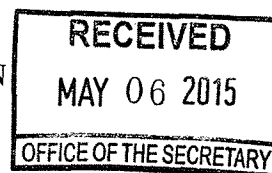


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**UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION**



**ADMINISTRATIVE PROCEEDING
File Nos. 3-16311, 3-16312**

In the Matters of

**RELIANCE FINANCIAL
ADVISORS, LLC, TIMOTHY S.
DEMBSKI and WALTER F.
GREYDA, JR.,**

SCOTT M. STEPHAN,

Respondents.

DIVISION OF ENFORCEMENT'S PREHEARING BRIEF

Dated: May 3, 2015

DIVISION OF ENFORCEMENT
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I. PRELIMINARY STATEMENT

Respondents Timothy S. Dembski (“Dembski”), Walter F. Grenda, Jr. (“Grenda”), and the entity they founded and owned together, Respondent Reliance Financial Advisors, LLC (“Reliance”), misrepresented critical facts in order to convince investors—most of whom were Respondents’ advisory clients—to purchase shares in a risky start-up hedge fund, Prestige Wealth Management Fund, LP (“Prestige Fund,” or “Fund”), that Respondent Scott M. Stephan (“Stephan”) and Dembski co-founded. Dembski and Grenda raised approximately \$12 million by pitching the Prestige Fund as one run by an experienced investment manager who, among other things, “co-managed a portfolio of over \$500 million” and “was responsible for portfolio management and analysis” for “a New York based investment company.” But contrary to those impressive credentials set forth in the Fund’s Private Placement Memorandum (“PPM”), the sole investment manager—Stephan—had no such experience. Rather, Stephan spent most of his career managing call centers for companies chasing down people who were late with their car loan payments. What little experience Stephan did have in the financial services industry came at Reliance Financial Group (“RFG”), where his role was primarily as a telemarketer. Grenda and Dembski, as the people who employed Stephan at RFG and knew him long before he worked there, were well-aware of Stephan’s lack of investment experience, but they nevertheless sold their clients Prestige Fund investments on the back of a PPM they knew—or were at least extremely reckless in not knowing—materially misrepresented the qualifications of Stephan, the only person with any authority to make investment decisions for the Prestige Fund.

Neither Dembski’s nor Grenda’s fraud ended with their use of the misleading Prestige Fund PPM. Dembski made numerous oral misrepresentations to his clients he knew were unequivocally false. For, example, for investors seeking assurances that their trusted investment adviser

(Dembski) would be intimately involved with the Fund, Dembski described a fictitious, outsized role in managing and monitoring the Fund at odds with anything he planned to—or actually did—undertake. To other investors, Dembski claimed a “big bank” expressed interest in investing millions of dollars in the Fund, and that other entities were interested in purchasing the Fund’s investment strategy. Through these and other misrepresentations, Dembski successfully raised approximately \$4 million from mostly unsophisticated, retired clients who he knew lived on fixed incomes and who trusted him to find safe, stable investments for what limited resources they had.

Grenda, like Dembski, failed to inform his advisory clients that Stephan had virtually no experience managing investor money at all, let alone running a hedge fund, or that nobody would exercise any meaningful oversight of Stephan. Grenda successfully raised approximately \$8 million. And Grenda’s fraudulent conduct extends beyond the Prestige Fund. Grenda convinced an advisory client to lend him \$175,000—by selling that client on the opportunity to invest in Grenda’s business. Grenda then—without telling his advisory client—used the money to cover personal expenses including payments to a swimming pool company and tuition payments for his son.

Accordingly, Dembski and Grenda, and through their actions Reliance, violated Section 17(a) of the Securities Act of 1933 (“Securities Act”) and Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 10b-5 thereunder, and Sections 206(1) and (2) of the Advisers Act of 1940 (“Advisers Act”) and, as set forth below, Dembski and Grenda aided and abetted and caused violations of the federal securities laws by Reliance and by the Prestige Fund’s General Partner, Prestige Wealth Management LLC (“Prestige LLC”).

The Commission has already found Stephan liable, consistent with his offer of settlement, for willfully violating 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, and for aiding and abetting and causing Prestige LLC's violations of the same laws. The Commission ordered Stephan to cease and desist from committing or causing any future violations of these laws and imposed full industry bars, leaving this Court to decide whether and in what amounts Stephan should pay disgorgement (and pre-judgment interest) and a civil penalty.¹

II. CONTENTIONS OF FACT

A. Respondents

Reliance Financial Advisors, LLC is a Buffalo-based investment adviser established as a limited liability company in Delaware in November 2010. Dembski and Grenda founded and jointly own Reliance, which registered with the Commission as an investment adviser in January 2011 and is still registered with the Commission today.

Dembski, age 42, co-founded and was Managing Partner at Reliance with Grenda. In early 2011, Dembski co-founded Prestige LLC with Stephan, which was the General Partner to the Prestige Fund. Prior to founding Reliance and Prestige LLC, Dembski provided investment advisory services to individual clients in his role at Reliance's predecessor entity, RFG. Dembski was also a registered representative at nearly all times relevant herein—but for approximately March 2011 to September 2011—with two different broker-dealers.

Grenda, age 57, co-founded and was Managing Partner at Reliance. Prior to founding Reliance, Grenda provided investment advisory services to individual clients in his role at RFG

¹ As Stephan has represented to the Division that he intends to wait until after the Hearing to submit briefing on what monetary relief should be imposed against him, and as there appear to be few facts in dispute relevant to the question of what relief should be granted as to Stephan, the Division will avoid burdening the Court with repetitive briefing and simply note (i) the parties' stipulation as to Stephan's total gains during the relevant time period—\$123,505.91 in performance and management fees from the Prestige Fund—and (ii) the Division's request for third tier penalties based on the factors set forth in Section 21B(c) of the Exchange Act.

and was a registered representative at nearly all times relevant herein—but for approximately March 2011 to September 2011—with two different broker-dealers. Grenda has been the subject of three NASD arbitrations involving claims of misrepresentations and unsuitable recommendations (unrelated to Grenda’s Prestige Fund sales). Grenda was found liable in the first arbitration and was ordered to pay \$115,000 in compensatory damages to the claimants and Grenda settled the other two matters.

Stephan, age 40, co-founded the Prestige Fund and Prestige LLC in early 2011 and was the Fund’s Chief Investment Officer and sole portfolio manager. Prior to founding the Fund, Stephan worked at RFG and was a registered representative from June 2009 through March 2011. Before working for Grenda and Dembski at RFG, Stephan worked in call centers for companies who contacted individuals who were late with car payments and convince them to make those payments.

B. Other Relevant Entities and Individuals

Prestige Fund purports to be a Section 3(c)(1) private investment fund under the Investment Company Act of 1940 and was organized as a limited partnership under Delaware law on November 19, 2010.²

Prestige Wealth Management, LLC was a Delaware limited liability company organized on November 12, 2010. Prestige LLC served as General Partner and adviser to the Prestige Fund. Dembski and Stephan were the sole members of Prestige LLC, each owning 50%. Prestige LLC charged the Prestige Fund a 2% management fee and 20% performance fee on an annualized basis.

C. The Prestige Fund’s Brief Existence

The Prestige Fund was marketed as a fund that would trade according to an algorithm (the “Algorithm”) that determined which of a group of pre-selected stocks to buy or sell based on those

² Section 3(c)(1) refers to that section of the Investment Company Act of 1940, 15 U.S.C. 80a-3(c)(1), which excludes certain funds from the definition of an “investment company.”

stocks' "momentum" in any particular day's trading. As marketed, a computer program would implement the system dictated by the Algorithm—i.e., trades would be entered automatically, not manually. But the Prestige Fund traded by attempting to use the Algorithm for only several months, from approximately April 2011 (when the Fund started trading) to September 2011. Stephan realized rather quickly—within approximately thirty days after the Fund began trading—that the Algorithm did not work as he had hoped, so he, along with a consultant the Fund employed, tried to "tweak" the computer program to see if they could improve results. Stephan told both Dembski and Grenda that the Algorithm was not working in the manner explained to investors, but that did not stop either of them from continuing to market and sell the Fund. Eventually, after finding the computer program could not be fixed to work as intended, Stephan abandoned the computer trading system entirely and, by the Fall of 2011, traded only manually.

Grenda did not withdraw his clients' money from the Fund until approximately October 2012, by which time his investors suffered total collective losses of approximately \$320,000, or about 4%. Dembski's clients lost considerably more money after the Fund lost approximately 80% of its value in December 2012 as a result of Stephan manually investing and trading in Apple Inc. stock options. These results were a far cry from the enormous gains Grenda and Dembski told their respective clients they could expect based on the Fund's "back-testing"; but that back-testing never accounted for many of the problems inherent to actual trading, like the Fund's inability to fill orders at specific prices or costs associated with day trading. Respondents knew about the limitations of the back-testing—or were extremely reckless in ignoring those limitations—but never shared those potential problems with many of their clients who became Fund investors.

D. Respondents' Use of the Prestige Fund PPM

Respondents utilized a February 1, 2011 PPM to market and sell the Prestige Fund to their

clients. Prior to founding the Prestige Fund, neither Dembski nor Stephan had any experience with hedge funds. In fact, Dembski admits he did not even know what a hedge fund was before creating and selling the Prestige Fund. (Ex. A,³ Mar. 21, 2014 Dembski Tr., at 45:14-19.)

The PPM's description of Stephan was particularly important because of Stephan's central role for the Fund. Stephan was solely responsible for the Prestige Fund's investment decisions, so a reasonable investor would naturally want to know his qualifications. The PPM Grenda and Dembski gave to investors boasted of a portfolio manager with impressive credentials:

Scott M. Stephan is a co-founder and Chief Investment Officer of the General Partner. He has the 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.

(Ex. B, Div. Ex. 90 (PPM), at 55.) This biography created the impression that Stephan was an experienced trader, steeped in the securities industry.

But Stephan never had the experience described in the PPM, which both Dembski and Grenda knew, or were extremely reckless in not knowing. Stephan's primary work experience before co-founding Prestige was managing a team of individuals who chased down delinquent car loan debtors with the hope of getting those who were delinquent to make their car payments before their cars were repossessed. He never managed any investment portfolio at those jobs, let alone one of over \$500 million. In fact, Stephan never made any investment decisions whatsoever in his capacity as a car loan call center manager.

³ "Ex. ___" refers to exhibits, including documents and sworn testimony transcripts, attached hereto. Where exhibits are pre-marked Division exhibits, they are also identified as "Div. Ex. ___."

Stephan's first experience working in the "financial services industry" came when Dembski and Grenda first employed him at RFG in 2007—approximately three and a half years, not "over 14 years," prior to creating the Prestige Fund in 2011. Stephan was not charged with making any investment decisions while at RFG, let alone being responsible for "portfolio management and analysis." To the contrary, Stephan's job at RFG was primarily in marketing—*e.g.*, sending out post cards to RFG clients—a job performed at the behest of his bosses, Dembski and Grenda.

Dembski and Grenda ran RFG when Stephan worked there and were responsible for hiring him, so both men were familiar with the kind of work he did at RFG. (*See* Ex. C, Div. Ex. 139 (Stephan Stipulations of Fact), ¶¶ 2-5.) Furthermore, both men knew Stephan for years before he came to RFG, and neither individual has ever suggested that Stephan lied to him about his work experience prior to his employment at RFG. In other words, both Dembski and Grenda knew that Stephan's biography was false and misleading.

In fact, Dembski admitted as much in his investigative testimony. Regarding the PPM's statement about Stephan managing a portfolio of more than \$500 million, Dembski testified that he "didn't believe that it was correct" and he "didn't understand what [that statement] really was telling me." (Ex. A, Mar. 21, 2014 Dembski Tr., at 143:4-8.) Likewise, he thought the PPM's statement about Stephan having over 14 years of experience in the financial services industry was "a gray area," but Dembski never checked with anyone to see if Stephan's biography was accurate (*id.* 175:14-16), and never told anyone of his concerns before using the PPM to attract investments in the Fund. (*Id.* at 160:10—162:6.)

Grenda, too, knew the biography was false. He testified that he understood Stephan's experience prior to working at RFG was that of "a debt collector" whose responsibilities did not include trading any securities at all. (Ex. D, May 23, 2013 Grenda Tr., at 115:10—116:20.)

Grenda acknowledged he did not know what the biography was referring to when it described a portfolio of more than \$500 million under Stephan's management. (*Id.* at 117:4-21.) Grenda also believed Stephan had only a year and a half of "actual investing" experience and did not think Stephan had any experience, prior to Prestige, "actually executing real transactions, real trades in the security industry." (*Id.* at 117:22—118:17.) As for the PPM's statement that Stephan was "Vice President of Investments for a New York based investment company in which he was responsible for portfolio management and analysis," Grenda did not believe Stephan had any such title prior to coming to the Buffalo-based RFG and knew Stephan was never "really a vice president" there, though Grenda claims Stephan did hold an honorary Vice President title. (*Id.* at 119:15—120:6.) Grenda also knew Stephan was not responsible for portfolio management and analysis at RFG; Grenda "was solely responsible for [managing] the portfolio." (*Id.* at 120:12-20.)

E. Dembski's Oral Misrepresentations

The Division plans to call several of Dembski's advisory clients to detail misrepresentations Dembski uttered to lure them to invest in the Prestige Fund. One clear theme tying together those investors' testimony will emerge: Dembski took advantage of the trust many of his Reliance clients placed in him and failed to put their interests ahead of his own. Dembski assured clients concerned about exposure to investment risk that they could take their money out of the Fund at any time, and that losses would be limited to one percent per day. He told others that large financial institutions had expressed interest in investing in the Fund or in purchasing the rights to the Fund's investment strategy. Dembski also consistently misrepresented to his clients who would run the Fund, telling some he had hired an "expert" and telling others that Dembski would be intimately involved with the management, operation and monitoring of the Fund on a daily basis. This last misrepresentation was particularly important to investors who trusted Dembski as their investment adviser, did not

have any relationship with Stephan, and had no interest in investing in a Fund Dembski would, at best, watch from a distance. In fact, some of Dembski's clients who invested in the Prestige Fund never even heard of Stephan at all until after they lost approximately 80% of the value of their investments in the Fund in January 2013, which was when Dembski attempted to scapegoat Stephan for the losses by saying the latter "went rogue." Certain of Dembski's representations—including some about his role in the Fund—contradicted the very PPM he provided to investors. But when certain investors expressed concern about language in the PPM, Dembski told them they could ignore any PPM language they found troubling.

Dembski also omitted critical facts his clients would have wanted to know when making investment decisions in the Fund, such as (i) the Fund's failure to ever test its strategy in real time using real money (as opposed to back-testing); (ii) Stephan's concerns about whether actual trading would be hindered by the Fund's ability to "fill" large trades (which hypothetical or backward looking testing did not reveal); and (iii) problems the Fund encountered when it began trading.

