UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File No. 3-21963

In the Matter of

Joseph Andrew Paul,

Respondent.

MOTION BY DIVISION OF ENFORCEMENT FOR DEFAULT DISPOSITION AND FOR IMPOSITION OF REMEDIAL SANCTIONS

Pursuant to Rules 155(a) and 220(f) of the Securities and Exchange Commission's Rules of Practice [17 C.F.R. §§ 201.155(a), 201.220(f)], the Division of Enforcement (the "Division") respectfully moves for default disposition against Respondent Joseph Andrew Paul ("Respondent" or "Paul") and for an order barring Respondent from association with any investment adviser, broker, dealer, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization, and from participating in an offering of penny stock, based on Respondent's conviction in *United States v. Ellis, et al.*, No. 2:17-cr-371 (E.D. Pa.) (the "Criminal Action") and the injunction entered against him in *SEC v. Joseph Andrew Paul, et al.*, No. 2:16-cv-01326-CMR (E.D. Pa.) (the "Civil Action").

PRELIMINARY STATEMENT

Paul is a former registered representative who was associated with various broker dealers for more than a decade. Together with his colleague John D. Ellis, Jr. ("Ellis"),[1] Paul orchestrated

[1] In the Criminal Action, Ellis was convicted of securities fraud and aiding and abetting securities fraud and, in the Civil Action, he was enjoined from future violations of the federal securities laws. Ellis also consented to an order barring him from association with any broker, dealer, investment adviser, municipal securities dealer, municipal

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an offering fraud through their registered investment advisory firm, Paul Ellis Investment Associates LLC ("PEIA") from late 2010 through November 2012. Paul and Ellis fraudulently marketed themselves as experienced money managers and lied to prospective investors about PEIA's assets under management, alleged proprietary investment strategies, and annual investment returns. Paul, both in his individual capacity and through his ownership and control of PEIA, advised clients as to the merits of fraudulent investment strategies and received compensation from PEIA for that investment advice. In furtherance of the scheme, Paul and Ellis recruited Donald H. Ellison ("Ellison")[2] and securities fraud recidivist and disbarred attorney James Quay ("Quay")[3] to solicit clients on their behalf. Paul and Ellis ultimately redeemed the few investments they made and used most investors' proceeds for improper purposes, resulting in investor losses of more than $1.9 million.

Paul's fraud, which occurred while he acted as and was associated with an investment adviser, resulted in a federal felony conviction and a civil injunction. Accordingly, on June 12, 2024, the Commission issued an order instituting an administrative proceeding. *See Joesph Andrew Paul*, Exch. Act. Rel. No. 100323 (June 12, 2024) ("OIP"). Paul was served with the OIP on July 22, 2024, but has failed to answer or respond in any manner. Paul also has failed to respond to the

advisor, transfer agent, or nationally recognized statistical rating organization. *John D. Ellis, Jr.*, Adv. Act Rel. No. 5999 (April 20, 2022).

[2] Ellison was not charged in the Criminal Action. On November 6, 2017, the Commission entered an order barring him from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization and barring him from participating in any penny stock offering. *Donald H. Ellison*, Exch. Act Rel. No. 82015 (Nov. 6, 2017).

[3] Quay was convicted in the Criminal Action of securities fraud and aiding and abetting securities fraud and was enjoined in the Civil Action from future violations of the federal securities laws. In connection with a previous fraud, the Commission entered an order permanently enjoining Quay from appearing or practicing before the Commission as an attorney, and an order barring him from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization and imposing a penny stock bar. *See* Exch. Act Rel. No. 68234 (Nov. 14, 2012) and Exch. Act Rel. No. 68235 (Nov. 14, 2012).

Commission's Order to Show Cause. *See Joespeh Andrew Paul*, Exch. Act. Rel. No. 101002 (Sept. 12, 2024) ("Order to Show Cause"). Accordingly, default disposition of this matter is appropriate.

