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UNITED STATES DISTRICT COURT  
DISTRICT OF OREGON

CV '06 1353 PK

SECURITIES AND EXCHANGE  
COMMISSION,

Plaintiff,

vs.

C. WESLEY RHODES, JR., RHODES  
ECONOMETRICS, INC., THE  
RHODES COMPANY, and  
RESOURCE TRANSACTIONS, INC.,

Defendants.

Case No.

COMPLAINT FOR VIOLATIONS  
OF THE FEDERAL SECURITIES  
LAWS

Plaintiff United States Securities and Exchange Commission

(“Commission”) alleges as follows:

**JURISDICTION AND VENUE**

1. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d)(1), and 22(a) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C. §§ 77t(b), 77t(d)(1) & 77v(a), Sections 21(d)(1), 21(d)(3)(A), 21(e), and 27 of the Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78u(d)(1), 78u(d)(3)(A), 78u(e), & 78aa, and Sections 209(d), 209(e)(1), and 214 of the Investment Advisers Act of 1940 (“Advisers Act”), 15 U.S.C. §§ 80b-9(d), 80b-9(e)(1), & 80b-14. Defendants have, directly or indirectly, made use of the means or instrumentalities of interstate commerce, or of the mails, or of the facilities of a national securities exchange, in connection with the transactions, acts, practices, and courses of business alleged in this complaint.

2. Venue is proper in this district pursuant to Section 22(a) of the Securities Act, 15 U.S.C. § 77v(a), Section 27 of the Exchange Act, 15 U.S.C. § 78aa, Section 27 of the Exchange Act, 15 U.S.C. § 78aa, and Section 214 of the Advisers Act, 15 U.S.C. § 80b-14, because certain of the transactions, acts, practices, and courses of business constituting violations of the federal securities laws occurred within this district.

## SUMMARY

3. This matter involves an ongoing fraudulent scheme perpetrated by C. Wesley Rhodes, Jr. and three companies he controls -- Rhodes Econometrics, Inc., an investment adviser registered with the Commission; The Rhodes Company, an unregistered investment adviser; and Resource Transactions, Inc. ("RT, Inc."), another unregistered adviser. Starting in the mid 1990s, Rhodes has raised over \$16.2 million from individual investors by representing that he would invest their money in stock or bond funds or directly in stocks and bonds. Since January 1, 2004, however, Rhodes has invested only \$3.9 million of the investor funds in securities. At the same time and undisclosed to investors, since January 1, 2004, Rhodes has misappropriated and misused at least \$13.3 million of investor funds (including funds from investors who invested prior to January 1, 2004, and funds that Rhodes had invested in securities for a short period of time) as follows:

- Rhodes withdrew \$988,764 of investor funds in cash.
- Rhodes used \$4,226,921 of investor funds to pay business and personal expenses, including expenses for luxury cars, home improvements, jewelry, furs, and fine furnishings, and including at least \$1,687,028 to pay for Rhodes' hobby of purchasing and restoring classic and exotic cars.
- Rhodes transferred \$1,646,752 of investor funds to bank and credit card accounts that appear to be held in the name of, or for the benefit of, Rhodes.

- Rhodes used \$6,310,924 of investor funds to pay other investors their principal and purported profits.

4. Defendants Rhodes, Rhodes Company, and RT Inc., by engaging in the conduct described in this Complaint, have violated and are violating Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), 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. Defendants also have violated and are violating Sections 206(1) and (2) of the Advisers Act, 15 U.S.C. § 80b-6(1) & 80b-6(2).

#### **THE DEFENDANTS**

5. **C. Wesley Rhodes, Jr.** (“Rhodes”), age 55, is a resident of West Linn, Oregon. Rhodes is the sole owner and president of Rhodes Econometrics and Rhodes Company, and the president of RT, Inc. Rhodes has been licensed with the State of Oregon as an investment adviser representative of Rhodes Econometrics and Rhodes Company. In 2000, The Oregon Department of Consumer and Business Services, Division of Finance and Corporate Securities (“Oregon”) issued a cease-and-desist order against Rhodes for providing investment advice without being registered with Oregon as an investment adviser representative, selling unregistered securities in an investment fund, and omitting to disclose material information regarding his commingling of client funds, the investment funds’ actual profit, and the source of purported profits paid to the fund

investors. Rhodes was ordered to pay a \$12,500 civil penalty, \$5,000 of which was suspended indefinitely, contingent upon his continued compliance with Oregon securities laws.

