

**UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION**

<b>SECURITIES AND EXCHANGE</b>	)	
<b>COMMISSION</b>	)	
	)	
<b>Plaintiff</b>	)	
	)	
<b>v.</b>	)	<b>Case No:</b>
	)	
<b>MICHAEL G. BECKFORD,</b>	)	
	)	
<b>Defendant.</b>	)	

**COMPLAINT**

Plaintiff, the United States Securities and Exchange Commission (“Commission”), alleges as follows:

**INTRODUCTION**

1. This is a securities fraud action against defendant Michael G. Beckford (“defendant” or “Beckford”), a managing member of Fanam Capital Management (“Fanam”), an unregistered investment adviser. Fanam managed Fanam Fund I, L.L.C. (the “Fund”), which held itself out as a hedge fund. From at least February 2001 through April 2003, Beckford engaged in fraudulent acts, practices, and schemes, and made misrepresentations and omitted to state material facts to investors and investment advisory clients. Although Fanam’s offering materials stated that the Fund was a hedge fund that engaged in certain options trading strategies, Beckford gambled with investor funds, traded outside of Fanam’s stated trading objectives, and misappropriated investor funds for his personal use resulting in losses of approximately \$4.8 million.

2. Defendant directly and indirectly, engaged in transactions, acts, practices and courses of business which are 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)], Rule 10b-5 promulgated thereunder [17 C.F.R. 240.10b-5].

Defendant also directly and indirectly, engaged in transactions, acts, practices, and courses of business which aided and abetted Fanam’s violations 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)].

3. The Commission brings this action to enjoin such transactions, acts, practices, and courses of business and for other relief, pursuant to Sections 20(b) and 20(d) of the Securities Act [15 U.S.C. § 77t(b) and § 77t(d)], Sections 21(d) and 21(e) of the Exchange Act [15 U.S.C. § 78u(d)] and Sections 209(d) and 209(e) of the Advisers Act [15 U.S.C. § 80b-9(d) and § 80b-9(e)].

#### **JURISDICTION AND VENUE**

4. This court has jurisdiction over this action pursuant to Sections 20(b), 20(d)(1), and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b), 77t(d)(1), and 77v(a)], Sections 21(d)(1), 21(d)(3)(A), 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 78u(d)(1), 78u(d)(3)(A), 78u(e), and 78aa], and Sections 209(d), 209(e)(1), and 214 of the Advisers Act [15 U.S.C. §§ 80b-9(d), 80b-9(e)(1), and 80b-14]. Defendant, directly or indirectly, made use of the means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange, in connection with the acts, practices, and courses of business described in this complaint.

5. 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], and Section 214 of the Advisers Act [15 U.S.C. § 80b-14], because certain transactions, acts, practices, and courses of conduct constituting violations of the federal securities laws occurred within this district, and defendant solicited residents of this district.

## **DEFENDANT AND RELEVANT ENTITIES**

6. Beckford, age 35, is a resident of Barrington, Illinois. He was a managing member, executive vice president, and chief trader for Fanam. Beckford was primarily responsible for executing all of Fanam's trades and for managing Fanam's administrative operations, serving both as trader and internal accountant. He was therefore responsible for reporting the Fund's assets and performance to the other managing members of Fanam, who, in turn, reported to clients and prospective clients.

7. Fanam, a Nevada limited liability company, was an investment adviser, as defined in Section 202 of the Advisers Act [15 U.S.C. § 80b-2], but was not registered with the Commission.

8. The Fund, a Delaware limited liability company, was a hedge fund for Fanam client investments. At its peak, the Fund had approximately \$11 million from 26 investors. The Fund was not registered with the Commission.

9. Fanam maintained a brokerage account with Merrill Lynch Pierce Fenner & Smith, Inc. in Brecksville, Ohio (the "Merrill Lynch account"). Beckford had signatory authority over the Merrill Lynch account and used it to execute trades on behalf of the Fund.

## **BECKFORD'S FRAUDULENT CONDUCT**

10. In marketing Fanam's services, Beckford and other representatives of Fanam generally told advisory clients and prospective advisory clients, both orally and in written offering materials, that Fanam pooled investor funds and employed three investment strategies. The three strategies were: (1) identifying covered call opportunities, then buying stocks, holding the positions for approximately one month, and writing short-term call options against these stocks; (2) buying Long-term Equity Anticipation Securities ("LEAPS") and writing short-term

call options against the LEAPS throughout the life of the positions; and (3) using a statistical algorithm to identify temporarily mis-priced stocks that were likely to revert to their statistical mean, and trading the stocks accordingly.