STATEMENT OF FACTS AND PROCEDURAL HISTORY[4]

I. The Offering Fraud

Respondent Paul, along with Ellis, orchestrated an offering fraud through their jointly owned firm PEIA, a Pennsylvania corporation registered with the Commission as an investment adviser. OIP ¶ II.B.4; Compl. [Ex. 1] ¶¶ 1, 19. Before co-founding PEIA, Paul held Series 6, 7, and 66 licenses and served as a registered representative associated with various firms. OIP ¶ II.A.2; Compl. ¶ 12. In late 2010, Paul and Ellis used fraudulent offering and marketing materials to induce investors with the Summit Trust Company ("Summit") to invest $2.6 million with PEIA. OIP ¶ II.B.4; Compl. ¶¶ 25-30; *see also* Mem. Op. at *1 (stating that Paul engaged in "fraudulent schemes to manipulate securities by inducing investors to invest with [PEIA] through the use of fraudulent offering and marketing materials"). Among other misrepresentations, Paul and Ellis produced a brochure that falsely advertised that their "Quantitative Growth Portfolio" had generated returns of 41.37% in 2008, 107.33% in 2009, and 36.10% for the first three quarters of 2010. They also falsely advertised that their "Strategic Growth Portfolio" had generated returns of 41.7% during 2008, 32.54% in 2009, and 48.55% for the first three quarters of 2010. Compl. ¶¶ 26-28. Summit invested more than $2.3 million. Compl. ¶¶ 29-30. Paul and Ellis lost $744,330 of Summit's investment. Compl. ¶ 30.

[4] The facts described are taken from the following sources: the OIP, the allegations of which "may be deemed to be true" based on Paul's default (17 C.F.R. § 201.155(a)); the complaint in the Civil Action ("Compl."), attached as Exhibit 1; the Criminal Action record ("Crim. Dkt."); the Civil Action record (Civ. Dkt."); the judgment in the Criminal Action ("Crim. J."), attached as Exhibit 2; the judgment in the Civil Action ("Civ. J."), attached as Exhibit 3; the district court's memorandum opinion granting the Commission's motion for summary judgment in the Civil Action, *SEC v. Paul*, No. 16-cv11326, 2023 WL 2562977 (E.D. Pa. Mar. 17, 2023), attached as Exhibit 4; and the signed Certified U.S. Mail return receipt ("Return Receipt"), attached as Exhibit 5.

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Paul and Ellis also worked with Quay, a disbarred attorney previously convicted of tax fraud, to solicit funds from investors for a purported senior planning firm co-founded by Quay, Aptus Planning LLC ("Aptus"). Compl. ¶¶ 14, 32. Paul and Ellis falsely represented to Quay's clients that PEIA used a conservative investment strategy that involved risking only 10% of an investor's principal investment while generating average annual returns of 46.70%. Compl. ¶ 33. Quay, along with Paul and Ellis, used these false representations to convince Quay's Aptus clients to invest their hard-earned money with PEIA. Compl. ¶¶ 34-39. In total, Paul, Ellis, and Quay collected $1,295,000 from Quay's Aptus clients. Compl. ¶ 39. Paul and Ellis invested only $846,000 of this money, the vast majority of which they lost. Compl. ¶¶ 40-44. Paul and Ellis returned $385,900 of the Aptus clients' funds to Quay and kept the remainder of the Aptus investors' money to spend on themselves. Compl. ¶ 44.

II. The Civil and Criminal Actions

On April 1, 2016, the Commission filed a complaint against Paul, Ellis, Quay, and Ellison alleging violations of Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)]; Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]; and Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 ("Advisers Act") [15 U.S.C. §§ 80b-6(1) and 80b-6(2)]. Compl. ¶¶ 7, 47-55. The complaint also alleged that Paul violated Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-1(a)(5) [17 C.F.R. § 275.206(4)-1(a)(5)]. Compl. ¶¶ 8, 59-64. On or about July 20, 2017, the district court unsealed an indictment in the Criminal Action that charged Paul with securities fraud in violation of 18 U.S.C. § 1348, and Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]. Crim. Dkt. No. 1.

On September 28, 2017, the Court granted the motion of the United States Attorney's Office for the Eastern District of Pennsylvania to intervene and stay the Civil Action pending resolution of the Criminal Action. Civ. Dkt. No. 30. Paul subsequently pleaded guilty to three counts of securities fraud on December 17, 2018.[5] Crim. Dkt. No. 97. On June 29, 2021, Paul was sentenced to a term of imprisonment of 34 months and five years of supervised release and was ordered to pay restitution of $1,511,931. Crim. Dkt. No. 194; Crim. J. [Ex. 2] at 2-3, 6.

On June 30, 2022, with the Criminal Action resolved, the Court granted the Commission's motion to lift the stay in the Civil Action. Civ. Dkt. No. 50. On March 17, 2023, the Court granted the Commission's motion for summary judgment and entered a judgment against Paul enjoining him from violating the securities laws. Civ. Dkt. No. 53; Civ. J. [Ex. 3] at 1-5. Paul did not respond to the Commission's complaint or oppose the Commission's motion for summary judgment. *Paul*, 2023 WL 2562977, at *1, *2. In its memorandum opinion, the district court found that Paul had engaged in "fraudulent schemes to manipulate securities by inducing investors to invest with [PEIA] through the use of fraudulent offering and marketing materials." *Id*. at *1. The district court further concluded that the "undisputed facts also establish that Paul and Quay were acting as investment advisers for purposes of Sections 206(1) and 206(2) of the Advisers Act." *Id*.

