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9
10 **UNITED STATES DISTRICT COURT**
11 **DISTRICT OF ARIZONA**

12 **SECURITIES AND EXCHANGE**
13 **COMMISSION,**

14 Plaintiff,

15 vs.

16 **KEVIN H. BLOOD,**

17 Defendant.

Case No.

COMPLAINT

18
19 Plaintiff Securities and Exchange Commission (“Commission”) alleges as
20 follows:

21 **JURISDICTION AND VENUE**

22 1. This Court has jurisdiction over this action pursuant to Sections
23 21(d)(1), 21(d)(3)(A), 21(e) and 27 of the Securities Exchange Act of 1934
24 (“Exchange Act”), 15 U.S.C. §§ 78u(d)(1), 78u(d)(3)(A), 78u(e) & 78aa, and
25 Sections 209(d), 209(e)(1) and 214 of the Investment Advisers Act of 1940
26 (“Advisers Act”), 15 U.S.C. §§ 80b-9(d), 80b-9(e)(1) & 80b-14. Defendant has,
27 directly or indirectly, made use of the means or instrumentalities of interstate
28 commerce, of the mails, or of the facilities of a national securities exchange in

1 connection with the transactions, acts, practices, and courses of business alleged in
2 this Complaint.

3 2. Venue is proper in this district pursuant to Section 27 of the Exchange
4 Act, 15 U.S.C. § 78aa, and Section 214 of the Advisers Act, 15 U.S.C. § 80b-14,
5 because certain of the transactions, acts, practices and courses of conduct
6 constituting violations of the federal securities laws occurred within this district
7 and defendant resides in this district.

8 **SUMMARY**

9 3. This matter involves fraud and breach of fiduciary duty by Kevin H.
10 Blood ("Blood") through his former investment advisory business, Capital Wealth
11 Management, Inc. ("CWM"), and his hedge fund, ABC-CWM, Inc. ("ABC-
12 CWM"). In late 2008, Blood created and financed ABC-CWM by soliciting
13 certain of his CWM advisory clients and pooling together \$10.2 million in client
14 funds. Blood represented to these clients that any investment opportunity for
15 ABC-CWM would be backed by a bank guarantee or other form of collateral, that
16 he would maintain some control over any invested funds to further reduce risk of
17 loss, and that he would not personally benefit from any investment
18 recommendation.

19 4. In early 2009, Blood recommended to his clients that ABC-CWM
20 loan \$10.2 million to Adelaide Partners LLC, which in turn would invest these
21 funds with Amkel Capital, a financial services corporation located in the United
22 Kingdom. Blood represented to his clients that ABC-CWM would receive a bank
23 guarantee in exchange for their \$10.2 million loan and earn interest payments of
24 20% per month for two months. In recommending this investment, Blood
25 breached his fiduciary duty to disclose any conflicts of interest to his advisory
26 clients by negotiating a separate, undisclosed compensation agreement with
27 Adelaide Partners that would inure to his personal benefit. Moreover, contrary to
28 representations he made to his clients, Blood failed to secure any bank guarantee

1 before transferring his clients' \$10.2 million investment, while falsely assuring his
2 clients of the continued safety of their investment. In reality, Amkel Capital was a
3 sham operation run by a convicted felon.

4 5. The Commission brings this action for a judgment permanently
5 restraining and enjoining Blood against future violations of the federal securities
6 laws and imposing a civil penalty.

7 **DEFENDANT**

8 6. Kevin H. Blood resides in Scottsdale, Arizona and owned 75% of
9 CWM, which was registered with the Commission as an investment advisor from
10 June 6, 2007, until October 26, 2009. Blood served as CWM's president and chief
11 executive officer from July 2007 until April 2009. From September 2008 to April
12 2009, Blood also served as the investment adviser to ABC-CWM, a hedge fund he
13 had formed.

14 **THE FRAUDULENT CONDUCT**

15 **A. The ABC-CWM Hedge Fund Scheme**

16 7. In September 2008, Blood formed the hedge fund, ABC-CWM, a
17 pooled investment vehicle comprising of \$10.2 million invested by twenty of his
18 CWM clients. Blood served as investment adviser to ABC-CWM. While
19 soliciting his clients to invest in ABC-CWM, Blood represented to them that any
20 investment that ABC-CWM made would be backed by a legitimate bank guarantee
21 or other form of collateral. Blood also represented to his clients that their principal
22 would never be at risk because Blood would maintain some control over any
23 account in which the funds were held. Finally, Blood assured his clients that he
24 would not personally profit from any transaction he recommended to them other
25 than by receiving his CWM management fees.

26 8. During all relevant times, Blood's CWM clients resided
27 predominately in Arizona, but some clients lived in New Mexico and New York.
28 Blood communicated with these clients by email, mail, telephone and in person.