F. Grenda's Improper Use of Advisory Clients' Assets

Grenda also violated the securities laws when he solicited investments from advisory clients to finance what he claimed would be construction of a building to expand Grenda's business. The facts demonstrating these violations also are particularly straightforward. Grenda convinced advisory clients Alice De and her mother to lend him \$175,000 for what he told them was a new office building to house his financial services business. Grenda does not dispute that he borrowed the money from De. (Grenda Answer ¶ 8.) Under the terms of that investment—which began as a \$100,000 investment and was followed by an additional \$75,000—De was entitled to a full return of principal plus 12% annual interest. But Grenda's bank records show that rather than using De's money to build his business—as he had told De he would—as soon as he received De's money he

began spending it to cover his personal bills. Grenda only returned De's principal (without interest) after several calls and visits from De's family and, eventually, an attorney she had to hire, demanding her money back.

III. CONTENTIONS OF LAW

A. Grenda, Dembski and Reliance Violated Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder

The Commission recently described in considerable detail what conduct violates Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder in *Matter of John P. Flannery*, Exchange Act Rel. No. 73840, 2014 WL 7145625 (S.E.C. Dec. 15, 2014). As the Commission explained, "Section 10(b) makes it 'unlawful for any person directly or indirectly ... to use or employ, in connection with the purchase or sale of any security ... any manipulative or deceptive device or contrivance in contravention of' Commission rules." *Id.*, at *10 (quoting 15 U.S.C. § 78j(b)). Rule 10b-5 implements the Commission's authority under Section 10(b) in three "mutually supporting" ways:

Rule 10b-5(a) prohibits "directly or indirectly ... employ[ing] any device, scheme, or artifice to defraud." Rule 10b-5(b) prohibits "directly or indirectly ... mak[ing] any untrue statement of a material fact or [omitting] to state a material fact necessary in order to make the statements made ... not misleading." And Rule 10b-5(c) prohibits "directly or indirectly ... engag[ing] in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person." Liability under all three subsections requires a showing of scienter.

Id. (citations omitted). "Scienter is an 'intent to deceive, manipulate, or defraud.'" *Id.*, at *10 n.24, quoting *Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 193 & n.12 (1976).

Section 17(a) prohibits conduct similar to that targeted by Rule 10b-5, though Rule 17(a) has no "in connection with" requirement and extends to "offers" of securities.

Like Rule 10b-5, Section 17(a) expresses its prohibitions in three “mutually supporting” subsections. Section 17(a)(1) prohibits “employ[ing] any device, scheme, or artifice to defraud.” Section 17(a)(2) prohibits “obtain[ing] money or property by means of any untrue statement of a material fact or any [material] omission.” And Section 17(a)(3) prohibits “engag[ing] in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser.” A showing of scienter is required under Section 17(a)(1), but a showing of negligence suffices under subsections (a)(2) and (a)(3).

Flannery, 2014 WL 7145625, at *10 (citations omitted).

As the Commission explained in *Flannery*, multiple misrepresentations like those for which Dembski and Grenda are responsible violate not only Rule 10b-5(b) but also (a) and (c). *Flannery*, 2014 WL 7145625, at *12 (“primary liability under Rule 10b-5(a) and (c) *also* encompasses the ‘making’ of a fraudulent misstatement to investors, as well as the drafting or devising of such a misstatement. Such conduct, in our view, plainly constitutes employment of a deceptive ‘device’ or ‘act.’”) (emphasis in original). The same is true of Securities Act Section 17(a)(1). *Id.*, at *17 (“one who (with scienter) ‘makes’ a material misstatement in the offer or sale of a security has violated Section 17(a)(1)—such conduct surely constitutes ‘employ[ing]’ a ‘device, scheme, or artifice to defraud’ and “so too has any defendant who (with scienter) drafts or devises a misstatement or uses a misstatement made by others to defraud investors.”)

Respondents’ fiduciary relationship with their advisory clients makes them liable not only for affirmative misrepresentations but also for their omissions. See *Laird v. Integrated Resources, Inc.*, 897 F.2d 826, 835 (5th Cir. 1990) (“for the purpose of rule 10(b)-5, an investment adviser is a fiduciary and therefore has an affirmative duty of utmost good faith to avoid misleading clients. This duty includes disclosure of all material facts....”). So, for example, Dembski is liable both for his affirmative misrepresentations to clients about the supposedly active role he would play in

running the Prestige Fund and for his failure to disclose to other advisory clients his understanding that he was not permitted to take an active role in managing the Fund he sold to them.

1. Respondents' Statements Were False

As set forth above, the falsity of Respondents' statements cannot be credibly gainsaid. Stephan has admitted that the information about him in the PPM does not accurately describe his work experience, and the record will make clear both that Grenda misrepresented the nature of the investment he sold to Alice De and that Dembski's oral representations to numerous investors had no basis in fact.⁴

2. Respondents Knew Their Statements to Investors Were False

Neither Dembski, who knew of Stephan's actual work history prior to co-founding Prestige, nor Grenda, who supervised Stephan at his job immediately prior to the creation of Prestige, can credibly claim that they did not know Stephan's biographical information was untrue. Indeed, as discussed above, both have essentially acknowledged their understanding that Stephan's biography was misleading at best. Likewise, Grenda knew better than anyone else how he planned to use the proceeds of Ms. De's investment—and how he then actually used them, both before and after soliciting an additional investment.

Dembski appears to challenge the Division's scienter-related allegations by claiming he relied reasonably on counsel to pass on the veracity of statements about Stephan in the PPM.

(Dembski Answer ¶¶ 34, 35.) Specifically, Dembski claims he should not be responsible for the misleading Stephan biography because attorneys at Holland & Knight LLP ("Holland"), the law

⁴ Dembski apparently disputes he told his clients the falsehoods investors will describe to the Court, but he does not appear to contest that those statements, if made, were false. (*See, e.g.*, Ex. A, Mar. 21, 2014 Dembski Tr., at 191:3-12 (no brokerage house ever offered to buy the Fund or its formula); Ex. E, Dembski May 13, 2013 Tr., at 98:25—99:7 (Stephan was "solely responsible for the day-to-day operations [and] investment decisions" for the Fund).)

firm retained to set up the Prestige Fund, “wrote, approved and urged the propriety of [that] language... and ... he relied entirely on advice of counsel with respect to the quoted language.” (*Id.*) But this defense has no factual support.

As a threshold matter, it is well-settled that the defense of reasonable “reliance on the advice of counsel ‘is not a complete defense, but only one factor for consideration.’” *SEC v. Enterprise Solutions, Inc.*, 142 F. Supp. 2d 561, 576 (S.D.N.Y. 2001) (quoting *SEC v. Markowski*, 34 F. 3d 99, 105 (2d Cir. 1994)). Moreover, the party asserting the advice of counsel defense bears the burden of establishing its essential elements. *Markowski*, 34 F.3d at 105. Thus, Dembski must “show that he made complete disclosure to counsel, sought advice as to the legality of his conduct, received advice that his conduct was legal, and relied on that advice in good faith.” *Markowski*, 34 F.3d at 104-05; *see also Matter of Thomas R. Delaney II and Charles W. Yancey*, ID SEC Rel. No. 755, 2015 WL 1223971, at *41 n.21 (Mar. 18, 2015) (citation omitted).

Dembski cannot satisfy any of these elements. One would expect a Respondent claiming reasonable reliance on counsel to identify at least some evidence in support of that assertion. But Dembski has not named a single witness he intends to call to support his defense and declined to identify any exhibits he believes have any bearing on a reliance on counsel argument, but for a recording of a 2013 telephone call that took place nearly two years after the PPM language at issue was finalized and used with Dembski’s and Grenda’s clients. The only reasonable inference to draw from Dembski’s failure to marshal evidence supporting a partial defense for which he bears the burden of proof is that no such evidence exists.

Respondents never made a complete disclosure of the relevant facts—*i.e.*, Stephan’s professional experiences and background—to Holland before using the PPM to market the Prestige Fund. To the contrary, Dembski himself provided Holland with the misleading biographical

information about Stephan by email and then remained mute when that same language—with minor edits not relevant here—appeared in the final PPM. (*Compare* Ex. F, Div. Ex. 15 (Dembski email to attorney), *with* Ex. B, Div. Ex. 90 (Final PPM), at 55.)

Furthermore, Respondents never sought advice from Holland on how to disclose Stephan’s professional experience in the PPM before sharing it with investors. Dembski admits he never did so. (*See* Ex. A, Mar. 21, 2014 Dembski Tr. at 166:9—167:6.) And Stephan—the person Dembski claims told him that Holland approved the biography—has no recollection of ever asking anyone at Holland to render any legal advice or opinion about the language. (Ex. C, Div. Ex. 139 ¶ 14.a.)

There is also no evidence that Dembski ever received advice, directly or even indirectly, from Holland on Stephan’s professional biography before he used the PPM with investors. Indeed, Amy Rigdon—the Holland attorney to whom Dembski sent the email with Stephan’s biography—testified that between December 13, 2010 (when she received Dembski’s email) and January 28, 2011 (when she sent Stephan and Dembski the final PPM), she never even discussed Scott’s biographical information with Dembski or Stephan. (Ex. G, Jan. 30, 2014 Rigdon Tr., at 131:13-20 (Q: “So between receipt of the bio that Tim provided to you on December 13, 2010 to January 28, 2011, do you recall any discussions with Scott Stephan or Tim Dembski about Scott’s bio? A: We had no conversations about Scott’s bio.”); *see also id.* at 105:10—107:3; 108:14-19.) Scott MacLeod, the other Holland attorney who worked with Stephan and Dembski—who, like Rigdon, is conspicuously absent from Dembski’s witness list—had the same recollection as Rigdon. (Ex. H, Jan. 10, 2014 MacLeod Tr., at 141:9-15 (calling “completely untrue” the notion that MacLeod helped Respondents “craft this [biography] language and that [he] said this language was fine”).)

Moreover, having lawyers involved in helping put together a PPM is not sufficient to establish a reliance on counsel defense as to all aspects of the PPM. “Compliance with federal securities laws

cannot be avoided by simply retaining outside counsel to prepare required documents.” *Enterprise Solutions*, 142 F. Supp. 2d at 576 (citation omitted); *see also In re Bank of Am. Corp. Sec., Derivative, and ERISA Litig.*, 2011 WL 3211472, at *8 (S.D.N.Y. July 29, 2011) (“Good faith reliance on the advice of counsel means more than simply supplying counsel with information.”) (citation omitted).

And as explained in *SEC v. Tourre*, 950 F. Supp. 2d 666 (S.D.N.Y. 2013), there is no cognizable “lawyers in the room” defense available to parties like Dembski. In *Tourre*, the defendant was unable to “meet the four factor test for the availability of an advice of counsel defense” but nevertheless sought to introduce evidence that attorneys reviewed or were copied on various documents concerning the transaction at issue. 950 F. Supp. 2d at 682-83. Like Dembski apparently seeks to do here, the defendant in *Tourre* hoped a finder of fact would make an inferential leap from the “fact that a lawyer is present” and assume the attorneys “implicitly or explicitly ‘blessed’ the legality of all aspects of a transaction.” *Id.* at 684. But because the defendant in *Tourre* could not satisfy the four factor advice of counsel test, he was not permitted to present evidence that lawyers blessed the relevant disclosures. *Id.*; *see also In re Fuller*, Exchange Act Rel. No. 48406, 2003 WL 22016309, at *6 n.31 (S.E.C. Aug. 25, 2003), *pet. for review denied*, 95 F. App’x 361 (D.C. Cir. 2004) (not recognizing defense of reliance on counsel concerning the propriety of a disclosure where respondent failed to affirmatively seek advice or disclose to counsel the information counsel needed to know to render informed legal advice).

Finally, assuming *arguendo* that Holland did provide advice to Respondents on Stephan’s professional biography, Dembski cannot credibly claim that he relied in good faith on Holland’s advice. As set forth above, Dembski knew Stephan did not have the professional experience disclosed in the Prestige Fund PPM. (*See, e.g., Ex. C, ¶¶ 2-5.*) He did not need an attorney to tell him what he already knew—that Stephan’s biography in the PPM was a work of fiction.

Dembski's own admissions that he was troubled by the veracity of the language included in Stephan's biography—see Ex. A, Mar. 21, 2014 Dembski Tr. at 160:10-24; 162:25—163:13; 163:24—164:8; 166:9-25—precludes him from claiming good faith reliance on counsel here. See *SEC v. Meltzer*, 440 F. Supp. 2d 179, 190 (E.D.N.Y. 2006) (finding a defendant cannot assert good-faith reliance when the defendant “knew that the disclaimers were misleading. The mere fact that his attorney willingly approved the disclaimers cannot establish a defense of good faith reliance when the knowing misrepresentations clearly establish bad faith”).

3. Respondents' Misrepresentations Are Material

As numerous investors will confirm, the misrepresentations and omissions at issue here are plainly material. The professional experience of the person solely responsible for trading in the Prestige Fund was unquestionably part of the total mix of information a reasonable investor would want to know in evaluating whether to invest in the Fund. See *Basic, Inc. v. Levinson*, 485 U.S. 224, 231 (1988) (a fact is material if there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision). Likewise, Dembski's oral misrepresentations to investors, ranging from his purported role in managing the Prestige Fund to his claims that big banks were interested in investing in the Fund or buying its formula, were statements that reasonable investors would consider important to their investment decisions. The same is true for Grenda's misrepresentations to Ms. De about the very nature of her investment.

Respondents have indicated they may point to boilerplate or blanket risk disclosures in the Fund's PPM as somehow exculpatory, but such a defense is not supported by law. See *Flannery*, 2014 WL 7145625, at *21 (citing with approval the Eleventh Circuit's rejection of “the argument that accurate disclosures that would have been ‘available to any “reasonably diligent investor”’ rendered certain oral misrepresentations about an investment immaterial.”)

(citing *SEC v. Morgan Keegan & Co., Inc.*, 678 F.3d 1233, 1253 (11th Cir. 2012).) And it is no defense that some misrepresentations were made only to certain investors and not more broadly disseminated. *See Morgan Keegan*, 678 F.3d at 1248 (“Morgan Keegan cannot show that its oral misstatements were immaterial merely by showing that those statements were not made publicly.”) Moreover, for cautionary statements to be “meaningful,” they must “discredit the alleged misrepresentations to such an extent that the real risk of deception drops to nil.” *In re Bear Stearns Companies, Inc.* 763 F. Supp. 2d 423, 495 (S.D.N.Y. 2011) (quotations omitted).