III. This Follow-On Administrative Proceeding

On June 12, 2024, the Commission issued an OIP against Paul pursuant to Section 15(b) of the Exchange Act and Section 203(f) of the Investment Advisers Act. Paul was served with the OIP on July 22, 2024. *See* Return Receipt [Ex.5]. As of the date of this motion, Paul has not filed an answer, and this matter is ripe for default disposition.

[5] Paul's guilty plea agreement and guilty plea colloquy are under seal. *See* Crim. Dkt. Nos. 95, 96.

ARGUMENT

I. This Case May be Resolved by Default Disposition

Commission Rule of Practice 155(a) provides that "[a] party to a proceeding may be deemed to be in default and the Commission or Hearing Officer may determine the proceeding against that party upon consideration of the record, including the order instituting proceedings, the allegations of which may be deemed true, if that party fails … [t]o answer, to respond to a dispositive motion within the time provided, or to otherwise defend the proceeding." 17 C.F.R. § 201.155(a).

Paul received service of the OIP on July 22, 2024. *See* Order to Show Cause at 1. His answer was due no later than August 15, 2024, twenty days after service, plus three additional days for service by mail. *See* OIP at IV; Order to Show Cause at 1. As of the date of this motion, Paul has not filed an answer or otherwise defended this action, despite the Order to Show Cause. Accordingly, the Commission should enter a default judgment against Paul, as specifically provided by the Commission's Rules of Practice. *See* 17 C.F.R. § 201.220(f) ("If a respondent fails to file an answer required by this section within the time provided, such respondent may be deemed in default pursuant to § 201.155(a).").

II. Respondent Should Be Barred from the Securities Industry

Paul's conduct warrants removal from the industry. Section 15(b)(6) of the Exchange Act and Section 203(f) of the Advisers Act authorize the Commission to bar a person from the securities industry if such a bar is in the public interest and the person (i) was associated with a broker or dealer (Section 15(b)(6)) or an investment adviser (Section 203(f)) at the time of the alleged misconduct and (ii) was convicted within ten years of the commencement of the proceeding of, among other offenses, a felony involving the purchase or sale of a security or was

enjoined from engaging in any conduct or practice in connection with the purchase or sale of a security. *See* Exchange Act §§ 15(b)(4)(B)(i), 15(b)(4)(C), 15(b)(6); Advisers Act §§ 203(e)(2)(A), 203(e)(4), 203(f). Exchange Act Section 15(b)(6) also authorizes a penny stock bar on these grounds. This case clearly meets the threshold requirements for a bar.

A. This Case Meets the Threshold Requirements for a Bar

Paul has both a qualifying felony conviction and a qualifying injunction. *See* OIP ¶¶ B.3 and B.5. Paul also was associated with a broker-dealer and an investment adviser at the time of the misconduct at issue. *See* OIP ¶ A.1 (stating that Paul co-founded PEIA, an investment adviser previously registered with the Commission that was used to carry out the fraud) and ¶ A.2 (stating that Paul held a Series 7 license and was a registered representative associated with a broker dealer from March 2010 to January 2011). As the district court found in granting the Commission's motion for summary judgment, "the undisputed facts also establish that Paul and Quay were acting as investment advisers for purposes of Sections 206(1) and 206(2) of the Advisers Act[.]" *Paul*, 2023 WL 2562977, at *1. Therefore, the only question before the Commission is the public interest.

B. A Bar Would Serve the Public Interest

Without question, public interest considerations support a bar. The criteria for assessing the public interest are set forth in *Steadman v. SEC*, 603 F.2d 1126, 1140 (5th Cir. 1979), *aff'd on other grounds,* 450 U.S. 91 (1981). Those factors include: 1) the egregiousness of the respondent's actions; 2) the isolated or recurrent nature of the infraction; 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 his conduct; and 6) the likelihood of future violations. *Id.* The Commission has "repeatedly held that conduct that violates the antifraud provisions of the securities laws is especially serious and subject to the severest of sanctions under securities laws."

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Peter Siris, Exch. Act Rel. No. 71068, 2013 WL 6528874, at *6 (Dec. 12, 2013), *pet. denied* 773 F.3d. 89 (D.C. Cir. 2014) (quotation marks and citation omitted).

