Reliance Group”), which was a then-Buffalo, New York based unregistered investment adviser. As joint owners of Reliance Group, Dembski and Grenda made investment recommendations to clients they had in the Buffalo area.

3. Prior to working for Dembski and Grenda, Stephan had no professional experience trading securities, making investment decisions, or managing investment portfolios. Dembski and Grenda initially hired Stephan primarily to help the two market Reliance Group’s investment advisory services to prospective clients.

4. Starting in late 2010, Dembski and Grenda undertook efforts to form a registered investment adviser entity. On January 21, 2011, Reliance Financial Advisors, LLC (“Reliance Financial”) became registered with the Commission as an investment adviser. At all relevant times, Dembski and Grenda jointly owned Reliance Financial.

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.

5. Around the same time in 2010 and 2011, Stephan, along with Dembski, founded Prestige and the Prestige Fund. The Prestige Fund's trading strategy was described to prospective investors as being fully-automated with all trades being made according to, and by, a computer algorithm (the "Algorithm"). Stephan created the Algorithm.

6. Dembski and Grenda, often with Stephan's assistance, marketed the Prestige Fund to potential investors. Dembski and Grenda sold interests in the Prestige Fund exclusively to long-standing clients of their investment advisory services at Reliance Group and Reliance Financial—and with respect to Dembski, also to clients of his for whom he prepared their tax returns and filings. As Dembski and Grenda understood from advising these advisory and tax clients over the years, most of them were retired or near retirement, on fixed incomes, and lacked investment acumen.

7. As Stephan knew or recklessly disregarded, the Prestige Fund was a highly speculative, risky investment. Also, neither Stephan nor Dembski had any experience in managing a hedge fund and, Stephan had virtually no investing experience at all.

8. Nonetheless, Stephan knowingly or recklessly made false and misleading statements to Dembski's and Grenda's advisory clients (and others) in order to create the false appearance that an investment in the Prestige Fund was less risky than it was. Stephan:

- a. Drafted a biography for the Prestige Fund's private placement memorandum ("PPM") that misrepresented his experience in the securities industry; and
- b. Deceptively failed to inform investors that he turned off the Algorithm in the Prestige Fund and instead began to make investment decisions himself and manually placing trades in contravention to representations made about the Prestige Fund's automated trading strategy.

9. Ultimately Dembski's clients (19 of them) invested approximately \$4 million collectively in the Prestige Fund and Grenda's clients (23 of them) invested approximately \$8 million collectively in the Prestige Fund. The Prestige Fund started trading in April 2011.

10. In December 2012, the Prestige Fund collapsed, losing approximately 80% of its value. The Prestige Fund collapsed as a direct result of Stephan placing manual trades in direct contravention to the automated trading strategy sold to investors.

B. RESPONDENT

11. **Scott M. Stephan**, age 40, resides in Hamburg, New York. Stephan co-founded the Prestige Fund and its General Partner, Prestige, in early 2011 and was the Fund's Chief Investment Officer and sole portfolio manager. Prior to founding the Prestige Fund, Stephan worked at the Reliance Group. In addition, from approximately June 2009 through March 2011, Stephan was a registered representative associated with a registered broker-dealer ("BD1").

C. OTHER RELEVANT PEOPLE AND ENTITIES

12. **Timothy S. Dembski**, age 42, resides in Lancaster, New York. In January 2011, Dembski co-founded and was Managing Partner at Reliance Financial, an investment adviser registered with the Commission. Also in early 2011, Dembski co-founded the Prestige Fund and its General Partner, Prestige. Prior to founding Reliance Financial and the Prestige Fund, Dembski provided investment advisory services to individual clients in his role at Reliance Group. In addition, from approximately October 2006 through March 2011, Dembski was a registered representative associated with BD1. From approximately September 2011 to July 2013, Dembski was a registered representative with another registered broker-dealer (“BD2”).