4. Respondents Negligently Violated Section 17(a)(2) and (3) of the Securities Act

The facts will separately establish Respondents’ liability for negligent violations of Section 17(a)(2) and (3) of the Securities Act. The Division will offer an expert witness to describe the standards of conduct investment advisers ordinarily adhere to, and those standards are consistent with the duties recognized by the Supreme Court in *SEC v. Capital Gains Research Bureau, Inc.*, 375 U.S. 180 (1963). *See id.* at 194 (“utmost good faith, and full and fair disclosure of all material facts, as well as an affirmative obligation to employ reasonable care to avoid misleading his clients.”) (quotation omitted). Whether Respondents reviewed Stephan’s biography and affirmatively chose to distribute the PPM (notwithstanding the misleading statements about Stephan’s experience) or they simply failed to review the PPM and used it anyway, their conduct fell far short of the duties they owed to their advisory clients and investors.⁵

⁵ The element in 17(a)(2) requiring that one “obtain money or property by means of any untrue statement” is satisfied for both Dembski and Grenda. Dembski was paid \$363,784.66 in fees on money he brought into the Fund through Respondents’ misrepresentations. (Ex. I, Div. Ex. 140 (Dembski Stipulations of Facts) ¶ 4.) Grenda obtained \$175,000 from Alice De in addition to the money he raised for Prestige Fund (and benefit he derived therefrom). *See SEC v. Mudd*, 885 F. Supp. 2d 654, 669-70 (S.D.N.Y. 2012) (“It is sufficient to allege either that the defendant directly ‘obtained money or property for his employer while acting as its agent, or, alternatively, for the SEC to allege [the defendant] personally obtained money indirectly from

5. Grenda's and Dembski's Misconduct Should Be Imputed to Reliance

The Division has received no indication from Respondents Grenda and Dembski that they will dispute that to the extent they are found liable for their misrepresentations and omissions concerning the Prestige Fund, Reliance should not similarly be found liable on the basis of the same conduct. Each of Grenda and Dembski were operating at all times relevant hereto as the controlling principals of Reliance, and their conduct should, therefore, be imputed to Reliance. *See SEC v. Manor Nursing Centers, Inc.*, 458 F.2d 1082 (2d Cir. 1972) (imputing individual's knowledge to the company he controlled); *see also Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128, 155 (1972) (bank's liability for Section 10(b) violations were "coextensive" with that of employees who violated law while acting as bank employees).

B. Grenda, Dembski and Reliance Violated Sections 206(1) and (2) of the Advisers Act

"Section 206(1) of the Advisers Act prohibits 'any investment adviser' from 'employ[ing] any device, scheme, or artifice to defraud any client or prospective client,' and Section[] 206(2) ... prohibit[s] fraudulent and deceptive practices by investment advisers." *SEC v. Yorkville Advisors, LLC*, No. 12 Civ. 7728 (GBD), 2013 WL 3989054, at *3 (S.D.N.Y. Aug. 2, 2013) (citations omitted); *see also SEC v. K.W. Brown and Co.*, 555 F. Supp. 2d 1275, 1308 (S.D. Fla. 2007) (discussing elements of 206(1) and (2)). Section 206(1) requires a showing of scienter; a showing of negligence is sufficient to prove a violation of Section 206(2). *Yorkville Advisors, LLC*, 2013 WL 3989054, at *3.

An investment adviser is "any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or

the fraud.") (citing *SEC v. Stoker*, 865 F. Supp. 2d 457, 463 (S.D.N.Y. 2012); *but see Flannery*, 2014 WL 7145625, at *25 n.130 (noting split among courts as to whether defendant must personally obtain money or property for him or herself).

as to the advisability of investing in, purchasing, or selling securities” Advisers Act, § 202(a)(11). Respondents do not dispute their status as investment advisers. (Dembski Ans. ¶ 10 (admitting “Dembski provided investment advisory services to individual clients in his role at Reliance”); Grenda and Reliance Ans. ¶¶ 9, 11 (admitting Reliance’s status as investment adviser and that Grenda provided investment advisory services to clients in his role at Reliance”).)

The same conduct that supports Respondents’ liability under the Securities Act and Exchange Act anti-fraud provisions also demonstrates their liability under Section 206(1) and (2) of the Advisers Act. *See SEC v. Young*, 09 Civ. 1634 (JRP), 2011 WL 1376045, at *7 (E.D. Pa. Apr. 12, 2011) (“Facts showing a violation of Section 17(a) or 10(b) by an investment adviser will also support a showing of a Section 206 violations) (citing *SEC v. Haligiannis*, 470 F. Supp. 2d 373, 383 (S.D.N.Y. 2007)); *SEC v. Kilpatrick*, No. 12-12109, 2012 WL 4839868, at *2 (E.D. Mich. 2012) (“Because the Investment Advisers Act and anti-fraud provisions are similar, courts have held that proving a violation of one regulation can show a violation of the other regulations”) (citations omitted); *SEC v. Blavin*, 557 F. Supp. 1304, 1315 (E.D. Mich. 1983) (“Once it is found that [defendant] is an investment adviser, which he was under the [Advisers] Act, all of the previous analysis establishing liability under 10(b) applies [to establish liability under the Advisers Act]”), *aff’d*, 760 F.2d 706 (6th Cir. 1985).

C. Grenda and Dembski Aided and Abetted and Caused Prestige’s and Reliance’s Violations of the Securities Act, Exchange Act and Advisers Act

Aiding and abetting liability requires proof of (1) the existence of a securities law violation by the primary (as opposed to the aiding and abetting) party; (2) knowledge of the primary violation by the aider and abettor; and (3) substantial assistance by the aider and abettor in the achievement of the primary violation. *SEC v. DiBella*, 587 F.3d 553, 566 (2d Cir. 2009); *see also*

Yorkville Advisors, LLC, 2013 WL 3989054, at *3 (applying same standard to Advisers Act claims). “The knowledge or awareness requirement can be satisfied by recklessness when the alleged aider and abettor is a fiduciary or active participant.” *Matter of Harding Advisory LLC, et al.*, ID SEC Rel. No. 734, 2015 WL 137642, at *83 (Jan. 12, 2015) (citations omitted); *see also Matter of ZPR Investment Mgmt. Inc.*, ID SEC Rel. No. 602, 2014 WL 2191006, at *53 (May 27, 2014) (same) (citation omitted), *review granted* Rel. No. 3878, 2014 WL 3588059.

1. The Division Will Demonstrate the Existence of Primary Securities Law Violations

The parties do not appear to dispute the existence of Prestige LLC’s underlying violations—only whether those violations were based solely on Stephan’s conduct or some combination of Stephan’s and Dembski’s misconduct. In fact, Stephan admits each of the allegations in the Order Instituting Proceedings against him (“Stephan OIP”), including that Stephan willfully violated the relevant provisions of the securities laws while a principal of Prestige. (Stephan OIP at ¶¶ 28, 29, 37, 38; Stephan Answer at 1); *see also* (Grenda Answer ¶ 58 (Grenda pointing to Dembski’s and Stephan’s “culpable conduct” as a purported affirmative defense). Reliance’s primary violations, as set forth above, will be amply supported by the record of Dembski’s and Grenda’s own misconduct.

2. Dembski and Grenda Knew, or Were Reckless in Not Knowing, of Reliance’s and Prestige LLC’s Primary Violations

Dembski and Grenda clearly knew, or were reckless in not knowing, of Prestige’s and Reliance’s primary violations. As set forth above, both men knew or were extremely reckless in not knowing that the Stephan biography was materially misleading, knew that the Fund was being managed entirely by one person with virtually no investment experience (let alone experience

operating an algorithm-driven hedge fund), and Dembski knew of the Fund's growing problems even as he continued to solicit new investments.

3. Dembski and Grenda Provided Substantial Assistance to the Achievement of Reliance's and Prestige LLC's Primary Violations

Dembski and Grenda provided substantial assistance that contributed to Prestige's and Reliance's primary violations. The Second Circuit has explained that "substantial assistance" turns on whether each individual "in some sort associate[d] himself with the venture, that he participate[d] in it as in something that he wishe[d] to bring about, [and] that he [sought] by his action to make it succeed." *SEC v. Apuzzo*, 689 F.3d 204, 206 (2d Cir. 2012) (citing *United States v. Peoni*, 100 F.2d 401, 402 (2d Cir. 1938)). The Division does not need to prove that Grenda or Dembski was a proximate cause of the underlying securities law violation. *Apuzzo*, 689 F.2d at 213. The venture here at issue is the effort to raise money for investment in the Prestige Fund. Both Dembski and Grenda associated themselves with that venture when they, among other things, solicited their clients—the ones they had through Reliance—to invest in the Fund and provided those investors with the Fund's misleading PPM. In Dembski's case, he identified himself as a co-founder of the Fund and its general partner, and both individuals were principals of Reliance.

"To establish liability for 'causing' violations in the absence of aiding and abetting, the Division must prove three elements: (1) a primary violation; (2) an act or omission by the respondent that was a cause of the violation; and (3) that the respondent knew, or should have known, that his conduct would contribute to the violation." *Thomas R. Delaney II*, Rel. No. 755, 2015 WL 1223971, at *43 (Initial Dec. Mar. 18, 2015) (citing *In re Fuller*, Exchange Act Rel. No. 48406, at *4). As set forth above, the evidence will support causing liability in this case.⁶

⁶ For primary violations requiring only negligence, Grenda's and Dembski's negligence

III. RELIEF REQUESTED

The Division seeks relief to ensure Respondents do not profit from their misconduct, are prevented from future violations victimizing the investing public, and are punished for violating the federal securities laws. In particular, the Division requests: a cease-and-desist order; civil penalties pursuant to Sections 21B of the Exchange Act, 203(i) of the Advisers Act and 9(d) of the Investment Company Act of 1940; advisory and collateral bars pursuant to Sections 8A of the Securities Act, 15(b) and 21C of the Exchange Act, 203(f) of the Advisers Act, and 9(b) of the Investment Company Act, and disgorgement of ill-gotten gains.

A. Respondents Should Be Required to Disgorge Their Ill-Gotten Gains and Pay Prejudgment Interest

Respondents, particularly Dembski and Stephan, profited considerably from their fraud. Dembski received \$363,784.66 in total management and performance fees from the Prestige Fund from July 11, 2011 to December 7, 2012, while Stephan received \$123,505.91 in total fees over approximately the same time period. Grenda, too, was compensated for his misconduct. “The primary purpose of disgorgement as a remedy for violation of the securities laws is to deprive violators of their ill-gotten gains, thereby effectuating the deterrence objectives of those laws.” *SEC v. First Jersey Sec., Inc.*, 101 F.3d 1450, 1474 (2d Cir. 1996) (citations omitted). Moreover, “effective enforcement of the federal securities laws requires that the SEC be able to make violations unprofitable.” *Id.* (citation omitted). Accordingly, Respondents should each be ordered to disgorge their profits earned through the fraudulent sale of Prestige Fund shares. *Matter of John*

satisfies the state of mind element for their “causing” liability. *Howard v. SEC*, 376 F.3d 1136, 1142 (D.C. Cir. 2004) (negligence is sufficient to establish “causing” liability under Exchange Act Section 21C(a), unless the person is alleged to cause a violation that requires scienter.).

Thomas Capital Mgmt. Group LLC, ID SEC Rel. No. 693, 2014 WL 5304908, at *30 (SEC Initial Dec. Oct. 17, 2014) (“Management fees and incentive fees are appropriately disgorged where they constitute illgotten gains earned during the course of violative activities”) (collecting cases) (review granted, Rel. No. 3978); see *Matter of Trautman Wasserman & Co.*, ID SEC Rel. No. 340, 2008 WL 149120, at *24-25 (Jan. 14, 2008) (ordering disgorgement of respondent’s compensation); *Matter of Joseph John VanCook*, SEC Rel. No. 61039A, 2009 WL 4026291, at *16 (S.E.C. 2009) (the “amount of disgorgement should include all gains flowing from the illegal activities”) (citation omitted). Holding Respondents jointly and severally liable for all ill-gotten gains is appropriate where, as here, each collaborated in the fraud. *SEC v. Pentagon Capital Mgmt. PLC*, 725 F.3d 279, 288 (2d Cir. 2013) (affirming decision to hold all “collaborating” parties, including relief defendants, jointly and severally liable for disgorgement.)

Prejudgment interest deprives a defendant of an interest-free loan in the amount of his ill-gotten gains, thereby preventing unjust enrichment. *SEC v. Grossman*, No. 87 Civ. 1031, 1997 WL 231167, at *11 (S.D.N.Y. May 6, 1997), *aff’d in part and vacated in part on other grounds*, 173 F.3d 846 (2d Cir. 1999).

B. Respondents Should Be Required to Pay Substantial Penalties

Under Section 8A(g) of the Securities Act, 15 U.S.C. § 77h-1(g), Section 21B of the Exchange Act, 15 U.S.C. § 78u-2, and Section 203(i) of the Advisers Act, 15 U.S.C. § 80b-3(i), the Commission may impose civil monetary penalties where Respondents willfully violated, aided and abetted, or caused a violation of, the provisions of the respective Acts at issue here if such penalties are in the public interest. Six factors are relevant to determining whether civil monetary penalties are in the public interest: (1) deceit, manipulation, or deliberate or reckless disregard of a regulatory requirement; (2) harm to others; (3) unjust enrichment; (4) prior violations; (5)

deterrence; and (6) such other matters as justice may require. *See* Exchange Act Section 21B(c). “Not all factors may be relevant in a given case, and the factors need not all carry equal weight.” *Matter of Robert G. Weeks*, ID SEC Rel. No. 199, 2002 WL 169185, at *58 (Feb. 4, 2002).

Section 21B(b) of the Exchange Act specifies a three-tier system identifying the maximum amount of civil penalties, depending on the severity of the respondent’s conduct. Second tier penalties are awarded in cases involving fraud, deceit, manipulation, or deliberate or reckless disregard of a regulatory requirement. Third-tier penalties are awarded in cases where such state of mind is present, and, in addition, where, as here, the conduct in question directly or indirectly resulted in substantial losses or created a significant risk of substantial losses to other persons, or resulted in substantial pecuniary gain to the person who committed the act or omission. In this proceeding, the Division respectfully submits that third-tier penalties are appropriate against all Respondents for their violations of the securities laws.

C. Respondents Should Be Barred from Serving in the Securities Industry

Sections 15(b)(6)(A), as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act, authorizes bars from association with a “broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization” where such bars are in the public interest. 15 U.S.C. § 78o(b)(6)(A); *see also* Advisers Act Section 203(f), 15 U.S.C. § 80b-3(f) (authorizing bars); 15 U.S.C. § 80a-9(b) (same). Such actions can be taken against any person who, among other things, willfully violated any provision of the Securities Act, Exchange Act or Advisers Act, or any of the rules and regulations promulgated under those statutes.