6. **Rhodes Econometrics, Inc.** (“Rhodes Econometrics”) is an Oregon corporation formed in 1998 with its principal place of business in Lake Oswego, Oregon. Rhodes is the sole owner and president of Rhodes Econometrics. Rhodes Econometrics registered with the Commission as an investment adviser on May 5, 1999. As of September 15, 2005, Rhodes Econometrics managed on a discretionary basis approximately \$36 million in 246 client accounts.

7. **The Rhodes Company** (“Rhodes Company”) (formerly known as Professional Practice Planning Services, Inc. (“Professional Practice Planning”)) is an Oregon corporation formed in 1985 with its principal place of business in Lake Oswego, Oregon. Rhodes is the sole owner and president of Rhodes Company. Rhodes Company is an investment adviser but is not registered with the Commission in any capacity. From 1988 to 1994 and from 1998 to 1999, Rhodes Company, under the Professional Practice Planning name, was licensed as an investment adviser with Oregon. In 2000, Oregon issued a cease-and-desist order against Rhodes Company for providing investment advice without being registered as an investment adviser in Oregon and for selling unregistered securities in an investment fund. Rhodes Company was ordered to pay jointly and severally with

Rhodes the \$12,500 civil penalty, \$5,000 of which was suspended indefinitely, contingent upon its continued compliance with Oregon securities laws.

8. **Resource Transactions, Inc. (“RT, Inc.”)** is an Oregon corporation formed in April 2006. RT, Inc. lists its business address as a post office box in Tualatin, Oregon. Rhodes’ affiliation with RT, Inc. is not disclosed in any public records, but Rhodes has opened two bank accounts and one brokerage account in RT, Inc.’s name and has sole authority over those accounts. RT, Inc. is an investment adviser but is not registered with the Commission in any capacity.

### **THE FRAUDULENT SCHEME**

#### **A. Rhodes’ Advisory Business**

9. Rhodes Econometrics is registered with the Commission as an investment adviser. Rhodes is its sole owner, president, and chief compliance officer. Rhodes Econometrics clients include individuals, pension and profit sharing plans, trusts, estates, and corporations. As alleged further below, in addition to providing investment advisory services through Rhodes Econometrics, Rhodes, through the unregistered investment advisers Rhodes Company and RT, Inc., is also operating a fraud by offering investments in “side accounts” or “managed accounts.”

## **B. Rhodes' Fraudulent Scheme**

### **Rhodes' Representations to Investors**

10. Since as early as the mid 1990s, Rhodes, through Rhodes Company and RT, Inc., has been raising money from investors by representing that he would place their funds in "side accounts" or "managed accounts" and invest them in a bond fund, a convertible stock fund, or some other type of pooled investment fund and/or directly in stocks or bonds.

11. In a November 11, 2004 letter to one prospective investor, Rhodes and Rhodes Company compared their side or managed accounts to mutual funds. According to the letter, their managed accounts are like mutual funds in that they both provide portfolio diversification and liquidity, but their managed accounts are better than mutual funds because they have lower total fees, have tax advantages, and can be individualized to meet each investor's particular objectives and investment policy. In the letter, they also reference specific pooled investments, such as the "Current Opportunities," "Current Income," the "Diamond Portfolio," the "Patents and Patents Citations Portfolio (PPC150)," the "Research and Development (R&D) 300 Portfolio," and the "Diamond Fund Portfolio." Finally, in the letter, they tout the performance of the net rates of return of the elements of his Diamond Portfolio—9.93% for the "Growth and Income" element, 6.98% for

the “Value” element, 12.41% for the “Growth” element, and 13.67% for the “Emerging Technology” element.”

12. Rhodes told one 74-year old investor that he would invest her money in a bond fund called “Investment Fund PPPS 2002”; told another 65-year old investor that he would invest her retirement funds in stocks and bonds; and told one 67-year old widowed investor that he would invest her money in the stock market.