1 9. In exchange for his CWM clients' investments, Blood caused ABC-
2 CWM to issue to each investor securities in the form of common stock of ABC-
3 CWM and/or a promissory note equal to the value of their investment in ABC-
4 CWM.

5 **B. The Adelaide Partners/Amkel Capital Scam**

6 10. In October 2008, Blood began discussing investments with Clifton
7 Oram of Adelaide Partners LLC, a Wyoming company that refers investors to
8 purported foreign exchange trading platforms. Oram informed Blood that from
9 2006 through 2008, his firm successfully completed several transactions in
10 purportedly secure trading platforms with the U.K.-based financial services
11 company, Amkel Capital. Oram explained to Blood that in exchange for investing
12 \$10 million with Amkel Capital, an investor would receive a \$200 million line of
13 credit for one year, secured by a bank guarantee, which Amkel Capital would then
14 use to invest in its high-yield trading platform of medium-term notes.

15 11. Instead of investing directly with Amkel Capital, Blood worked with
16 Oram to structure the transaction as a loan from ABC-CWM to Adelaide Partners,
17 which was to act as the middleman and transfer the \$10.2 million to Amkel Capital
18 in exchange for the \$200 million line of credit to trade in Amkel Capital's medium
19 term notes. Blood and Oram began negotiating a joint venture agreement between
20 Adelaide Partners and LWJR Group, Inc., a company Blood created using his
21 wife's name, to split any excess trading profits. Under this agreement, Blood
22 would receive 85% of any profits and Adelaide Partners would receive 15% of any
23 profits after ABC-CWM was paid its principal and interest for the purported loan.

24 **C. Continued Misrepresentations And Omissions By Blood**

25 12. On or around February 6, 2009, acting on Blood's recommendation,
26 his clients agreed to loan \$10.2 million from ABC-CWM to Adelaide Partners;
27 Blood accordingly caused ABC-CWM to execute a loan agreement and promissory
28 note. In recommending this investment, Blood represented to his clients that

1 Adelaide Partners would invest the proceeds in Amkel Capital and that ABC-
2 CWM would receive 20% returns per month for two months for their investment.
3 Blood also reiterated his earlier assurances to his clients that the investment would
4 be backed by a bank guarantee and that he was not personally benefitting from the
5 transaction.

6 13. On or about February 6, 2009, Adelaide Partners and Blood, through
7 LWJR Group, entered into their undisclosed joint venture agreement to split any
8 excess profits from the ABC-CWM investment. Blood failed to disclose this
9 agreement to his clients, which agreement benefitted Blood personally if his clients
10 invested with Adelaide Partners.

11 14. On or around February 10, 2009, Blood traveled to London and met
12 with Patrick Danison (a/k/a Eric F. Danison), the president of Amkel Capital, as
13 part of Blood's purported due diligence for his clients. Even though Danison never
14 provided Blood with an executed bank guarantee securing the \$200 million line of
15 credit, Blood caused his clients to transfer their \$10.2 million in funds from an
16 ABC-CWM account into an Adelaide Partners' bank account that Blood partially
17 controlled.

18 15. On or around February 10, 2009, after ABC-CWM deposited the
19 \$10.2 million into the Adelaide Partners' bank account, Blood authorized Adelaide
20 Partners to transfer the \$10.2 million to Amkel Capital's bank account in
21 Switzerland. By February 12, 2009, the funds were transferred and Blood no
22 longer had any control over his clients' \$10.2 million.

23 16. From February to early April 2009, Blood falsely assured his clients
24 that their funds were safe in an account controlled by him. During this time, Blood
25 never disclosed to his clients that he had transferred their funds to Amkel Capital
26 and that he never obtained any bank guarantee or other collateral to secure his
27 clients' \$10.2 million investment.

28 17. In or around mid to late April 2009, after his clients' loan to Adelaide

1 Partners became delinquent and Blood lost contact with Amkel Capital, Blood
2 informed his clients that he had transferred their funds to Amkel Capital in
3 February without a bank guarantee or collateral.

4 18. Amkel Capital's alleged U.K. headquarters was only a short-term
5 rental space. Eric Danison, the president of Amkel Capital, has a criminal record,
6 and he is currently incarcerated in the U.K. pending criminal prosecution.

7 19. From January through April 2009, Blood's clients paid CWM
8 approximately \$27,961 in management fees for their investment in ABC-CWM.
9 Because these were Blood's clients, CWM paid Blood \$25,868 from these fees.

10 20. To date, Blood's clients have not received the return of any of their
11 \$10.2 million investment.

12 **FIRST CLAIM FOR RELIEF**

13 **Fraud In Connection With The Purchase Or Sale Of Securities**

14 **(Violations of Sections 10(b) of the Exchange Act and Rule 10b-5 Thereunder)**

15 21. The Commission realleges and incorporates by reference paragraphs 1
16 through 20 above.