The public interest analysis requires consideration of the following factors: (1) the egregiousness of the respondent’s actions; (2) the isolated or recurrent nature of the infractions; (3)

the degree of scienter involved; (4) the sincerity of the respondent's assurances against future violations; (5) the respondent's recognition of the wrongful nature of their conduct; and (6) the likelihood that their occupation will present opportunities for future violations. *See, e.g., Steadman v. SEC*, 603 F.2d 1126, 1140 (5th Cir. 1979); *Robert G. Weeks*, 2002 WL 169185, at *53.

As discussed above, Respondents—over a period of many months—took advantage of the trust many of their advisory clients placed in them and put many clients' money at great risk. In Dembski's case, the fraud involved many different misrepresentations to his various clients. In Grenda's case, his misconduct extended beyond the Prestige Fund fraud to an unlawful loan he made an advisory client whose money he used to cover his personal expenses. And the misconduct described herein does not reflect the first time Grenda violated his obligations under the securities laws. Aside from the facts at issue in this recommendation, Grenda has been the subject of three NASD arbitrations—two in 2005 and one in 2006. In all three, clients brought claims against Grenda for, inter alia, misrepresentations and unsuitable recommendations. Grenda was held liable in the first arbitration and was ordered to pay \$115,000 in compensatory damages to the claimants, and Grenda settled the other two for \$47,500 and \$18,475, respectively. Permanent bars against each Respondent are in the public interest and warranted in this case in light of their egregious conduct.⁷

D. Cease and Desist Orders Are Warranted Against All Respondents

The Commission is authorized to issue cease and desist orders where a person has, among other things, been found to have violated any provision of the Securities Act or Exchange Act, or

⁷ The Division expects the evidence at trial to further support a bar based on each of the other *Steadman* factors but reserves argument on those factors until a more complete factual record exists. For example, the Division does not yet know whether Respondents will take responsibility for their misconduct or, for the first time, demonstrate a recognition of the wrongful nature of their conduct.

the rules and regulations thereunder. Exchange Act Section 21C, 15 U.S.C. § 78u-3; Securities Act Section 8A, 15 U.S.C. § 77h-1; Advisers Act Section 203(k), 15 U.S.C. § 80b-3. As described above, Respondents each willfully violated the anti-fraud provisions of the Securities Act, Exchange Act and Advisers Act (and in Dembski's and Grenda's cases, aided and abetted such violations as well). Their actions demonstrate a conscious disregard of the federal securities laws, which is particularly troubling given Respondents' status as investment advisers who are charged with putting their clients' interests ahead of their own. Accordingly, cease-and-desist orders are appropriate to prevent violations and future violations of the statutes and rules set forth above.

CONCLUSION

Based on the foregoing, the Division respectfully requests that, following the parties' presentation of evidence at trial, this Court make findings of fact with regard to the misconduct discussed above and that the requested sanctions be imposed on the Respondents.

Dated: New York, NY
May 3, 2014

Respectfully submitted,

DIVISION OF ENFORCEMENT



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EXHIBIT A

Page 1	<p>UNITED STATES SECURITIES AND EXCHANGE COMMISSION</p> <p>In the Matter of:)) File No. Ny-8916</p> <p>RELiance FINANCIAL) ADVISORS LLC)</p> <p>WITNESS: TIMOTHY DEMBSKI</p> <p>PAGES: 1-291</p> <p>PLACE: Securities and Exchange Commission Three World Financial Center - Suite 4300 New York, New York 10281</p> <p>DATE: March 21, 2014</p> <p>The above-entitled matter came on for hearing at 9:30 o'clock a.m.</p>	Page 3
<p>1 APPEARANCES:</p> <p>2</p> <p>3 On behalf of the Securities and Exchange</p> <p>4 Commission</p> <p>5 TONY FROUGE, ESQ.</p> <p>6 ALEXANDER JANGHORBANI, ESQ.</p> <p>7 STEVEN RAWLINGS, ESQ.</p> <p>8 Enforcement Division</p> <p>9 Securities and Exchange Commission</p> <p>10 3 World Financial Center - Suite 4300</p> <p>11 New York, New York 10281</p> <p>12</p> <p>13 On behalf of the Witness</p> <p>14 PAUL BATISTA, ESQ.</p> <p>15 26 Broadway</p> <p>16 New York, New York 10004</p> <p>17 -and-</p> <p>18 SCHLAM STONE & DOLAN LLP</p> <p>19 26 Broadway</p> <p>20 New York, New York 10004</p> <p>21 BY: ERIK S. GROOTHUIS, ESQ.</p> <p>22</p> <p>23 ALSO PRESENT:</p> <p>24 DANIEL TIBBETS, Intern (SEC)</p> <p>25 STEPHEN SAVOCA, Intern (SEC)</p> <p> KELSEY LORER, Intern (Schlam, Stone)</p> <p> ***</p>	<p>1 MR. FROUGE: We are on the record on the</p> <p>2 record at 9:30 on March 21, 2014.</p> <p>3 Mr. Dembski, do you consent to being</p> <p>4 placed under oath?</p> <p>5 MR. DEMBSKI: Yes.</p> <p>6 MR. FROUGE: The Court Reporter will now</p> <p>7 place you under oath.</p> <p>8 THE COURT REPORTER: Raise your right</p> <p>9 hand:</p> <p>10 Do you swear to tell the truth, the</p> <p>11 whole truth and nothing but the truth so help you</p> <p>12 God?</p> <p>13 THE WITNESS: Yes.</p> <p>14 Whereupon,</p> <p>15 TIMOTHY DEMBSKI,</p> <p>16 appeared as a witness herein and, having been first</p> <p>17 duly sworn, was examined and testified as follows:</p> <p>18 EXAMINATION BY</p> <p>19 MR. FROUGE:</p> <p>20 Q. Please state and spell your full name</p> <p>21 for the record.</p> <p>22 A. Timothy Stephen Dembski; T-I-M-O-T-H-Y,</p> <p>23 Stephen is S-T-E-P-H-E-N, Dembski is D-E-M-B-S-K-I.</p> <p>24 Q. Are you known by any other names?</p> <p>25 A. No.</p> <p>1 Q. Have you ever been known by any other</p> <p>2 names?</p> <p>3 A. No.</p> <p>4 Q. I'm Tony Frouge, an attorney with the</p> <p>5 Division of Enforcement of the U.S. Securities and</p> <p>6 Exchange Commission, and an officer of the Commission</p> <p>7 for purposes of this proceeding. With me today who</p> <p>8 is Alex Janghorbani. He is also an officer of the</p> <p>9 Commission for purposes of the testimony today, and</p> <p>10 Steven Rawlings, who will be joining us, is also an</p> <p>11 officer. Alex and Steve have the right to ask</p> <p>12 questions as well. And then two interns are with us</p> <p>13 today, Daniel Tibbets and Stephen Savoca.</p> <p>14 Your testimony today has been requested</p> <p>15 by the staff as part of a formal inquiry in the</p> <p>16 matter of Reliance Financial Advisors LLC in the</p> <p>17 matter of NY-8916 to determine whether there have</p> <p>18 been violations of the Federal Securities Laws. The</p> <p>19 facts developed in this investigation might</p> <p>20 constitute violations of other federal or state,</p> <p>21 civil or criminal laws.</p> <p>22 Prior to the opening of the record, I</p> <p>23 provided you with a copy of the Form 1662, which is</p> <p>24 the Commission's Supplemental Information Form. A</p> <p>25 copy of that form is marked as Exhibit 1.</p>	
Page 2	<p>1 APPEARANCES:</p> <p>2</p> <p>3 On behalf of the Securities and Exchange</p> <p>4 Commission</p> <p>5 TONY FROUGE, ESQ.</p> <p>6 ALEXANDER JANGHORBANI, ESQ.</p> <p>7 STEVEN RAWLINGS, ESQ.</p> <p>8 Enforcement Division</p> <p>9 Securities and Exchange Commission</p> <p>10 3 World Financial Center - Suite 4300</p> <p>11 New York, New York 10281</p> <p>12</p> <p>13 On behalf of the Witness</p> <p>14 PAUL BATISTA, ESQ.</p> <p>15 26 Broadway</p> <p>16 New York, New York 10004</p> <p>17 -and-</p> <p>18 SCHLAM STONE & DOLAN LLP</p> <p>19 26 Broadway</p> <p>20 New York, New York 10004</p> <p>21 BY: ERIK S. GROOTHUIS, ESQ.</p> <p>22</p> <p>23 ALSO PRESENT:</p> <p>24 DANIEL TIBBETS, Intern (SEC)</p> <p>25 STEPHEN SAVOCA, Intern (SEC)</p> <p> KELSEY LORER, Intern (Schlam, Stone)</p> <p> ***</p>	Page 4

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<p>1 Q. What was your typical investment advice</p> <p>2 to those people?</p> <p>3 A. Again, each person is different.</p> <p>4 Married, not married, how much debt they have.</p> <p>5 Children. Pension or not. Social Security</p> <p>6 estimates. I would do a pro forma tax return looking</p> <p>7 at their prior year's taxes and see how it would</p> <p>8 affect them going forward.</p> <p>9 Most people don't realize you pay more</p> <p>10 taxes when you're working rather than when you're</p> <p>11 retired. I would go through their actual retirement</p> <p>12 and give them an idea of what their tax return would</p> <p>13 look like.</p> <p>14 Q. Before 2011, did you ever recommend to a</p> <p>15 client to invest in a hedge fund?</p> <p>16 A. No.</p> <p>17 BY MR. JANGHORBANI:</p> <p>18 Q. Why not?</p> <p>19 A. I really didn't know what they were.</p> <p>20 Q. The things that you just listed, these</p> <p>21 were steps that you would take to determine what</p> <p>22 appropriate investments were for your clients; do I</p> <p>23 have that right?</p> <p>24 A. That was just the beginning. Then it</p> <p>25 chopped off before I got into talking about it.</p>	<p>1 BY MR. JANGHORBANI:</p> <p>2 Q. Was this some sort of organized league?</p> <p>3 A. Yes.</p> <p>4 Q. What was the league?</p> <p>5 A. It was some New York State -- it was</p> <p>6 considered a double A baseball. New York State had</p> <p>7 some -- I don't know. It's very long. It was</p> <p>8 considered the double A league.</p> <p>9 Q. Was it associated with a university of</p> <p>10 some kind?</p> <p>11 A. No.</p> <p>12 Q. So this was a private league that you</p> <p>13 joined?</p> <p>14 A. Yes. It was a summer baseball league.</p> <p>15 Q. And how old were you when you joined the</p> <p>16 league?</p> <p>17 A. I played through college. After</p> <p>18 college -- I continued to play.</p> <p>19 Q. Did you meet Mr. Stephan during college,</p> <p>20 after college?</p> <p>21 A. After college.</p> <p>22 Q. How long after college?</p> <p>23 A. Maybe a couple of years after. I played</p> <p>24 at a couple of different leagues. One kind of blew</p> <p>25 up and then I went to a different league. So that's</p>
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<p>1 Q. Those things that you listed, those were</p> <p>2 the steps?</p> <p>3 A. That was part of my process.</p> <p>4 Q. Describe the rest of your process.</p> <p>5 A. Talking it through with clients.</p> <p>6 Basically understanding what type of risk they are</p> <p>7 willing to take, what type of income is needed from</p> <p>8 the investments, and then investing it appropriately</p> <p>9 based on the needs and what they would like to do in</p> <p>10 the future, and also keeping in mind ramifications of</p> <p>11 estate taxes and income taxes.</p> <p>12 BY MR. FROUGE:</p> <p>13 Q. Scott Stephan, when did you meet him?</p> <p>14 A. I met him playing baseball.</p> <p>15 Q. You met him playing baseball when?</p> <p>16 A. Quite a while ago. I don't know the</p> <p>17 specific date.</p> <p>18 Q. Was it in the mid '90s, late '90s,</p> <p>19 around there?</p> <p>20 A. Yeah, mid to late '90s.</p> <p>21 Q. And you met him upstate New York?</p> <p>22 A. Yes.</p> <p>23 Q. How long did you guys play baseball</p> <p>24 together?</p> <p>25 A. Until he moved to Atlanta.</p>	<p>1 where I met Scott. I believe that was after college.</p> <p>2 BY MR. FROUGE:</p> <p>3 Q. While playing, were you guys friends?</p> <p>4 A. Yes.</p> <p>5 Q. Were you on the same team?</p> <p>6 A. Yes.</p> <p>7 Q. When he -- would you socialize with him</p> <p>8 outside of league time?</p> <p>9 A. Eventually, yeah, we became friends.</p> <p>10 For the first three or four years, it was just</p> <p>11 somebody you played with. Then we get to know each</p> <p>12 other better.</p> <p>13 Q. And you mentioned that he moved. Where</p> <p>14 did Scott move to?</p> <p>15 A. Atlanta, Georgia.</p> <p>16 Q. Before he moved, do you know what Scott</p> <p>17 was doing for a job?</p> <p>18 A. I believe he worked for a company called</p> <p>19 GE Capital.</p> <p>20 Q. Do you know what he was doing there?</p> <p>21 A. Supervisor of a collections, I think.</p> <p>22 Q. Collections of what?</p> <p>23 A. I have no idea what he did at GE</p> <p>24 Capital, like what they were collecting there.</p> <p>25 Q. Was he involved in the securities</p>

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1 A. I don't even know if they asked that
 2 question.
 3 Q. How did they learn your and Scott's
 4 biographies and professional backgrounds to include
 5 in the PPM?
 6 A. My biography was already written for
 7 Reliance. I know for a fact I came out of a meeting
 8 and Scott was working with someone from Holland &
 9 Knight on his bio. I did see it and I literally
 10 said, "What the heck is that?" And he said, "Well, I
 11 was working with... fill in the blank... the Holland
 12 & Knight attorney, they even called Blaise to verify
 13 it." And I said, "That doesn't even make sense to do
 14 it." And he said, "That's what they said we should
 15 do, at Holland & Knight."
 16 BY MR. JANGHORBANI:
 17 Q. So you said you walked out and
 18 Mr. Stephan was sitting with a Holland & Knight
 19 attorney working on the bio?
 20 A. No, he was sitting in his office. And
 21 as I was leaving a meeting from the conference room,
 22 Scott's office was next to the conference room --
 23 Q. And you saw him writing the bio?
 24 A. He said -- you know, I stopped and said,
 25 "What's going on?" He said, "I just got done talking

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1 to" -- I don't remember which attorney -- "because we
 2 have to get our bios done. I worked with them to get
 3 it done."
 4 Q. What did you say?
 5 A. I didn't like it.
 6 Q. What do you mean?
 7 A. I read it and the aspect of the
 8 \$500 million merely stuck out to me, and Scott said
 9 to me, "Well, they said that the portfolio of
 10 receivables is a portfolio of debt, which is a
 11 security." That's why they told him to put it on
 12 there.
 13 Q. You said you didn't like it. What
 14 didn't you like about it?
 15 A. That aspect, immediately.
 16 Q. What about that aspect?
 17 A. Exactly, you know, I didn't understand
 18 where they were coming from with it. I wasn't the
 19 one writing it, so I wasn't the one putting it
 20 together and representing it.
 21 Q. Okay. But I guess I'm still wrestling
 22 with what you didn't like about it.
 23 A. That it said 500 million in securities.
 24 Q. What was wrong with that statement?
 25 A. I didn't believe that it was correct.