11. Fanam's offering materials also stated that it might invest in other "opportunistic strategies." However, other sections of the offering materials limited these statements by discussing risk and position size controls. Specifically, various offering materials stated that Fanam would not purchase a single investment that would constitute more than 8% of the value of the Fund, and another representative of Fanam told investors at times that the Fund's positions would not exceed 1% of the Fund's assets.

### **Gambling**

12. On numerous occasions, Beckford misappropriated client funds by using the Fund's money for gambling activities and related expenses in Lake Tahoe, Las Vegas, and Henderson, Nevada, at horseracing tracks and off-track betting parlors around the country, and on sporting events over the internet. Beckford did not disclose to the advisory clients or to the other Fund managers that he was gambling with investor funds.

13. To effect these improper and unauthorized gambling transactions, Beckford on several occasions caused the wire transfer of funds from the Merrill Lynch account in Brecksville, Ohio to the Bellagio Hotel & Casino in Las Vegas, Nevada, as follows:

- a. On or about December 17, 2002, Beckford wire transferred \$150,000 from the Merrill Lynch account to the Bellagio Hotel & Casino in Las Vegas, Nevada, for his benefit.
- b. On or about February 7, 2003, Beckford wire transferred \$243,000 from the Merrill Lynch account to the Bellagio Hotel & Casino in Las Vegas, Nevada,

for his benefit.

- c. On or about March 7, 2003, Beckford wire transferred \$307,000 from the Merrill Lynch account to the Bellagio Hotel & Casino in Las Vegas, Nevada, for his benefit.

14. In total, from February 2001 to March 2003, Beckford misappropriated for gambling purposes at least \$776,344 of advisory client money.

### **Unauthorized Trading**

15. On a number of occasions, Beckford traded outside the scope of Fanam's representations to clients and prospective clients regarding the Fund's stated investment objectives and risk parameters.

16. Despite Fanam's representations regarding the use of two hedging investment strategies and the use of a mean reversion strategy, Beckford placed large unhedged options trades outside of the scope of the stated investment objectives that resulted in substantial investor losses. These trades were executed from the Merrill Lynch account. Examples of these unhedged positions include, but are not limited to, the following:

- a. On or about February 19, 2002, Beckford bought \$126,000 of March NASDAQ index puts.
- b. On or about February 22, 2002, Beckford bought \$392,000 of March NASDAQ index puts.
- c. These puts expired worthless, resulting in trading losses of \$518,000.

17. In other instances, Beckford executed trades that were above the allowable percentage of the Fund's assets under management and in direct contravention to the representations and promises made to Fanam's advisory clients and prospective advisory clients regarding risk and position size controls. These trades were also executed from the Merrill

Lynch account. Examples of these trades include, but are not limited to, the following:

- a. On or about March 26, 2002, Beckford bought \$230,000 of NASDAQ 100 index calls, which were nearly 50% of the value of the Fund. On April 20, 2002, these calls expired worthless.
- b. On or about January 14, 2003, Beckford purchased \$1,976,000 worth of NASDAQ index calls, which were approximately 17% of the value of the Fund. On February 22, 2003, these calls expired worthless.

18. In total, Beckford lost \$3,876,775 by trading outside the Fund's stated investment objectives and risk parameters.

#### **Misappropriations For Personal Uses Other Than Gambling**

19. Beckford also misappropriated investor funds for other personal uses. Beckford paid himself a monthly draw of approximately \$5,000 from July 2001 through March 2003, and reimbursed himself for expenses. Because Fanam failed to make any money during this time due to Beckford's fraud, he was not entitled to a monthly draw or personal expense reimbursements.

Under the guise of purported salary payments and expense reimbursements, Beckford misappropriated \$175,010 of advisory clients' money for his personal use.

#### **Beckford's Actions to Conceal His Fraud**

20. In furtherance of the scheme to defraud the Fanam clients, Beckford took steps to hide his gambling, unauthorized trading, and misappropriation of advisory client funds. Specifically, Beckford made materially false representations and false statements,

both orally and in writing, designed to conceal the depletion of advisory client funds and the true reason for such depletion, and created and caused to be issued fraudulent account statements and other documents which stated that the Fund was generating a profitable return when in fact, the Fund lost money during the entire time it operated. Beckford disseminated this false information to other Fanam representatives and Fanam's advisory clients residing in the Northern District of Illinois and elsewhere. Examples include, but are not limited to, the following:

- a. Beckford altered Fanam's audited trading logs to reflect positive performance, when in fact the Fund was losing money.
- b. Beckford issued false K-1's for 2000, 2001, and 2002 to Fanam's clients.
- c. In one instance, Fanam had retained an outside accountant, who resided in the Northern District of Illinois, to perform an audit for 2001. Beckford, who was the sole point of contact with the accountant, received the 2001 audit report reflecting negative performance results. Rather than provide the truthful information to Fanam's clients, Beckford prepared fictitious financial statements showing profits and submitted these false financial statements to other Fanam representatives, under the accountant's letterhead, as the actual Fanam audit.