13. **Walter F. Grenda, Jr.**, age 57, resides in Buffalo, New York. In January 2011, Grenda co-founded and was Managing Partner at Reliance Financial, an investment adviser registered with the Commission. Prior to founding Reliance Financial, Grenda provided investment advisory services to individual clients in his role at Reliance Group. In addition, Grenda was a registered representative with BD1 from approximately October 2006 through March 2011 and with BD2 from approximately September 2011 through July 2013.

14. **Prestige Wealth Management Fund, LP**, was a private investment fund under the Investment Company Act and organized as a limited partnership under Delaware law on November 19, 2010.

15. **Prestige Wealth Management, LLC**, was a limited liability company organized in Delaware on November 12, 2010, and adviser to the Prestige Fund. Dembski and Stephan were the sole members of Prestige (which served as the General Partner to the Prestige Fund), each owning 50%. Prestige charged the Prestige Fund a 2% management fee and a 20% performance fee on an annualized basis. Prestige was not registered with the Commission.

16. **Reliance Financial Advisors, LLC** is was a Buffalo-based investment adviser that registered with the Commission in January 2011. Dembski and Grenda founded and, at all relevant times, jointly owned Reliance Financial.

17. **Reliance Financial Group**, was a Buffalo-based investment adviser founded and jointly owned by Dembski and Grenda from 1998 to 2011. Reliance Group was not registered with the Commission. Dembski and Grenda transferred their advisory clients from Reliance Group to Reliance Financial starting in approximately February 2011.

FACTS

D. DEMBSKI HIRES STEPHAN TO WORK AT RELIANCE GROUP

18. Dembski and Stephan were long-time friends, having known each other since approximately the late 1990s. In approximately April 2007, Dembski hired Stephan to work for him and Grenda at Reliance Group. When Stephan first started working for Dembski and Grenda, he had no professional experience in the securities industry, trading securities, investing, or

providing investment advice to others. Virtually all of Stephan's professional experience to that point had been collecting on—and managing others who collected on—past-due car loans.

19. Dembski and Grenda hired Stephan to assist them with telemarketing efforts for the services they offered at Reliance Group. In that role, Stephan tried to locate new investment advisory clients for Dembski and Grenda through, among other things, placing cold calls and arranging sales seminars.

20. At no point, however, did Stephan provide Reliance Group's clients with investment advice, trade any securities, or make any investment decisions. At most, Stephan—from time to time—discussed investment ideas with Reliance Group's college interns and assisted Grenda with various research tasks.

E. DEMBSKI AND STEPHAN SET UP THE PRESTIGE FUND

21. In Summer 2010, Stephan approached Dembski about establishing a hedge fund to undertake an automated trading strategy of Stephan's own design, the Algorithm. The Algorithm purportedly had the following features:

- a. It operated as a day-trading strategy that would hold no securities overnight;
- b. It was designed to automatically buy or sell stocks and interests in Exchange Traded Funds ("ETFs") at pre-programmed times of the day and according to pre-programmed market signals; and
- c. It was supposed to automatically enter a long position on a chosen stock or ETF should it go up approximately 1 to 1.5 percent and it would automatically enter a short position on a chosen stock or ETF should it go down approximately 1 to 1.5 percent. Once in a position, the Algorithm automatically would exit it after a 3 percent gain or a 1 percent loss, respectively.

22. Stephan and Dembski did not undertake any real-time testing of the Algorithm, for example, by investing funds using its formula to see how it performed under actual market conditions. At most, they "back tested" the Algorithm, *i.e.*, looked at certain securities trading in the past to see how the Algorithm would have performed had it actually placed trades in those securities over those periods.

23. Neither Stephan nor Dembski had any experience establishing or running a hedge fund or in algorithmic or other automated trading strategies. Indeed, as discussed, Stephan had no experience managing client funds. Nonetheless, Stephan and Dembski decided to set up the Prestige Fund to trade based on the Algorithm.