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1 Q. Why not?
 2 A. His management of debt in Holland &
 3 Knight's eyes was a security.
 4 Q. But why didn't you believe it was
 5 correct?
 6 A. A, I didn't know he managed 500 million
 7 in collectables; and, B, I didn't understand what it
 8 really was telling me.
 9 Q. Okay. I guess I'm a little confused.
 10 So a moment ago you said something about
 11 that statement that you didn't think was correct;
 12 right?
 13 A. I said that I didn't like it.
 14 Q. Right. And what I'm trying to get at is
 15 what didn't you like about it?
 16 A. The aspect of the 500 million in
 17 securities.
 18 Q. Was that statement not accurate?
 19 A. Again, to me, at first glance, I looked
 20 at it as I didn't know he managed 500 million in
 21 debt.
 22 Q. Did you ask him about it?
 23 A. Well, I confronted him immediately.
 24 Q. What did you say?
 25 A. His response was, "The attorney spoke to

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1 my boss and they feel comfortable putting it as my
 2 bio."
 3 Again, this is counsel that I'm spending
 4 a lot of money on that I entrust.
 5 Q. Did you talk to anyone at Holland &
 6 Knight about that?
 7 A. I did not.
 8 Q. Did you ever talk -- when you say they
 9 spoke to Mr. Stephan's boss, you mean Mr. Grenda?
 10 A. No, he used the name Blaise
 11 specifically.
 12 Q. This is the person at -- what was the
 13 name of the company?
 14 A. First Investors.
 15 Q. Did you speak with Mr. Blaise?
 16 A. No, I did not.
 17 Q. Did you say anything else to
 18 Mr. Stephan?
 19 A. No. Again, my reliance was on Holland &
 20 Knight. I knew what my bio was. They put it
 21 together. It was in the middle of tax season, hence
 22 the reason why I spent so much money on -- I wanted
 23 it to be a very respectable, done correctly. I
 24 wanted to have the best attorneys of what I was told.
 25 So when they told me something, I wasn't about to

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1 responsibility to make the fund's investment
 2 decisions on behalf of the general partner." Did you
 3 have any conversations with Holland & Knight about
 4 the addition of that line?
 5 A. No.
 6 Q. And then the next sentence, you provided
 7 Holland & Knight with the line, "Prior to the
 8 creation of Prestige Wealth Management, Scott has
 9 worked in the financial services industry for over 14
 10 years." In the final PPM, it reads, "Mr. Stephan has
 11 worked in the financial services industry for over 14
 12 years." What does that mean?
 13 A. I didn't create that bio, you know. I
 14 don't know what it means.
 15 BY MR. JANGHORBANI:
 16 Q. Let's take a step back. You see your
 17 e-mail, it says "Subject: Bio"?
 18 A. Yes.
 19 Q. You sent this e-mail; right?
 20 A. I did.
 21 Q. Did you write this language here?
 22 A. No.
 23 Q. How did this language come to be in your
 24 e-mail?
 25 A. You can see specifically, even in the

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1 e-mail, there is different writing, even a different
 2 font. They were copied and pasted and sent. That
 3 was it.
 4 Q. So focusing on Mr. Stephan's bio, you
 5 said you copied and pasted this?
 6 A. Correct.
 7 Q. Where did you copy and paste it from?
 8 A. I don't recall.
 9 Q. It was a document on a computer?
 10 A. Again, I wracked my brains to try to
 11 remember. I don't remember where it was copied and
 12 pasted. It was literally like that, like it needs to
 13 be done, my wireless Internet worked and the Internet
 14 was down at the office. It had to be somebody sent
 15 it, so I just copied, pasted it and sent it.
 16 Q. Was this bio listed in Exhibit 27, was
 17 that any different than the bio you read when you had
 18 your conversation with Mr. Stephan?
 19 A. I don't recall, specifically.
 20 Q. Do you recall any differences as you sit
 21 here?
 22 A. No, I don't.
 23 (Mr. Rawlings enters the room.)
 24 Q. You see it says "Scott has worked in the
 25 financial services industry for over 14 years"?

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1 A. Correct.
 2 Q. What did you understand that to mean?
 3 A. Again, they explained that what he
 4 did --
 5 Q. Who?
 6 A. Holland & Knight explained that what
 7 Scott did was in the financial industry.
 8 Q. But you didn't have any conversations
 9 with Holland & Knight about that; correct?
 10 A. No.
 11 Q. So who told you that?
 12 A. Scott Stephan.
 13 Q. He told you he was relaying a
 14 conversation he had with Holland & Knight?
 15 A. Correct.
 16 Q. Did he tell you who that person was?
 17 A. It was either Scott MacLeod or Amy
 18 Rigdon.
 19 Q. I just want to ask you: What did you
 20 understand this to mean, "Scott has worked in the
 21 financial services industry for over 14 years," what
 22 was your understanding of what that meant?
 23 A. That he was in the financial industry.
 24 Q. Okay. And what experience did he have
 25 in the financial services industry?

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1 A. It says he has 14 years experience. Is
 2 that what you're asking me?
 3 Q. I am asking you what was that
 4 experience?
 5 A. Well, he, according to their --
 6 Q. I am not asking according to the bio. I
 7 am asking according to you.
 8 A. I didn't write the bio. You're asking
 9 me to explain something I didn't write.
 10 Q. I'm asking you -- let me try it this
 11 way: Did Mr. Stephan have, in your view, 14 years --
 12 over 14 years of experience in the financial services
 13 industry in December of 2010?
 14 A. It could be construed as financial
 15 services industry; according to how Holland & Knight
 16 explained it.
 17 Q. Did you construe it that way?
 18 A. Financial services industry could be a
 19 wide range of things.
 20 Q. I'm just asking you for your
 21 understanding. That's a pretty straightforward
 22 question.
 23 A. Yeah, it's a gray area, so it could
 24 probably be argued either way.
 25 Q. So at the time, at the time when you

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1 read this, did you think that this statement was
 2 accurate?
 3 A. I didn't have a problem with that aspect
 4 of it.
 5 Q. Even though it was a gray area, that it
 6 could be construed either way?
 7 A. When Holland & Knight -- I was assured
 8 that they did this. I had no question. I trusted
 9 them. I paid them to set up everything and do
 10 everything the right way. So I didn't at any time
 11 think to go against them, not to mention for a bio.
 12 I had no -- at any time think this is
 13 wrong and this is going to cause some major havoc.
 14 It was a bio. To me, it wasn't something that I
 15 pushed back on for Holland & Knight. So I was
 16 just -- had them in such high regard.
 17 Q. Okay. Again, again, I'm not asking you
 18 what anybody else thought. I'm not asking you how
 19 anyone at Holland & Knight understood this sentence
 20 or Mr. Stephan or anyone. I'm simply asking you if
 21 you thought this sentence was accurate in December of
 22 2010?
 23 MR. BATISTA: He answered it.
 24 A. I said I thought it was a gray area.
 25 Q. Did you tell anyone "I think this is a

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1 gray area"?)
 2 A. No.
 3 Q. Why not?
 4 A. It was Holland & Knight. I trusted
 5 them. To me, in this situation, what they were
 6 telling me was gospel.
 7 Q. Could you describe for me what
 8 Mr. Stephan's 14 years of experience in the financial
 9 service industry was as you saw it in December 2010?
 10 A. Again, you keep referring to that as I
 11 saw it.
 12 Q. Yes.
 13 A. I read it. I thought it was a gray
 14 area.
 15 Q. Okay. So -- but all I'm asking is for
 16 your own understanding; correct? Did you have an
 17 understanding as to whether he had 14 years of
 18 experience in the financial services industry?
 19 MR. BATISTA: Truly, he answered that
 20 three or four times.
 21 MR. JANGHORBANI: He truly hasn't.
 22 MR. BATISTA: He truly has.
 23 A. Being a gray area can be construed that
 24 it is accurate.
 25 Q. But being a gray area can construe that

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1 it isn't accurate; correct?
 2 A. Correct.
 3 Q. And you knew that at the time; correct?
 4 A. It's a gray area. Someone could argue
 5 on both sides.
 6 Q. Then you see the first half of his
 7 career he co-managed a portfolio of over \$500 million
 8 for First Investors Financials Services. Do you see
 9 that?
 10 A. Yes.
 11 Q. When you saw that back in December 2010,
 12 what did you understand that sentence to mean?
 13 A. I didn't understand it.
 14 Q. You didn't understand it?
 15 A. I didn't understand it. It was
 16 explained to me by Scott that Holland & Knight told
 17 him that he was collecting on debt. Debts was a
 18 security, so that's why they used that in the bio.
 19 Q. Okay.
 20 A. Even on the tape with Scott MacLeod, you
 21 hear him explaining: Why would I have even asked him
 22 about the bio if I was the one that created it? He
 23 definitely defends it even on the tape.
 24 Q. Earlier, before you read this e-mail,
 25 you said that some of the language in here troubled

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1 you; correct?
 2 A. We went over the parts that troubled me.
 3 Q. Does this sentence trouble you? The
 4 first half of his career, that sentence, did that
 5 trouble you?
 6 A. Yes.
 7 Q. Why did it trouble you?
 8 A. Because I didn't understand.
 9 Q. What didn't you understand about it?
 10 A. We went over the 500 million. We went
 11 over, A, I didn't know it was considered a security.
 12 Holland & Knight told us it was a security. I didn't
 13 know that he had that debt of 500 million. I didn't
 14 know that.
 15 Q. Did you ever ask him -- what do you mean
 16 by debt of over 500 million?
 17 A. Whatever the -- portfolio, I'm sorry, of
 18 over --
 19 Q. You didn't know that he managed a
 20 portfolio of over 500 million?
 21 A. No, I did not.
 22 Q. Did you ask him about it?
 23 A. All I asked him was what was that about.
 24 He said that Holland & Knight called his boss and
 25 they explained that the \$500 million portfolio that

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<p>1 he managed of debt was considered a security. 2 Q. Did he say anything else to you about 3 that sentence? 4 A. Well, just that whoever at Holland & 5 Knight called Blaise to verify it. 6 Q. Did he say anything else to you about 7 that sentence? 8 A. Not that I recall. 9 Q. Did you think that sentence was accurate 10 when you read it in December 2010? 11 A. I challenged it, so obviously I didn't 12 at that time. 13 Q. You didn't think it was accurate? 14 A. I didn't understand it, so that's why I 15 challenged it. 16 Q. But my question isn't whether you 17 understood it, my question is: Did you think the 18 sentence was accurate? 19 MR. BATISTA: He's answered the 20 question. He formed no judgement as to accuracy or 21 inaccuracy. 22 MR. JANGHORBANI: Don't testify for him, 23 sir. 24 MR. BATISTA: I'm not. You're going 25 over the same territory several times.</p>	<p>1 Q. Why not? 2 A. Holland & Knight -- I didn't challenge 3 them. 4 Q. But you didn't talk to Holland & Knight; 5 right? 6 A. I didn't. 7 Q. Okay. So if you thought this was a gray 8 area and you were troubled by it, why didn't you talk 9 to Holland & Knight about it? 10 A. I did when the SEC audited us and 11 brought it up as a question. 12 Q. When was that? 13 A. You have the recording. 14 MR. FROUGE: The call was January 10, 15 2013. 16 Q. So a couple of years later, after this 17 e-mail; right? 18 A. I trusted Holland & Knight with the 19 entire setup, and then it became an issue. When it 20 became an issue, I asked them, because they were the 21 ones that produced it, "Can you please explain this 22 to me, why you did this?" And he did. 23 Q. But my question is, in December 2010, 24 when you were troubled by this, why didn't you talk 25 to Holland & Knight about it?</p>
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<p>1 He answered your question. 2 MR. JANGHORBANI: I am entitled to a 3 straight-forward answer. I am asking him a 4 straight-forward question. 5 MR. BATISTA: You are getting it. You 6 are not listening. 7 MR. JANGHORBANI: Your objection is 8 noted, sir. 9 Q. I will re-ask the question: Did you 10 think that sentence was accurate in December 2010? 11 A. Reading something and not knowing or 12 understanding doesn't mean I have an honest opinion 13 of accuracy or not. I didn't understand it. 14 Q. So you had no opinion whether it was 15 accurate? 16 A. It was a gray -- 17 Q. It was a gray area, could be accurate, 18 could be not accurate; correct? 19 A. Correct. 20 Q. Did you talk to anyone other than 21 Mr. Stephan about that sentence? 22 A. I'm sorry? 23 Q. Did you talk to anyone other than 24 Mr. Stephan about that sentence? 25 A. No.</p>	<p>1 A. I did not think it was that big of a 2 deal and I trusted Holland & Knight. 3 Q. Then you see the next sentence after he 4 moved on to become vice president of investments for 5 a New York-based investment company in which he was 6 responsible for portfolio management and analysis? 7 A. Correct. 8 Q. What did you understand that sentence to 9 mean? 10 A. He was a vice president helping Walter 11 Grenda with portfolio analysis and management of it. 12 Q. And management. So this is a reference 13 to when he worked at Reliance? 14 A. With Walter; correct. 15 Q. What did Mr. Stephan do specifically to 16 manage any of Reliance's portfolios? 17 A. As far as Walter was concerned for his 18 portfolio, he was doing the research that Walter used 19 in managing the portfolios. 20 Q. Did he actually manage the portfolio, 21 Mr. Stephan? 22 A. Not directly, no. 23 Q. Not directly. Okay. So is it accurate 24 to say that he was responsible for portfolio 25 management?</p>