13. Rhodes also represented to investors, through account statements he sent to them, that their funds were invested in bond or stock funds or directly in stocks and bonds. Rhodes and the Rhodes Company sent one investor quarterly account statements stating that she was invested in “Convertible Preferred Stock” and that her \$70,000 investment in early March 2005 had grown to \$77,122.50 as of March 31, 2005, and to \$78,711.99 as of June 30, 2005. Rhodes also sent this investor a list of her purported stock holdings in August 2005, and reported that the value of her account was \$87,552.68 as of August 12, 2005. Rhodes and Rhodes Company sent another investor quarterly account statements for the periods ended September 30, 2005, December 31, 2005, and March 31, 2006, showing that the investor’s account was in the “Balanced Portfolio” and had grown from \$92,398.38, to \$94,405.65, to \$98,087.47, respectively.

14. In checks written to investors, Rhodes further represented to investors that their funds were invested in bond or stock funds or directly in stocks and bonds. On many checks written by Rhodes to investors, Rhodes wrote notations stating that the money was either a return of principal or earnings on an investment, such as "Dividend Withdrawal from Invest. Acct," "Account withdrawal," "Acct. withdrawal; dividends," "Sales Proceeds, Acct. Withdrawal," "account withdrawal-corporate," and "Acct. close – Bonds."

#### **Rhodes' Receipt of Investor Funds**

15. Since January 1, 2004, Rhodes, through Rhodes Company and RT, Inc. has raised through these side or managed accounts more than \$16.2 million from approximately 50 investors, including approximately 15 Rhodes Econometrics clients.

16. From January 1, 2004, to late October 2005, Rhodes deposited \$10.7 million in an account called the Investment Administration Account held in the name of Rhodes Company's prior name, Professional Practice Planning. On many of the checks, the payor specifically included on the memo line notations such as "Wes Rhodes Bond Fund," "Rhodes Econometrics Bond Fund," "Rhodes Inv," "Conv. Pref. Stock," and "bond fund." In addition, of the \$10.7 million deposited, on checks and wire transfers totaling \$9.9 million, the payor also included on the memo line a statement that the funds were "FBO," i.e. for the

benefit of, the payor or a family member. Rhodes further endorsed each check with the notation "TTEE," i.e. trustee, following his signature.

17. In late September 2005, after securities regulators learned of the Investment Administration Account, Rhodes ceased using that account and began operating his managed or side accounts through accounts in the name of RT, Inc. Even though Rhodes opened the RT, Inc. accounts and controlled all deposits and withdrawals from the accounts, Rhodes was not disclosed as having any affiliation to RT, Inc. in any of its public filings.

18. Since late October 2005, Rhodes has deposited into the RT, Inc. accounts over \$5.2 million from 21 investors.

19. Rhodes Company and RT, Inc. have also received investment advisory fees from the investors in the side or managed accounts. Since January 1, 2004, Rhodes Company has received at least \$85,471 and RT, Inc. has received \$9,700 in such fees from investors.

#### **Rhodes' Misappropriation and Misuse of Investor Funds**

20. Since January 1, 2004, Rhodes, Rhodes Company, and RT, Inc. have used only \$3.9 million of the investor funds to invest in securities. Moreover, of that \$3.9 million, Rhodes invested \$3.6 million for only seven months, from May 2005 to October 2005, at which time Rhodes began distributing the \$3.6 million to 7 of the 50 investors. Since January 1, 2004, Rhodes' net profit from investing the

investor funds in securities has been approximately \$224,000. As of June 30, 2006, only \$128,000 of those invested funds remain invested. In addition, as of June 30, 2006, Rhodes and Rhodes Company had other brokerage accounts with a value of \$329,000.