24. Stephan and Dembski retained a law firm (the "Law Firm") to advise them on the process of setting up a hedge fund and to assist in preparing the necessary fund documents, including the PPM, limited partner agreements, and subscription agreements.

25. The Law Firm advised Dembski that—because of his role with Reliance Financial, a registered investment adviser—they would need to register Prestige with the Commission unless Dembski avoided having anything to do with the day-to-day management of the Prestige Fund. Dembski and Stephan agreed that Dembski would have no day-to-day involvement in the Fund.

26. In or about November 2010, Stephan and Dembski established Prestige and the Prestige Fund (the former of which served as General Partner and adviser to the Fund). While Dembski and Stephan were each 50 percent owners of the General Partner, they agreed that Dembski would receive a greater portion (two-thirds) of the performance and management fees, at least initially.

F. STEPHAN HELPS RECOMMEND AND SELL INVESTMENTS IN THE PRESTIGE FUND

27. From about February 2011 to September 2012, Dembski, and Grenda, with Stephan's assistance, raised approximately \$12 million selling interests in the Prestige Fund. The Prestige Fund's investors were comprised of Dembski's and Grenda's advisory clients at Reliance Financial and its predecessor entity (Reliance Group), as well as Dembski's tax preparation clients. Ultimately, Dembski procured approximately \$4 million in investments for the Prestige Fund from approximately 19 of his advisory or tax clients, while Grenda procured approximately \$8 million in investments from approximately 23 of his advisory clients.

G. STEPHAN MAKES AND DISTRIBUTES MATERIALLY FALSE AND MISLEADING STATEMENTS IN RECOMMENDING AND SELLING INVESTMENTS IN THE PRESTIGE FUND

28. In establishing the Prestige Fund, Stephan understood: (a) that the Fund was a speculative investment; and (b) that he, the Algorithm's creator, had no prior experience running an algorithmic trading platform or hedge fund and, indeed, had virtually no experience trading or investing at all. Indeed, Stephan's only trading experience was investing approximately \$1,000 that his father loaned to him in or around 2006 or 2007, which Stephan lost.

29. Stephan made, or disseminated, to investors in the Prestige Fund, a number of materially false and misleading statements in order to create the appearance that the Prestige Fund was a relatively safe, in-demand investment, overseen by professional money managers, including by himself and Dembski (the investment advisor or tax preparer who many of the potential investors had known and trusted for years).

Stephan's Biography

30. Prestige's PPM, dated February 1, 2011, contained the following biography for Stephan:

Scott M. Stephan is co-founder and Chief Investment Officer of the General Partner. He has exclusive responsibility to make the Fund's investment decisions on behalf of the General Partner. Mr. Stephan has worked in the financial services industry for over 14 years. The first half of his career he co-managed a portfolio of over \$500 million for First Investors Financial Services. Afterwards, Mr. Stephan took a position as Vice President of Investments for a New York based investment company in which he was responsible for portfolio management and analysis.

31. The PPM's description of Stephan's professional experiences prior to joining Reliance Group as well as his being "responsible for portfolio management and analysis" at Reliance Group were highly misleading, if not outright false. *First*, as discussed above, Stephan had no experience in the securities industry prior to joining Reliance Group in 2007. From 1999 to 2007, Stephan was responsible for collecting, or managing a group that collected, on past due car loans. This involved managing a group within a debt-collection call center, reaching out to debtors to obtain payment, and recommending cars to be repossessed in the event of non-payment. In that position, Stephan undertook no trading, managed no securities portfolios, provided no investment advice, and made no decisions concerning securities investments. Moreover, Stephan had no responsibility for determining what car loans to purchase and the value of the loans he was responsible for collecting was far less than \$500 million.