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<p>1 Q. Okay.</p> <p>2 MR. BATISTA: Don't you guys confer</p> <p>3 before a decision is made? Don't you guys talk to</p> <p>4 each other? That's what we are talking about here.</p> <p>5 Q. Do you need a minute, sir?</p> <p>6 A. My sinuses are crazy here.</p> <p>7 Q. Take a minute to drink some water,</p> <p>8 please.</p> <p>9 (Pause.)</p> <p>10 A. I'm sorry.</p> <p>11 Q. Were any of Reliance's clients ever told</p> <p>12 that Mr. Stephan was responsible for managing their</p> <p>13 portfolios?</p> <p>14 A. I know that Scott did go into meetings</p> <p>15 with Walter. What happened at those meetings, I have</p> <p>16 no idea.</p> <p>17 Q. Do you know of any instance where any of</p> <p>18 Reliance's customers were told that Mr. Stephan</p> <p>19 managed their portfolio?</p> <p>20 A. No, I was never in those meetings.</p> <p>21 Q. You don't know of that ever happening?</p> <p>22 A. No, I don't.</p> <p>23 Q. Okay.</p> <p>24 BY MR. FROUGE:</p> <p>25 Q. How did you find investors for the</p>	<p>1 had zero input to change anything that Holland &</p> <p>2 Knight did. If I thought that they were the</p> <p>3 authority and the best in the business, I had no</p> <p>4 reason to change anything that they did.</p> <p>5 Q. So you didn't want to check to see if it</p> <p>6 was accurate?</p> <p>7 MR. BATISTA: That's an argumentative</p> <p>8 question and you know it.</p> <p>9 MR. JANGHORBANI: I will withdraw it.</p> <p>10 Q. Did you check to see if the information</p> <p>11 in the PPM was accurate?</p> <p>12 A. I didn't really understand what I was</p> <p>13 reading.</p> <p>14 Q. Okay. Did you check the biography</p> <p>15 section to see if it was accurate?</p> <p>16 A. I didn't.</p> <p>17 MR. BATISTA: He's answered that.</p> <p>18 A. I don't remember reading it.</p> <p>19 Q. You don't remember reading it? Okay.</p> <p>20 BY MR. FROUGE:</p> <p>21 Q. How did you find investors for the</p> <p>22 Prestige Fund?</p> <p>23 A. As the fund, or the idea of the fund was</p> <p>24 growing, each person really was brought in or talked</p> <p>25 about in different ways so just relative to who they</p>
Page 174	Page 176
<p>1 Prestige Fund?</p> <p>2 BY MR. JANGHORBANI:</p> <p>3 Q. Sorry, really quickly, just to close the</p> <p>4 loop, Exhibit 30, that's the big guy, if you want I</p> <p>5 can flip back to it, that's the PPM, could you flip</p> <p>6 back to page 55 of that. Did you read the PPM?</p> <p>7 A. Not beginning to end.</p> <p>8 Q. Okay. You didn't read it beginning to</p> <p>9 end?</p> <p>10 A. No.</p> <p>11 Q. Did you read sections of it?</p> <p>12 A. I read through pieces here and there.</p> <p>13 Q. Did you read the biography section on</p> <p>14 page 55?</p> <p>15 A. Since being notified that I had to,</p> <p>16 absolutely.</p> <p>17 Q. What about back in January of 2011?</p> <p>18 A. I don't remember.</p> <p>19 Q. You don't remember ever reading it?</p> <p>20 A. No.</p> <p>21 Q. Did you ever check to see if it was the</p> <p>22 same as what you had e-mailed to Ms. Rigdon in</p> <p>23 December of 2010?</p> <p>24 A. Again, Holland & Knight set this up, and</p> <p>25 I trusted them. Okay, so when everything was done, I</p>	<p>1 were.</p> <p>2 Q. How did you determine who to solicit?</p> <p>3 A. Well, it was relative to, you know,</p> <p>4 their assets, obviously, their knowledge. And it</p> <p>5 wasn't something that I was really soliciting, in</p> <p>6 essence. It was: This is what the fund is and if</p> <p>7 you're interested in the fund, then let me know: You</p> <p>8 know, it's not a: You need to get into this.</p> <p>9 BY MR. JANGHORBANI:</p> <p>10 Q. Did you go to your Reliance customers to</p> <p>11 tell them about the Prestige Fund?</p> <p>12 A. As I was going through tax season and I</p> <p>13 met with a lot of my clients, of course they want to</p> <p>14 know what's going on or what's happening, the</p> <p>15 conversation would come up.</p> <p>16 Q. Okay. Did you approach anyone other</p> <p>17 than your pre-existing Reliance clients about</p> <p>18 investing in the Prestige Fund?</p> <p>19 A. There were tax clients.</p> <p>20 Q. But everyone that you approached about</p> <p>21 investing in the Prestige Fund was a prior client of</p> <p>22 yours, either a tax client or investment client.</p> <p>23 Do I have that right?</p> <p>24 A. No. There was another person that</p> <p>25 showed interest.</p>

44 (Pages 173 to 176)

Page 189	Page 191
<p>1 idea?</p> <p>2 A. Yes.</p> <p>3 Q. And each of those investments could lose</p> <p>4 1 percent under the algorithm; correct?</p> <p>5 A. Correct.</p> <p>6 Q. Okay, I just wanted to make sure I</p> <p>7 understood that.</p> <p>8 BY MR. FROUGE:</p> <p>9 Q. Did you ever tell anyone the strategy</p> <p>10 could not lose, you could not lose in it?</p> <p>11 A. No.</p> <p>12 Q. Did you ever tell anyone it was safe?</p> <p>13 A. No.</p> <p>14 Q. Did you ever tell anyone that the PWM</p> <p>15 Fund was risk free?</p> <p>16 A. No.</p> <p>17 Q. Did you ever tell anyone that you were</p> <p>18 working with lawyers on Wall Street to patent the</p> <p>19 algorithm or the automated trading system?</p> <p>20 A. No.</p> <p>21 BY MR. JANGHORBANI:</p> <p>22 Q. Did you ever work with anyone to patent</p> <p>23 it?</p> <p>24 MR. BATISTA: I'm sorry?</p> <p>25 Q. Did you take any efforts to patent the</p>	<p>1 see if it worked.</p> <p>2 BY MR. JANGHORBANI:</p> <p>3 Q. I'm sorry, one other question: Did any</p> <p>4 brokerage house ever offer to buy the formula?</p> <p>5 A. No.</p> <p>6 Q. Or your fund?</p> <p>7 A. No.</p> <p>8 Q. Did anyone ever offer to buy the</p> <p>9 formula?</p> <p>10 A. No.</p> <p>11 Q. Or your fund?</p> <p>12 A. No.</p> <p>13 BY MR. FROUGE:</p> <p>14 Q. Did you ever tell anyone that an intern</p> <p>15 you worked with invested fake money in the strategy</p> <p>16 and over a month he earned enough to buy a Mercedes?</p> <p>17 A. No.</p> <p>18 BY MR. JANGHORBANI:</p> <p>19 Q. Did that ever happen?</p> <p>20 A. You said fake money. Can you read that</p> <p>21 again?</p> <p>22 BY MR. FROUGE:</p> <p>23 Q. Instead of fake let me use the word</p> <p>24 "mock." An intern --</p> <p>25 A. Can I explain?</p>
Page 190	Page 192
<p>1 formula?</p> <p>2 A. No, it was Scott's formula.</p> <p>3 Q. Did Scott take any efforts to patent the</p> <p>4 formula?</p> <p>5 A. I don't know.</p> <p>6 Q. Not that you know of?</p> <p>7 A. Not that I know of.</p> <p>8 Q. Did anyone ever take any efforts to</p> <p>9 patent the formula?</p> <p>10 A. I know I didn't. I don't know if anyone</p> <p>11 else did.</p> <p>12 Q. You don't know of anyone else doing</p> <p>13 that?</p> <p>14 A. Correct.</p> <p>15 BY MR. FROUGE:</p> <p>16 Q. Did you ever tell anyone that large</p> <p>17 brokerage houses offered to buy the trading model?</p> <p>18 A. No.</p> <p>19 Q. I think Alex touched on this before:</p> <p>20 When you explained the trading model to potential</p> <p>21 investors, did you explain it was Scott's creation or</p> <p>22 yours or both?</p> <p>23 A. I talked about the infancy stages of it,</p> <p>24 that it's Scott's formula, and that we worked</p> <p>25 together on it and I had gone through it to check to</p>	<p>1 Q. Please.</p> <p>2 A. One of the interns, a bright kid, didn't</p> <p>3 want anything. His name was Mike Anderson.</p> <p>4 BY MR. JANGHORBANI:</p> <p>5 Q. Mike Anderson?</p> <p>6 A. Yes. He wanted to help out as much as</p> <p>7 he could. So his whole goal was -- because he was</p> <p>8 part of the process, too. All he wanted was to have</p> <p>9 us open up an Interactive brokerage account with the</p> <p>10 formula. His mother had given him \$40,000 to open</p> <p>11 this account. So this was opened prior to the fund</p> <p>12 even opening. And he made a significant amount of</p> <p>13 money before we even opened the fund.</p> <p>14 In fact, he ended up buying a Mercedes</p> <p>15 and, even today, I do his income taxes, he is still</p> <p>16 making a significant amount of money off of that</p> <p>17 trading system in that account.</p> <p>18 Q. Using the formula?</p> <p>19 A. Yes.</p> <p>20 BY MR. FROUGE:</p> <p>21 Q. Did you ever talk to any investors about</p> <p>22 that?</p> <p>23 A. His mother was in the fund.</p> <p>24 BY MR. JANGHORBANI:</p> <p>25 Q. Did you ever talk to any other investors</p>

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EXHIBIT B

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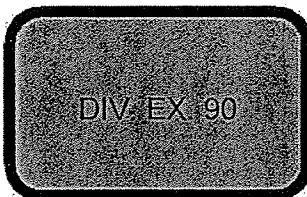
PRESTIGE WEALTH MANAGEMENT FUND, LP

Confidential Private Placement Memorandum

February 1, 2011

GENERAL PARTNER:
Prestige Wealth Management, LLC
2819 William St.
Buffalo, NY 14227

#9978034_v3



CONFIDENTIAL

PWM0000686

File-SEC-0041307
SEC-NY-08916-000093766

The General Partner. The Fund's general partner is Prestige Wealth Management, LLC, a limited liability company organized under the laws of Delaware on November 12, 2010 (the "General Partner"). The General Partner is not registered as an investment adviser under the Advisers Act or any state law. Scott Stephan and Timothy Dembski are the sole members of the General Partner, and on behalf of the General Partner Scott Stephan will have exclusive responsibility and authority for the Fund's investment decisions. Any references to the General Partner herein in connection with investment decisionmaking will in fact be the responsibility of Scott Stephan on behalf of the General Partner. The address of the General Partner is as set forth in the Directory.

Principals of the General Partner.

Timothy S. Dembski

Timothy S. Dembski is a co-founder and managing member of the General Partner. Prior to the creation of the General Partner, Mr. Dembski worked as the Managing Partner of a New York based independent firm where he was instrumental in building, servicing, and maintaining a portfolio of high net worth investors. Mr. Dembski has over 15 years of investment experience, including analysis, portfolio management, and asset consulting. Mr. Dembski is currently on the business advisory board for business administration at a local college. He has also worked as a trustee of multiple organizations. Mr. Dembski earned his Bachelor degree in Business Administration with a focus in accounting from St. Bonaventure University in 1994.

Scott M. Stephan

Scott M. Stephan is co-founder and Chief Investment Officer of the General Partner. He has the 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.

There has not been any material administrative, civil or criminal action against the General Partner or any principal thereof other than as described in "Management Risks" under "CERTAIN RISKS FACTORS" or that impedes their abilities to manage the Fund.

Prime Broker/Custodian

The Fund may retain at Fund expense one or more financial institutions or brokers as prime broker. ~~To the extent that the Fund does not hire a prime broker, the Fund's custodian is expected to provide trade execution, which may include clearing and settlement. Currently, the Fund intends, but is not required, to use Raven Securities as its custodian-broker. Raven Securities' address is as set forth in the Directory of this Memorandum. For more information regarding the custodian or any prime broker the Fund may utilize, please refer to the Fund's Directory for relevant contact information, contact the General Partner, or refer to the custodian's or prime broker's website or other publicly available information. Notwithstanding any other statement herein, the Fund may, in its sole discretion, add or change one or more prime brokers or custodians, if any, without notice to Investors at any time. Accordingly, Investors should periodically ask the General Partner about the status of the Fund's prime broker and/or custodian, if any.~~

The prime broker processes certain trades and may receive and deliver securities, act as custodian, and provide daily and other frequent portfolio accounting and tax reports if these functions are not performed by the General Partner. Such prime broker may, at the request of the Fund, open ~~accounts with brokers or other intermediaries in the name of the Fund and may make such arrangements concerning trading authorizations and other forms of authority with respect to such accounts or accounts as it deems advisable. The prime broker shall not be responsible for the safekeeping of investments or~~

EXHIBIT C

UNITED STATES OF AMERICA
before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File Nos. 3-16311, 3-16312

In the Matters of

RELIANCE FINANCIAL
ADVISORS, LLC, TIMOTHY S.
DEMBSKI and WALTER F.
GREENDA, JR.,

SCOTT M. STEPHAN

DIVISION OF ENFORCEMENT'S AND RESPONDENT SCOTT M. STEPHAN'S
STIPULATIONS OF FACTS

As required by the Court's January 9, 2015 Order in the above-captioned matters, the Division of Enforcement ("Division") and Respondent Scott M. Stephan ("Stephan") stipulate to the following facts:¹

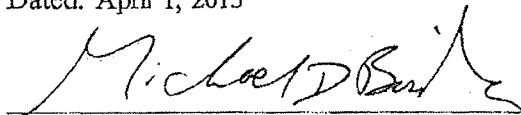
1. Stephan did not attend college.
2. While at First Investors Financial Services ("FIFS"), Stephan's job was to manage a call center responsible for collecting on delinquent auto loans.
3. While at FIFS, Stephan told Grenda and Dembski that his job was to manage a call center responsible for collecting on delinquent auto loans.
4. While at Reliance Group, Stephan reported to Grenda and Dembski.
5. While at Reliance Group, Stephan did not make any investment decisions, provide any investment advice, manage any client money or trade any securities.

¹ All defined terms used herein have their same meaning as used in the Division's Orders Instituting Proceedings in the above-captioned matters, both dated December 10, 2014.

