

## **ADMINISTRATIVE PROCEEDING**

**File No. 3-17253**

### **SEC Charges St. Louis Investment Adviser and its Principal with Fraud**

**May 19, 2016** – The Securities and Exchange Commission today announced charges against St. Louis resident James A. Winkelmann, Sr., and Blue Ocean Portfolios, LLC, an SEC-registered investment adviser, for allegedly fraudulent offerings that raised \$1.4 million from 24 investors, most of whom were Blue Ocean advisory clients.

The SEC’s Enforcement Division alleges that Winkelmann and Blue Ocean claimed that the return on Blue Ocean’s “Royalty Unit” securities was driven by Blue Ocean’s advertising conversion rate, which they misrepresented in four separate offerings, leading investors to believe they would be repaid more rapidly. The Enforcement Division alleges that the advertising conversion rate was inflated by more than 100 percent in the first offering memorandum, by more than 75 percent in the second offering, by more than 50 percent in the third offering, and by approximately 15 percent in the fourth offering.

The Enforcement Division also alleges that:

- Winkelmann misrepresented the success of the Royalty Unit offerings to prospective investors, including by sending an email to an advisory client in which Winkelmann overstated the amounts earlier Royalty Unit investors had been repaid by over 85%.
- Winkelmann and Blue Ocean made materially misleading statements regarding one of Winkelmann’s business associates by not disclosing that the associate was barred by the Missouri Division of Securities from acting “as an agent or an investment adviser representative in the State of Missouri” as a result of his improper offer of securities to advisory clients.
- Winkelmann and Blue Ocean failed to disclose the conflict of interest between themselves and their advisory clients who purchased Royalty Units, and made materially misleading statements about the “alignment” of these investors’ interests and Winkelmann’s, whose interests were competing, not aligned.
- Winkelmann and Blue Ocean failed to disclose that Blue Ocean was paying material amounts of Royalty Unit investor proceeds to companies owned and controlled by Winkelmann, and that Blue Ocean ultimately paid over \$100,000 from Royalty Unit proceeds as purported “management fees” to certain of Winkelmann’s other companies.
- Winkelmann and Blue Ocean violated or caused violations of the custody provision of the Investment Advisers Act of 1940, which is designed to protect advisory client funds, and also violated or caused violations of the Act’s compliance and reporting provisions.

Based upon the foregoing, the Enforcement Division alleges that Winkelmann and Blue Ocean violated, caused, or caused and willfully aided and abetted, violations of, Section 17(a) of the

Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, and Sections 206(1), 206(2), 206(4), and 207 of the Investment Advisers Act of 1940 and Rules 206(4)-2 and 206(4)-7.

The matter will be scheduled for a public hearing before an administrative law judge, who will prepare an initial decision stating what, if any, remedial actions are appropriate. The investigation was conducted by David F. Benson and supervised by Paul A. Montoya of the Enforcement Division's Asset Management Unit. The Enforcement Division's litigation will be led by Benjamin J. Hanauer. The SEC appreciates the assistance of the Missouri Division of Securities.

**See also:** [Order](#)