21. Several advisory clients invested with Fanam after Beckford gambled with investor money, traded outside of the stated trading objectives, and misappropriated investor funds for his personal use, based on the false representations Beckford made about the Fund's performance.

**COUNT I**  
**Violations of Section 17(a)(1) of the Securities Act**

22. Paragraphs 1 through 21 are realleged and incorporated by reference as though fully set forth herein.

23. By engaging in the conduct described above, Beckford, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, employed devices, schemes, and artifices to defraud.

24. Beckford knowingly or recklessly made the untrue statements and omissions and engaged in the devices, schemes, artifices, transactions, acts, practices, and courses of business as described above.

25. By reason of the foregoing, Beckford violated Section 17(a)(1) of the Securities Act [15 U.S.C. §77q(a)(1)].

**COUNT II**  
**Violations of Sections 17(a)(2) and (3) of the Securities Act**

26. Paragraphs 1 through 21 are realleged and incorporated by reference as though fully set forth herein.

27. By engaging in the conduct described above, Beckford, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, has:

- a. obtained money or property by means of untrue statements of material fact or by omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and

- b. engaged in transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon the purchasers of such securities.

28. Beckford made the untrue statements and omissions of material fact and engaged in the devices, schemes, artifices, transactions, acts, practices, and courses of business described above.

29. By reason of the foregoing, Beckford violated Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. §77q(a)(2), (3)].

### **COUNT III**

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

30. Paragraphs 1 through 21 are realleged and incorporated by reference as though fully set forth herein.

31. By engaging in the conduct described above, Beckford, in connection with the purchase and sale of securities, by the use of means or instrumentalities of interstate commerce and of the mails, directly or indirectly, has:

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

32. Beckford knowingly or recklessly made the untrue statements and omissions and engaged in the devices, schemes, artifices, transactions, acts, practices, and courses of business described above.

33. By reason of the foregoing, Beckford violated 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].

#### **COUNT IV**

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

34. Paragraphs 1 through 21 are realleged and incorporated by reference as though fully set forth herein.

35. Fanam, through the conduct of Beckford described above, by use of the mails and the means and instrumentalities of interstate commerce, directly or indirectly, has:

- a. employed devices, schemes, or artifices to defraud advisory clients and prospective advisory clients; and
- b. engaged in transactions, practices, or courses of business, which operated as a fraud or deceit upon advisory clients or prospective advisory clients.

36. Fanam, through Beckford, knowingly or recklessly employed the devices, schemes, and artifices, and engaged in the transactions, practices, or courses of business described above.

37. Beckford aided and abetted Fanam's violations of Sections 206(1) and (2) of the Advisers Act. Beckford, as an associated person of an investment adviser, was aware that his actions involving Fanam were part of an overall scheme to defraud investors. Beckford provided knowing and substantial assistance to Fanam by making materially false representations and false statements, both orally and in writing, designed to conceal the depletion of advisory client funds and the true reason for such depletion, and created and caused to be issued fraudulent account statements and other documents, which stated that the Fund was generating a profitable return when in fact, the Fund lost money during the entire time it operated.

38. By reason of the foregoing, Beckford aided and abetted Fanam's violations of Sections 206(1) and (2) of the Advisers Act.

## **RELIEF REQUESTED**

**WHEREFORE**, the Commission requests that the Court:

### **I.**

Find that defendant Beckford committed the violations charged and alleged herein.

### **II.**

Enter an order of permanent injunction, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, enjoining defendant Beckford and those persons in active concert or participation with him who receive actual notice of such order, by personal service or otherwise, and each of them, from directly or indirectly, engaging in the transactions, acts, practices, or courses of business described above, or in conduct of similar purport and object, in violation of Sections 17(a)(1), 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. §77q(a)(1), §77q(a)(2) and §77q(a)(3)], Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)], Rule 10b-5 promulgated thereunder [17 C.F.R. 240.10b-5], and Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§80b-6(1) and 80b-6(2)].

### **III.**

Enter an order requiring Beckford to disgorge the ill-gotten gains that he received as a result of his wrongful conduct, including prejudgment interest.

### **IV.**

Enter an order imposing upon Beckford civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. §77t(d)], Section 20(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(e)].

**V.**

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.

**VI.**

Grant orders for such further relief as the Court deems appropriate.

Respectfully submitted,

---

James G. Lundy, Illinois Bar No. 6231095  
Thomas J. Meier, Illinois Bar No. 6225621  
Attorneys for Plaintiff  
Securities and Exchange Commission  
175 W. Jackson Boulevard  
Suite 900  
Chicago, Illinois 60604-2615  
(312) 353-7390

Dated: October 15, 2004