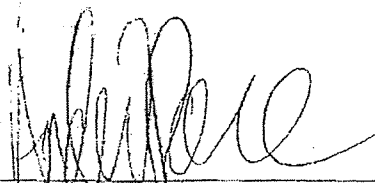
6. In 2010, Stephan created the trading strategy behind the Algorithm.
7. Stephan chose the stocks that the Algorithm would trade.
8. Stephan never tested the Algorithm using real money.
9. Before Grenda and Dembski solicited investments in the Prestige Fund, Stephan told Grenda and Dembski that he did not test the Algorithm using real money.
10. In late 2010 (months before the Prestige Fund started trading securities), Stephan agreed with Dembski that Dembski would have no day-to-day involvement in the Prestige Fund.
11. As the Prestige Fund's Chief Investment Officer and sole portfolio manager, Stephan alone was authorized to decide, and did decide, what the Prestige Fund and its Algorithm traded.
12. In December 2010, Amy Rigdon of Holland & Knight LLP ("Holland" or "Law Firm") asked Dembski and Stephan to provide professional biographies to include in the PPM for the Prestige Fund (the "PPM").
13. In response to Rigdon's request, Dembski and Stephan then provided their professional biographies to her.
14. Before using the Prestige Fund's PPM with investors and before the Prestige Fund started trading securities in April 2011:
 - a. Stephan has no recollection of ever asking anyone at Holland to render any legal advice or opinion concerning the language to be used in his professional biography in the PPM.
 - b. Stephan has no recollection of anybody at Holland ever communicating any legal advice or opinion to Stephan concerning the language to be used in his professional biography in the PPM.
 - c. Stephan has no recollection of ever telling Dembski that anyone at Holland ever communicated any legal advice or opinion to him (Stephan) concerning the language to be used in Stephan's professional biography in the PPM.
15. Prior to creating the Prestige Fund, Stephan's only experience managing a portfolio of any kind was collecting on a "portfolio" of delinquent auto loans.
16. Stephan never was a Vice President of Investments for a New York based investment company.

17. Stephan, Grenda and Dembski used the PPM in connection with the offer and sale of investments in the Prestige Fund; those potential and actual investors who were given the PPM were given an identical copy of the PPM, which is identified by Bates Nos. SEC-NY-08916-000093766 - 000093853.
18. The Prestige Fund starting trading securities in April 2011.
19. In September 2011, Stephan told Dembski that he took the Algorithm off completely and was trading securities manually in the Prestige Fund because he (Stephan) was still tweaking the Algorithm to correct the problems it was having.
20. Dembski did not express any concerns to Stephan about Stephan trading securities manually in the Prestige Fund and Dembski never followed up with Stephan to ask if he was trading securities pursuant to the Algorithm again.
21. Stephan never gave access to the Prestige Fund's trading account (via a log-in) to Grenda or Dembski so Grenda and Dembski could not see or monitor what Stephan was trading or the Fund's performance on a daily basis.
22. From the outset, Stephan agreed with Dembski that Dembski would receive 2/3 of the management and performance fees from the Prestige Fund and that he (Stephan) would receive 1/3 of the management and performance fees from the Prestige Fund.
23. Stephan agreed with Dembski to split fees 2/3 versus 1/3 because, among other reasons, it was Dembski who brought clients over to invest in the Prestige Fund.
24. Stephan received \$123,505.91 in total management and performance fees from Prestige Fund, from July 7, 2011 to December 3, 2012.

Dated: April 1, 2015



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(716) 662-9808 (x109)
(716) 662-9546 (fax)

EXHIBIT D

1 FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
2 DEPARTMENT OF ENFORCEMENT

3 -----x
4 In the Matter of:

5 WALTER F. GREENDA, JR. Matter No.
6 20130361687

7 Testimony of:

8 WALTER F. GREENDA, JR.
9 -----x

10 581 Main Street
Woodbridge, New Jersey 07095

11
12
13 May 23, 2013
10:04 a.m.

14
15 A P P E A R A N C E S:

16 For the Department of Enforcement:

17 AMY MOSHO, Principal Examiner
18 ROBERT J. MCCARTHY, Examination Manager

19
20 FINRA

21 BONNIE S. MCGUIRE, ESQ., Senior Regional Counsel
22 99 High Street - Suite 900
23 Boston, MA 02110
24
25

1 A. Correct.

2 Q. That statement is accurate?

3 A. Correct.

4 Q. It says he's worked in the financial
5 services industry for over 14 years?

6 A. Yes.

7 Q. And where did that number come from?

8 A. I suspect from Scott Stephan giving
9 that information to Holland & Knight, law firm.

10 Q. What was that number based on, from
11 your knowledge of Scott Stephan?

12 A. From his -- certainly his involvement
13 with First Investors.

14 Q. What did he do for First Investors?

15 A. Managed a book of debt. It was a
16 range -- sizeable book of debt.

17 I actually talked to his boss, and I don't
18 remember his name, on several occasions about his
19 involvement in the decision-making processes there.

20 Q. What did he do as a manager of a book
21 of debt?

22 A. Helped collect it.

23 Q. He was a debt collector?

24 A. Yes. That's what -- that's what the
25 company did, First Investors.

1 Q. Did that involve investments of any
2 kind?

3 A. Just investments in the portfolio of
4 debts that they were buying.

5 Q. I'm sorry. Could you clarify that?

6 A. Well, decisions had to be made to what
7 type of debt they were going to buy, what the terms
8 of those -- what terms --

9 Q. As a collections agent?

10 A. Well, I knew that he was more involved
11 on a collection agent or at least I believed what I
12 heard over the telephone from his boss, and I don't
13 remember the guy's name. I can get back with you on
14 that.

15 Q. Did he do any trading of securities at
16 all?

17 A. No.

18 Q. Did he --

19 A. At First Investors, I don't believe
20 so.

21 Q. Any investment experience at First
22 Investors with regard to the stock market or
23 trading?

24 A. I don't believe so. I don't know that
25 for sure. I don't believe so though.

1 Q. He didn't have his license at that
2 point?

3 A. No.

4 Q. It says the first half of his career
5 he co-managed a the portfolio of over 500 million
6 for First Investors Financial Services?

7 A. Yes.

8 Q. That statement is not referring to
9 like an assets under management? It's referring to
10 debt collection?

11 A. Book of debt.

12 Q. How was he managing as a portfolio of
13 the debt? It wasn't a portfolio of investments?

14 A. I don't know the answer to that.

15 Q. You don't?

16 A. No.

17 Q. But you gave him \$8 million of your
18 clients' money? You don't even know that about him?

19 A. No. I don't know how he was managing
20 that portfolio of debt, other than making sure that
21 it was being collected upon.

22 Q. His 14 years of working in the
23 financial services industry, how many of those years
24 were working with actual investing?

25 A. I would say probably three to four.

1 Q. What did he do in those three to four
2 years?

3 A. He was working with me directly for a
4 year and a half.

5 Q. What did he invest?

6 A. Well, he didn't invest anything.

7 Q. You said he was investing for three to
8 four years. What was he investing?

9 A. I'm sorry. I answered that wrong. He
10 wasn't investing, anything involved with the
11 investment, decision-making process. He was helping
12 me with that for a year and a half. Then got Series
13 7 licensed. Okay.

14 Q. Did he have any investment experience
15 prior to the hedge fund of actually executing real
16 transactions, real trades in the security industry?

17 A. I don't think so.

18 Q. Do you find that misleading at all to
19 state in the PPM he's worked in the financial
20 services industry for over 14 years and managed a
21 portfolio of over \$500 million?

22 A. Well, it would only be misleading if
23 it was untrue.

24 Q. What did you tell your customers about
25 Scott Stephan?

1 A. That he was going to be the fund
2 manager responsible for executing the formula.

3 Q. When it says Mr. Stephan took a
4 position as vice president of investments for a New
5 York-based investment company, what is the New
6 York-based investment company?

7 A. Reliance.

8 Q. We went through he wasn't a vice
9 president at Reliance Financial?

10 A. No.

11 Q. How is that an accurate statement?

12 A. It wasn't for -- there was -- vice
13 president really for my investment team. I don't
14 have officers in the company.

15 Q. What is the New York-based investment
16 company that he was a vice president of investments
17 for?

18 A. I'm going to suspect that's us.

19 Q. You don't know?

20 A. Well, I know that he has not got any
21 other experience. It has to be us.

22 MR. McCARTHY: You also know he wasn't
23 really a vice president?

24 THE WITNESS: Correct.

25 MR. McCARTHY: So is the statement

1 correct or incorrect?

2 THE WITNESS: No. I considered him a
3 vice president on -- of my investment team. That's
4 basically -- whether that's a, you know, accurate
5 statement or not is up to interpretation as far as
6 I'm concerned, you know.

7 MS. MCGUIRE: Was he responsible for
8 portfolio management at Reliance?

9 THE WITNESS: Yeah. He helped me
10 manage portfolios. He did an extensive amount of
11 research for me.

12 MS. MCGUIRE: Was he the one
13 responsible for portfolio manage?

14 THE WITNESS: No. I was solely
15 responsible for the manager of the portfolio, but he
16 assisted in the portfolio management issues or steps
17 or procedures, no doubt about it.

18 Lots of invest -- especially with
19 covered call options, he helped me greatly with
20 that.

21 MS. MCGUIRE: What did he do for you
22 with respect to covered call options?

23 THE WITNESS: Just helped me
24 understanding how time value affects options and so
25 forth and so on. What months might be better than

EXHIBIT E

1 TIMOTHY S. DEMBSKI

2 A. Yes.

3 Q. At the time the fund was established,
4 did you know that Mr. Stephan had been a debtor in
5 two prior bankruptcies?

6 A. I did know the -- obviously, his '06
7 bankruptcy was, you know, him and his wife both
8 lost their jobs during the economic issues that
9 they had, and that's why they moved back to
10 Buffalo.

11 The 2009, the way it was explained to me is
12 that he -- he had got an attorney to do it but
13 never followed through, but it ended up showing as
14 a reported bankruptcy. Like he never followed
15 through with the bankruptcy or something like that.

16 So even as -- you know, because, again, full
17 disclosure, everything, I wanted Holland & Knight
18 to make sure everything was out there and taken
19 care of. So when they did their own research and
20 had the reports, showed it on there, that's how it
21 was explained to me. That the first one was when
22 they were in Georgia and the second one was
23 something that, you know -- and I don't know
24 bankruptcy law, but it was something different.

25 Q. And when the fund was set up,

1 TIMOTHY S. DEMBSKI

2 Mr. Stephan was going to be solely responsible for
3 the day-to-day operations? The investment
4 decisions?

5 A. Yes.

6 Q. All of that, correct?

7 A. Yes.

8 Q. And considering, you know, that
9 Mr. Stephan did not have any history -- prior
10 history in running this type of fund and had two
11 personal bankruptcies in his past, do you think it
12 was a good idea to let somebody with that type
13 of history --

14 A. Well, it's hindsight now. I mean --

15 Q. Well, let me finish my question, first
16 of all.

17 A. I'm sorry.

18 Q. And I'm not asking for hindsight. I'm
19 asking when the fund was established, based on the
20 information that you knew and is contained in this
21 document. You knew that he didn't have any history
22 of running this type of fund, correct?

23 A. Yes.

24 Q. And that's not hindsight. You didn't
25 just learn that today, correct?

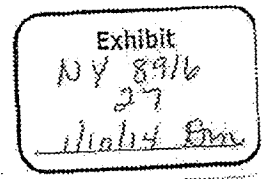
EXHIBIT F

Message

From: TIMOTHY DEMBSKI [REDACTED]
Sent: 12/13/2010 9:35:54 PM
To: Rigdon, Amy R (ORL - X21105) [/O=HOLLAND & KNIGHT/OU=HKAG/cn=Recipients/cn=arrigdon]
Subject: Bio

Mr. Stephan is Co-Founder and Chief Investment Officer of Prestige Wealth Management, LLC. Prior to the creation of Prestige Wealth Management, Scott 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. After that he moved on to become Vice President of Investments for a New York based investment company in which he was responsible for portfolio management and analysis.

Timothy S. Dembski is a co-founder and managing member of the Prestige Wealth Management. Prior to starting Prestige Wealth Management LLC, Mr. Dembski worked as the Managing Partner of a New York based independent firm where he was instrumental in building, servicing and maintaining a portfolio of high net worth investors. Mr. Dembski has over 15 years of investment experience, including analysis, portfolio management, and asset consulting. Mr. Dembski is currently on the business advisory board for business administration at a local College. He has also worked as a trustee of multiple organizations. Mr. Dembski earned his Bachelor degree in Business Administration, with a focus in accounting from St. Bonaventure University in 1994.



CONFIDENTIAL

PWM0001505

File-SEC-0107077
SEC-NY-08916-000159532

EXHIBIT G

Page 1

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
)
 RELIANCE FINANCIAL ADVISORS, LLC) File No. NY-8916
)
 WITNESS: AMY RIGDON

PAGES: 1 - 160

PLACE: Room 425
 Securities and Exchange Commission
 3 World Financial Center
 New York, New York

DATE: January 30, 2014

The above-entitled matter came on for hearing at 9:52 a.m., pursuant to subpoena.

Page 3

1 PROCEEDINGS
 2 MR. FROUGE: We are on the record at
 3 9:52 a.m. on January 30, 2014.
 4 Amy, do you consent to being placed
 5 under oath?
 6 MS. RIGDON: Yes.
 7 MR. FROUGE: The court reporter will
 8 now administer your oath.
 9 Whereupon,
 10 AMY RIGDON
 11 appeared as a witness herein and, having
 12 been first duly sworn, was examined and
 13 testified as follows:
 14 EXAMINATION
 15 BY MR. FROUGE:
 16 Q. Please state and spell your full name
 17 for the record.
 18 A. Amy, A.M.Y, Robin, R.O.B.I.N., Rigdon,
 19 R.I.G.D.O.N.
 20 Q. Are you known by any other names?
 21 A. No.
 22 Q. Have you ever been known by any other
 23 names?
 24 A. No.
 25 Q. I'm Tony Frouge, an attorney with the

Page 2

1 APPEARANCES:
 2
 3 On behalf of the Securities and Exchange Commission:
 4 TONY FROUGE, ESQ.
 5 STEVEN RAWLINGS, ESQ.
 6 Enforcement Division
 7 Securities and Exchange Commission
 8 3 World Financial Center
 9 New York, New York 10281
 10
 11 On behalf of the Witness:
 12 MARK A. FLESSNER, ESQ.
 13 Holland & Knight
 14 131 South Dearborn Street, 30th Floor
 15 Chicago, Illinois 60603
 16 312-715-5882
 17
 18
 19
 20
 21
 22
 23
 24
 25

Page 4

1 Division of Enforcement of the Securities and
 2 Exchange Commission and an officer of the Commission
 3 for the purposes of this proceeding. Today Steven
 4 Rawlings will also be joining me. He is also an
 5 officer of the Commission for the purposes of the
 6 testimony today.
 7 Your testimony has been requested by the
 8 staff as part of a formal inquiry in the matter of
 9 Reliance Financial Advisors, LLC, matter number
 10 NY-8916, to determine whether there have been
 11 violations of the federal securities laws. The facts
 12 developed in this investigation may constitute
 13 violations of other federal or state, civil or
 14 criminal laws.
 15 Prior to the opening of the record, I
 16 provided you with a copy of Form 1662, which is the
 17 Commission's Supplemental Information Form. A copy
 18 of that form was marked as Exhibit 1.
 19 Have you had an opportunity to review
 20 Exhibit 1?
 21 A. Yes.
 22 Q. Do you have any questions about Exhibit
 23 1?
 24 A. No.
 25 Q. Prior to the opening of the record, I