17 22. Blood, by engaging in the conduct described above, directly or
18 indirectly, in connection with the purchase or sale of a security, by the use of
19 means or instrumentalities of interstate commerce, or of the mails, or of the
20 facilities of a national securities exchange, with scienter:

- 21 a. employed devices, schemes, or artifices to defraud;
- 22 b. made untrue statements of a material fact or omitted to state a
23 material fact necessary in order to make the statements made,
24 in the light of the circumstances under which they were made,
25 not misleading; or
- 26 c. engaged in acts, practices, or courses of business which
27 operated or would operate as a fraud or deceit upon other
28 persons.

1 23. By engaging in the conduct described above, Blood violated, and
2 unless restrained and enjoined will continue to violate, Section 10(b) of the
3 Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder, 17
4 C.F.R. § 240.10b-5.

5 **SECOND CLAIM FOR RELIEF**

6 **Fraud By An Investment Adviser**

7 **(Violations Of Sections 206(1), 206(2) And 206(4) Of The Advisers Act**
8 **And Rule 206(4)-8 Thereunder)**

9 24. The Commission realleges and incorporates by reference paragraphs 1
10 through 20 above.

11 25. Blood, by engaging in the conduct described above, directly or
12 indirectly, by use of the mails or other means or instrumentalities of interstate
13 commerce:

- 14 a. with scienter, employed devices, schemes, or artifices to
15 defraud clients or prospective clients;
- 16 b. engaged in transactions, practices, or courses of business which
17 operated as a fraud or deceit upon a client or prospective client;
18 or
- 19 c. engaged in acts, practices, or courses of business which were
20 fraudulent, deceptive or manipulative, including by:
- 21 (i) making untrue statements of a material fact or omitting
22 to state material facts necessary to make the statements,
23 in light of the circumstances under which they were
24 made, not misleading, to investors or prospective
25 investors in a pooled investment vehicle, as defined by
26 Rule 206(4)-8(b), 17 C.F.R. § 275.206(4)-8(b); or
- 27 (ii) otherwise engaging in acts, practices or courses of
28 business that were fraudulent, deceptive, or manipulative

1 with respect to an investor or prospective investor in a
2 pooled investment vehicle.

3 26. By engaging in the conduct described above, Blood violated, and
4 unless restrained and enjoined will continue to violate, Sections 206(1), 206(2) and
5 206(4) of the Advisers Act, 15 U.S.C. §§ 80b-6(1), 80b-6(2) & 80b-6(4), and Rule
6 206(4)-8 promulgated thereunder, 17 C.F.R. § 275.206(4)-8.

7 **PRAYER FOR RELIEF**

8 WHEREFORE, the Commission respectfully requests that the Court:

9 **I.**

10 Issue findings of fact and conclusions of law that Blood committed the
11 alleged violations.

12 **II.**

13 Issue a judgment, in a form consistent with Fed. R. Civ. P. 65(d),
14 permanently enjoining Blood, and his agents, servants, employees, and attorneys,
15 and those persons in active concert or participation with him, who receive actual
16 notice of the judgment by personal service or otherwise, and each of them, from
17 violating Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5
18 thereunder, 17 C.F.R. § 240.10b-5, and Sections 206(1), 206(2) and 206(4) of the
19 Advisers Act, 15 U.S.C. §§ 80b-6(1), 80b-6(2) & 80b-6(4), and Rule 206(4)-8
20 thereunder, 17 C.F.R. § 275.206(4)-8.

21 **III.**

22 Order Blood to pay civil penalties pursuant to Section 21(d)(3) of the
23 Exchange Act, 15 U.S.C. § 78u(d)(3), and Section 209(e)(1) of the Advisers Act,
24 15 U.S.C. § 80b-9(e)(1).

25 **IV.**

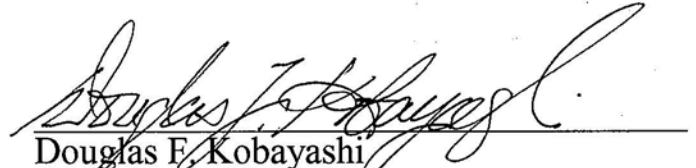
26 Retain jurisdiction of this action in accordance with the principles of equity
27 and the Federal Rules of Civil Procedure in order to implement and carry out the
28

1 terms of all orders and decrees that may be entered, or to entertain any suitable
2 application or motion for additional relief within the jurisdiction of this Court.

3 V.

4 Grant such other and further relief as this Court may determine to be just and
5 necessary.

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8 Dated: April 1, 2010


9 Douglas E. Kobayashi
10 Attorney for Plaintiff
11 Securities and Exchange Commission
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