21. Rhodes has misappropriated and misused the investor funds that were entrusted to him. A review of Rhodes' accounts reveals that Rhodes did not use the vast majority of the investor funds to invest in securities. Indeed, a breakdown of Rhodes' misuse of the investor funds shows:

Cash withdrawals	\$ (988,764)
Direct payments of Rhodes' personal and business expenses	\$ (208,137)
Auto expenses	\$ (1,687,028)
Transfers to other Rhodes accounts	\$ (2,331,756)
Transfers to bank and credit card accounts that appear to be in the name of, or for the benefit, Rhodes	\$ (1,646,752)
Stock and bond investments	\$ (3,968,586)
Distributions to investors	\$ (6,310,924)
Unknown/small checks	\$ (50,389)
Total	\$(17,192,336)

**FIRST CLAIM FOR RELIEF**

**Fraud in the Offer or Sale of Securities**

**Violations of Section 17(a) of the Securities Act**

**(Against Rhodes, Rhodes Company, and RT, Inc.)**

22. The Commission realleges and incorporates by reference paragraphs 1 through 21 above.

23. Defendants Rhodes, Rhodes Company, and RT, Inc., and each of them, by engaging in the conduct described above, directly or indirectly, in the offer or sale of securities by the use of means or instruments of transportation or communication in interstate commerce or by use of them mails:

- a. with scienter, employed devices, schemes, or artifices to defraud;
- b. obtained money or property by means of untrue statements of a material fact or by omitting to state a material fact necessary in order to make the statement made, in light of the circumstances under which they were made, not misleading; or
- c. engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon the purchaser.

24. By engaging in the conduct described above, defendants Rhodes, Rhodes Company, and RT, Inc., and each of them, violated, and unless restrained

and enjoined will continue to violate, Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

## **SECOND CLAIM FOR RELIEF**

### **Fraud in Connection with the Purchase or Sale of Securities**

#### **Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder**

#### **(Against Rhodes, Rhodes Company, and RT, Inc.)**

25. The Commission realleges and incorporates by reference paragraphs 1 through 21 above.

26. Defendants Rhodes, Rhodes Company, and RT, Inc., by engaging in the conduct described above, directly or indirectly, in connection with the purchase or sale of a security, by the use of means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange, with scienter:

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

27. By engaging in the conduct described above, defendants Rhodes, Rhodes Company, and RT, Inc., and each of them, violated, and unless restrained and enjoined will continue to violate, 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.

### **THIRD CLAIM FOR RELIEF**

#### **Investment Advisory Fraud**

#### **Violations of Sections 206(1) and 206(2) of the Advisers Act**

#### **(Against All Defendants)**

28. The Commission realleges and incorporates by reference paragraphs 1 through 21 above.

29. The defendants, by engaging in the conduct described above, directly or indirectly, by use of the mails or any means or instrumentalities of interstate commerce:

- a. with scienter, employed devices, schemes, or artifices to defraud any client or prospective client; or
- b. engaged in transactions, practices, or courses of business which operated as a fraud or deceit upon any client or prospective client.

30. By engaging in the conduct described above, the defendants, and each of them, violated, and unless restrained and enjoined will continue to violate,

Sections 206(1) and 206(2) of the Advisers Act, 15 U.S.C. §§ 80b-6(1) & 80b-6(2).

**PRAYER FOR RELIEF**

WHEREFORE, the Commission respectfully requests that the Court:

**I.**

Issue findings of fact and conclusions of law that the defendants committed the alleged violations.

**II.**

Issue orders, in a form consistent with Fed. R. Civ. P. 65(d), temporarily, preliminarily, and permanently enjoining defendants Rhodes, Rhodes Company, and RT, Inc. and their officers, agents, servants, employees, and attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from violating Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder, and temporarily, preliminarily, and permanently enjoining each defendant and their officers, agents, servants, employees, and attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from violating Sections 206(1) and 206(2) of the Advisers Act.

### **III.**

Issue, in a form consistent with Fed. R. Civ. P. 65, a temporary restraining order and a preliminary injunction freezing the assets of each of the defendants and prohibiting each of the defendants from destroying documents; appointing a receiver over defendants Rhodes Econometrics, Rhodes Company, and RT, Inc., as well as all other entities directly or indirectly controlled by Rhodes, and ordering accountings.

### **IV.**

Order each defendant to disgorge all ill-gotten gains from his or its illegal conduct, together with prejudgment interest thereon.

### **V.**

Order each of the defendants to pay civil penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u-(d)(3), and Section 209(e) of the Advisers Act, 15 U.S.C. § 80b-9.

### **VI.**

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

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

**VII.**

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

DATED: September 21, 2006



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