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1 Do you know if he worked for Tim Dembski
 2 and Walter Grenda leading up to the formation of
 3 Reliance and Prestige?
 4 A. My recollection is that they were all
 5 working together at a Wall Street brokerage firm, and
 6 I think Walter and Tim, maybe Scott, I don't recall,
 7 also sold insurance products, also registered reps
 8 for the insurance company. I don't know of any other
 9 work history than that.
 10 Q. Tim's response to you in Exhibit 26, he
 11 says, "We are working on them"?
 12 A. Yes.
 13 Q. Do you recall receiving -- before this
 14 date, December 8th and December 9, 2010, did you have
 15 any discussions at all with Scott Stephan or Tim
 16 Dembski about their professional experience?
 17 A. Tim Dembski only as it related to the
 18 ADV, which was very brief. What I knew was that he
 19 had been with a Wall Street brokerage firm, I think
 20 he was also licensed to sell insurance products.
 21 Then I found out he had a tax background because he
 22 was doing tax preparation, and we included that in
 23 the ADV. That's all I knew about Tim, so that's not
 24 a resume.
 25 With Scott Stephan, I also understood

Page 106

1 that he had been working with them through the Wall
 2 Street brokerage firm. That's all I knew. I had no
 3 other conversations with them about their
 4 professional experience.
 5 Q. When you asked for their biographies at
 6 this time, did you have any conversations with them
 7 about how they should draft their biographies?
 8 A. No.
 9 Q. How they should make their biographies,
 10 sound attractive or appealing?
 11 A. Nope, nor did I give them any samples.
 12 Q. So you don't recall any calls with
 13 either Tim Dembski or Scott Stephan about their
 14 biographies before sending this e-mail on December
 15 8th, the ADV Tim Dembski, I should say?
 16 A. Excluding Tim for the ADV. It is not
 17 that I don't remember it. We didn't have any other.
 18 It was just me asking for professional biographies.
 19 I would not have asked them to orally give me their
 20 professional history.
 21 Q. So you at no point, leading up to this
 22 time or after, insisted that Scott Stephan's
 23 biography be bolstered as much as possible?
 24 A. No. I took exactly what he gave me,
 25 made a couple of grammatical edits, and it went in

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1 the PPM.
 2 And I would never do that with any
 3 clients.
 4 Q. I am going to hand you what has been
 5 previously marked as Exhibit 27.
 6 Do you recall the e-mail now identified
 7 at Exhibit 27?
 8 A. Yes.
 9 Q. Tim sends you an e-mail, includes
 10 Mr. Stephan's biography and also his own biography?
 11 A. Yes.
 12 Q. And it is four days after Exhibit 26?
 13 A. Yes.
 14 Q. So is this what you received that you
 15 made grammatical edits to?
 16 A. Yes. And Scott Stephan wrote an e-mail
 17 the same day or maybe the next day saying I confirmed
 18 what was in here, that Tim just sent me the bios.
 19 MR. FROUGE: Please mark this Exhibit
 20 52.
 21 (Exhibit 52 was marked for
 22 identification.)
 23 Q. I am handing you what has been marked
 24 Exhibit 52.
 25 For the record, it is identified as

Page 108

1 Bates number PWM 0001504.
 2 Is this the e-mail now identified as
 3 Exhibit 52 the other e-mail you were just referring
 4 to?
 5 A. Yes.
 6 Q. So both Exhibits 27 and 52 are dated
 7 December 13th.
 8 By this time, did you have any
 9 conversations with Scott or Tim about Scott's
 10 biography absent these e-mails?
 11 A. No. These e-mails were the only
 12 conversations I had with them about their biographies
 13 ever.
 14 Q. So you did not help Tim or Scott come up
 15 with these biographies?
 16 A. No.
 17 Q. Do you know if Scott Macleod did?
 18 A. I am sure he did not. I was never told
 19 that he was.
 20 Q. Did you have any conversations at this
 21 time in December 2010 with Scott Macleod about their
 22 biographies?
 23 A. No.
 24 Q. The grammatical edits you made, did you
 25 talk to Scott Macleod about those edits?

<p style="text-align: right;">Page 129</p> <p>1 Q. This is outside of HedgeCo? 2 A. Yes, this is for Blue Sky purposes and 3 other things. 4 Q. You remember asking him verbally? 5 A. Yes, if there there was any legal 6 discipline that needed to be reported. 7 BY MR. RAWLINGS: 8 Q. Do you remember having a conversation 9 with him of what needs to be reported? 10 A. Yes, I would have given him examples of 11 types of discipline things with the SEC, any prior 12 things, anything involving fraud or theft or 13 securities violations, et cetera. 14 Q. Let me ask you that if I want to set up 15 a hedge fund and I am a convicted for shoplifting ten 16 years ago, you would be the person to whom I would 17 ask whether or not that needed to be disclosed or 18 not, right? 19 A. I'm sorry, can you say that again? 20 Q. I am setting up a hedge fund and I have 21 a conviction for like theft or shoplifting as an 22 example? 23 A. Okay. 24 Q. First of all, is that disclosable? 25 A. Potentially, yes.</p>	<p style="text-align: right;">Page 131</p> <p>1 A. Yes. 2 Q. It is you sending final materials to 3 Scott Stephan and Tim Dembski for Prestige including 4 the PPM? 5 A. Yes. 6 Q. We just want to go through the changes 7 that were made to Scott Stephan's background. If you 8 could flip to page 55 of the PPM. 9 A. Yes. 10 Q. And if you want to look at the previous 11 exhibit, Exhibit 27. 12 A. Yes. 13 Q. So first January 28, 2011 is when you 14 sent them the final PPM. 15 So between receipt of the bio that Tim 16 provided you on December 13, 2010 to January 28, 17 2011, do you recall any discussions with Scott 18 Stephan or Tim Dembski about Scott's bio? 19 A. We had no conversations about Scott's 20 bio. 21 Q. It looks like the first change made is 22 you changed Prestige Wealth Management to say general 23 partner; is that correct? 24 A. Yes. And I changed Mr. Stephan to Scott 25 M. Stephan.</p>
<p style="text-align: right;">Page 130</p> <p>1 Q. What are the things that depends on? 2 A. Well, first of all, it also depends on 3 the document we are talking about. But generally, 4 the materiality I would say a theft is the type of 5 thing that should be disclosed. And the materiality 6 standard a presumption is the last ten years, it 7 can't -- certain things. If you had stolen something 8 when you were 12 and we are talking about you today 9 assuming your present age, we would assume it's not 10 material. We would probably not say that is 11 material, but if we are talking in the last ten 12 years. 13 Q. Got it. 14 So I am trying to understand, this is a 15 conversation you had with Scott and Tim outside of 16 the HedgeCo questionnaire? 17 A. Definitely, yes. 18 Q. Do you take notes during that 19 conversation? 20 A. Quite possibly, I tend to. 21 BY MR. FROUGE: 22 Q. I am going to hand you what has been 23 previously marked as Exhibit 30. 24 Do you recognize what has been marked as 25 Exhibit 30?</p>	<p style="text-align: right;">Page 132</p> <p>1 Q. And it looks like you added, "He has the 2 exclusive responsibility to make the fund investment 3 decisions on behalf of the general partner." 4 A. Yes. 5 Q. And I think I know the answer, but why 6 did you add that? 7 A. Based on analysis. 8 Q. Then, "Mr. Stephan has worked in the 9 financial services industry for over 14 years." 10 So you edited that as well? 11 A. Right, I took out "Prior to the 12 creation." 13 Q. Again, financial services industry. 14 And understanding by January 28, 2011 15 you didn't know exactly what that was, right? 16 A. Correct. 17 Q. Or you didn't know at all what he 18 actually did in those 14 years? 19 A. I understood he had been working at a 20 prior brokerage firm, but I didn't know the extent to 21 what he had done in the last 14 years. 22 Q. Do you know how long he was at the prior 23 brokerage firm? 24 A. If I did, I don't recall. 25 Q. "The first half of his career he</p>

EXHIBIT H

<p style="text-align: right;">Page 141</p> <p>1 words "dumb" and "homespun." So just with that as 2 the context, and also discussing the hedge fund, even 3 you, outside of what may or may not have been 4 disclosed, was there ever an intellectual curiosity 5 of: Hey, Scott, what have you traded before? Have 6 you ever made money? Just out of your own curiosity. 7 A. No. 8 BY MR. RAWLINGS: 9 Q. I don't mind telling you what we're 10 hearing is that they told you all about his 11 background and that you knew about his background and 12 that you helped them craft this language and that you 13 said this language was fine. 14 A. No, it's completely untrue. Completely 15 untrue. 16 Q. Because we are going to have to 17 determine the credibility of that, one of the things 18 I want to -- one of the things that concerns me about 19 this is the text doesn't strike me as the sort of 20 text that comes from a homespun kind of dumb guy. 21 You know what I mean? 22 He is using all the right language: 23 Managed a portfolio, was responsible for portfolio 24 management and analysis. It sounds a lot like kind 25 of lawyer speak, and I am just wondering, I want you</p>	<p style="text-align: right;">Page 143</p> <p>1 A. Right. 2 Q. So I'm trying to understand how you got 3 there and whether or not you guys helped. That's 4 what I want to understand? 5 A. We definitely didn't, to my knowledge 6 and recollection. To my best, we definitely did not. 7 I had no recollection of that. I don't have any 8 recollection of talking about his bio at all. I 9 guarantee we did not talk about sprucing up some car 10 loan collection job. 11 I don't know if they put their heads 12 together. They were brokers. I don't know if 13 HedgeCo helped. I don't know if they got sample PPMs 14 from someone. I don't know if they got a registered 15 mutual fund and read that prospectus. 16 Q. On that part about HedgeCo, did you ever 17 have any kind of conversations with the HedgeCo 18 people about Stephan's background and whether or not, 19 you know, they looked into what he had done before 20 and knew, you know, what, at least, portfolio 21 modified? 22 A. No. This relationship I knew for a fact 23 somebody had been looking into Walter and Stephan 24 because somebody had reported to us about the 25 bankruptcy. Somebody reported to us about Walter's</p>
<p style="text-align: right;">Page 142</p> <p>1 to address that part of it, you know. 2 For a first draft -- as far as we see, 3 we see Amy saying: Please send us bios and we see 4 these. This is why we lay out the exhibits. You 5 don't make a whole lot of changes to it when it goes 6 to the final PPM. 7 A. Right. 8 Q. It seems like a thing that might have 9 been discussed in a conference call: We are trying 10 to figure out how to craft the biography, we have 11 issues, Stephan has things in his background, could 12 we talk about how we should put it forward, and it 13 looks like it's been fairly engineered. 14 I am trying to figure out, I want to 15 give you an opportunity to address that. You know, 16 on the one hand we've got to figure out how a fairly 17 simple and almost self-described dumb person would 18 have come up with a bio when he basically was a used 19 loan guy, used car loans, not even fresh car loans, 20 used car loans. 21 To sort of go from -- to go from being a 22 co-manager of a debt department that collected on 23 used car loans to describing that as a co-manager in 24 a portfolio of over 500 million for First Investors 25 Financial Services is like a leap, you know?</p>	<p style="text-align: right;">Page 144</p> <p>1 U-4. So -- not that I do background checks in 2 general, but on a fund like this where I know that 3 somebody -- I would have been less inclined to probe 4 or dig or wonder. 5 Q. Because you knew someone else was doing 6 it? 7 A. Because I knew at least on some level -- 8 first of all, they came in through HedgeCo, which was 9 a different filter, which I understood to do some 10 kind of stuff. I knew for a fact, and had been told, 11 that prime brokers had looked at some aspect of these 12 guys. These guys, to my mind, had been vetted more 13 than the garden variety, than small startup. 14 Q. One of those processes ended poorly. A 15 prime broker basically said: No thanks, I don't want 16 your business? 17 A. Right. 18 Q. How often has that happened, in your 19 experience? How many funds have you put together in 20 which the people organizing the fund were turned down 21 by a prime broker? 22 A. You know, I have seen it, but a lot of 23 times I wouldn't hear about that or I wouldn't know. 24 Q. It's not a stamp of endorsement; right? 25 A. Right; right. But I look at it -- the</p>

EXHIBIT I

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File Nos. 3-16311, 3-16312

In the Matters of

**RELIANCE FINANCIAL
ADVISORS, LLC, TIMOTHY S.
DEMBSKI and WALTER F.
GREENDA, JR.,**

SCOTT M. STEPHAN

**DIVISION OF ENFORCEMENT'S AND RESPONDENT TIMOTHY S. DEMBSKI'S
STIPULATIONS OF FACTS**

As required by the Court's January 9, 2015 Order in the above-captioned matters, the Division of Enforcement ("Division") and Respondent Timothy S. Dembski ("Dembski") stipulate to the following facts:¹

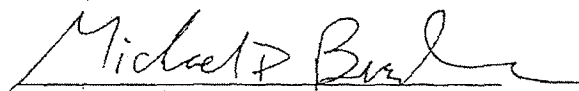
1. During the relevant time period at issue in the above-captioned matters, Dembski jointly owned and was a Managing Partner and Officer of Reliance Financial.
2. In Dembski's capacity as an investment adviser at Reliance Financial, Dembski offered and sold investments in the Prestige Fund to, among other individuals, certain of his advisory clients.
3. Dembski used a PPM for the Prestige Fund in connection with the offer and sale of investments in the Prestige Fund (the "PPM"); those potential and actual investors who were given the PPM were given an identical copy of the PPM, which is identified by Bates Nos. SEC-NY-08916-000093766 – 000093853.

¹ All defined terms used herein have their same meaning as used in the Division's Orders Instituting Proceedings in the above-captioned matters, both dated December 10, 2014.

DIV EX 140

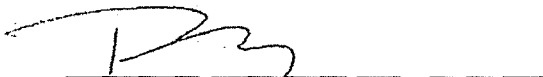
4. Dembski received \$363,784.66 in total management and performance fees from the Prestige Fund, from July 11, 2011 to December 7, 2012.
5. Dembski's clients at Reliance Financial who invested in the Prestige Fund suffered total collective losses of approximately \$3,350,000 from their investments in the Prestige Fund.
6. Dembski wrote and deposited a \$7,500 check to Reliance Financial on July 15, 2011.
7. Dembski wrote and deposited a \$3,000 check to Reliance Financial on January 27, 2012.
8. Dembski wrote and deposited a \$25,000 check to Reliance Financial on April 5, 2012.
9. Dembski wrote and deposited a \$9,000 check to Reliance Financial on July 9, 2012.
10. Dembski wrote and deposited a \$10,000 check to Reliance Financial on August 23, 2012.

Dated: April 1, 2015



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Dated: April 1, 2015



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