The conduct at issue here was egregious, recurrent, and involved a high degree of scienter. Paul engaged in a fraudulent scheme "to manipulate securities by inducing investors to invest with Paul Ellis Investment Associates, LLC through the use of fraudulent offering and marketing materials." *Paul*, 2023 WL 2562977, at *1; *see also See* OIP ¶ B.4. His conduct spanned nearly two years, involved the misappropriation of funds, and caused investor losses totaling approximately $1.9 million. *See* OIP ¶ B.4; *Paul*, 2023 WL 2562977, at *2. By pleading guilty to securities fraud, Paul admitted that he acted with the specific intent to defraud the victim investors. *See, e.g., Stephen Condon Peters*, Adv. Act Rel. No. 6556, 2024 WL 624010, at *4 (Feb. 14, 2024) (find that respondent convicted of securities fraud necessarily acted "willfully and with intent to defraud"). These facts strongly support the imposition of a bar. *See, e.g., Bruce C. Worthington*, Exch. Act Rel. No. 34-98789, 2023 WL 7039955, at *4 (Oct. 24, 2023) (barring investment adviser who misappropriated funds from his client's advisory account for his personal use rather than invest the funds as promised); *Nguyen*, 2023 WL 3931439, at *3-*4 (barring individual who acted as investment adviser, fraudulently raised $2.4 million, and misappropriated investors' funds for his personal use); *Sean Kelly*, Exch. Act Rel. No. 94808, 2022 WL 1288179, at *4-*5 (Apr. 28, 2022) (barring individual convicted of securities fraud who "misappropriated funds from multiple investors for personal use").

Finally, as Paul has not answered the OIP, he has not provided any recognition of the wrongfulness of his conduct or made any assurances against future violations.[6] The fact that he pleaded guilty in the Criminal Case "does not outweigh the evidence that he poses a risk to the

[6] Paul similarly failed to appear or defend the Civil Action. *See Paul*, 2023 WL 2562977, at *2.

investing public." *Eugenio Garcia Jimenez, Jr.*, Adv. Act Rel. No. IA-6482, 2023 WL 7731075, at *4 (Nov. 14, 2023); *see also Jose G. Ramirez, Jr.*, Exch. Act Rel. No. 34-96440, 2022 WL 17401566, at *3 (Dec. 2, 2022) (finding that respondent's guilty plea "does not outweigh the evidence that he poses a risk to the investing public").

"[T]he securities business is one in which opportunities for dishonesty recur constantly." *Justin F. Ficken*, Exch. Act Rel. No. 58802, 2008 WL 4610345, at *3 (Oct. 17, 2008) (quotation marks and citation omitted). As the facts underlying Paul's conviction and injunction make clear, he is unfit to participate in the securities industry and poses a risk to investors. *James S. Tagliaferri*, Exch. Act Rel. No. 80047, 2017 WL 632134, at *6 (Feb. 15, 2017). Just as the Commission has already barred Ellis, Ellison, and Quay for their misconduct, Paul also should be barred.

CONCLUSION

For the foregoing reasons, the Division respectfully requests that the Commission grant this Motion for Default Disposition and bar Respondent from association with any investment adviser, broker, dealer, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization, or from participating in an offering of penny stock.

Philadelphia, Pennsylvania
Dated: October 16, 2024

Respectfully submitted,

[redacted]

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INDEX OF EXHIBITS TO MOTION BY DIVISION OF ENFORCEMENT FOR DEFAULT DISPOSITION AND FOR IMPOSITION OF REMEDIAL SANCTIONS

Exhibit	Description
1	Complaint *SEC v. Paul, et al., 2:16-cv-01326-CMR*
2	Judgment in a Criminal Case *USA v. Paul, 2:17-cr-00371-JHS*
3	Corrected Order and Final Judgment in a Civil Case *SEC v. Paul, et al., 2:16-cv-01326-CMR*
4	Memorandum Opinion *SEC v. Paul, et al., No. 2:16-cv-01326-CMR, 2023 WL 2562977 (E.D.Pa. March 17, 2023)*
5	United States Postal Service Return Receipt

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CERTIFICATE OF SERVICE

I certify that on October 16, 2024, I caused a copy of the foregoing to be served on Respondent Joseph Andrew Paul via first class U.S. Mail at the address listed below. Respondent reasonably cannot be served electronically because he has not entered his appearance in this matter and has no known email address. Accordingly, he has been served via alternative means in accordance with Rule 150 of the Commission's Rules of Practice.

Mr. Joseph Andrew Paul
[redacted]

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