32. *Second*, upon joining Reliance Group, Stephan had little-to-no experience selecting or making investments. Indeed, Dembski and Grenda hired him to undertake telemarketing efforts. Stephan received his securities Series 7, 63 and 66 licenses only in 2009 and, even then, advised no clients of his own, undertook no trading, and had no say over the portfolios of the Reliance Group's clients.

33. Stephan drafted his own professional biography and knew or recklessly disregarded that the biography was false or misleading. Stephan knew that he had no prior experience in the securities industry, that he received his securities licenses only in 2009, and that, even at Reliance Group, he had minimal (if any) involvement managing assets, trading securities, or providing investment advice to clients.

H. THE PRESTIGE FUND COLLAPSES

34. The Prestige Fund traded using the Algorithm approximately from April 2011 to in or around September 2011. From that point on—because the Algorithm never worked as intended—Stephan stopped using it altogether. Instead, contrary to what investors were told the Prestige Fund's trading strategy would be, Stephan manually placed trades. Stephan knew, or recklessly disregarded, that Prestige Fund investors had been told that the Fund's trading strategy

would be fully automated and undertaken entirely by the Algorithm. He also knew or recklessly disregarded that his manual trading was entirely inconsistent with this stated strategy.

35. In December 2012, the Prestige Fund lost approximately 80% of its value as a result of Stephan manually investing and trading in stock options.

I. VIOLATIONS

36. As a result of the conduct described above, Respondent Stephan willfully violated Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit, respectively, fraudulent conduct in the offer or sale of securities and in connection with the purchase or sale of securities.

37. As a result of the conduct described above, Respondent Stephan willfully violated Section 206(4) of the Advisers Act, which prohibits an investment adviser from “engag[ing] in any act, practice, or course of business which is fraudulent, deceptive, or manipulative,” and Rule 206(4)-8 thereunder, which prohibits any investment adviser to a pooled investment vehicle from “mak[ing] any untrue statement of a material fact or 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, to any investor or prospective investor in the pooled investment vehicle,” or “otherwise engag[ing] in any act, practice or course of business that is fraudulent, deceptive, or manipulative with respect to any investor or prospective investor in the pooled investment vehicle.”

38. As a result of the conduct described above, Respondent Stephan willfully aided and abetted and caused Prestige’s violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder.

IV.

Pursuant to this Order, Respondent agrees to additional proceedings in this proceeding to determine what, if any, disgorgement and civil penalties are appropriate under the Securities Act, Exchange Act, Advisers Act and Investment Company Act. In connection with such additional proceedings: (a) Respondent agrees that he will be precluded from arguing that he did not violate the federal securities laws described in this Order; (b) Respondent agrees that he may not challenge the validity of this Order; (c) solely for the purposes of such additional proceedings, the allegations of this Order shall be accepted as and deemed true by the hearing officer; and (d) the hearing officer may determine the issues raised in the additional proceedings on the basis of affidavits, declarations, excerpts of sworn deposition or investigative testimony, and documentary evidence.

V.

In view of the foregoing, the Commission deems it appropriate in the public interest and for the protection of investors to impose the sanctions agreed to in the Offer, and to institute

proceedings to determine what, if any, disgorgement and civil penalties are appropriate under the Securities Act, Exchange Act, Advisers Act and Investment Company Act.

Accordingly, pursuant to Section 8A of the Securities Act, Sections 15(b) and 21C of the Exchange Act, Sections 203(f) and 203(k) of the Advisers Act, and Section 9(b) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Section 206(4) of the Advisers Act and Rule 206(4)-8 promulgated thereunder.

B. Respondent be, and hereby is:

barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization;

prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter; and

barred from participating in any offering of a penny stock, including: acting as a 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.

C. Any reapplication for association by the Respondent 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 the Respondent, 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.

VI.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section V hereof shall be convened at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

If Respondent fails to appear at a hearing after being duly notified, Respondent may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commissions' Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon Respondent personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice, 17 C.F.R. § 201.360(a)(2).

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Brent J. Fields
Secretary