

**COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE SECRETARY OF THE COMMONWEALTH
SECURITIES DIVISION
ONE ASHBURTON PLACE, ROOM 1701
BOSTON, MASSACHUSETTS 02108**

SECRETARY OF THE
COMMONWEALTH
SECURITIES DIVISION
MAY 14 2 11 PM '15

IN THE MATTER OF:)
)
CHARLES L. ERICKSON,) Docket No. E-2015-0045
)
RESPONDENT.)

ADMINISTRATIVE COMPLAINT

I. PRELIMINARY STATEMENT

The Enforcement Section of the Massachusetts Securities Division of the Office of the Secretary of the Commonwealth (the "Enforcement Section") files this complaint (the "Complaint") in order to commence an adjudicatory proceeding against the above-named Respondent, Charles L. Erickson ("Respondent"), for violations of MASS. GEN. LAWS ch. 110A, the Massachusetts Uniform Securities Act (the "Act"), and 950 MASS. CODE REGS. 10.00-14.413 (the "Regulations"). The Complaint alleges that Respondent violated the Act and Regulations through the offer and sale of fraudulent and unregistered securities in the Commonwealth.

The Enforcement Section seeks an order: 1) finding as fact the allegations set forth below; 2) finding that all the sanctions and remedies detailed herein are in the public interest and necessary for the protection of Massachusetts investors; 3) requiring Respondent to permanently cease and desist from further conduct in violation of the Act and Regulations in the Commonwealth; 4) censuring Respondent; 5) requiring

Respondent to provide an accounting for those losses attributable to the alleged wrongdoing; 6) requiring Respondent to compensate investors for those losses attributable to the alleged wrongdoing; 7) requiring Respondent to disgorge all profits and other direct or indirect remuneration received from the alleged wrongdoing; 8) permanently barring Respondent from associating or registering in the Commonwealth as a broker-dealer, broker-dealer agent, or as a partner, officer, director, or control person of a broker-dealer; 9) permanently barring Respondent from associating or registering in the Commonwealth with any investment adviser, any entity exempted from registration as an investment adviser in the Commonwealth, and any issuer of any securities in the Commonwealth; 10) imposing an administrative fine on Respondent in an amount and upon such terms and conditions as the Director or Presiding Officer may determine; and 11) taking any such further action which may be in the public interest and necessary and appropriate for the protection of Massachusetts investors.

■. SUMMARY

The Enforcement Section of the Division brings this action as a result of the alleged fraudulent activities of Charles L. Erickson (“Erickson”) in connection with the offer and sale of unregistered securities in the Commonwealth. Specifically, Erickson offered and sold unregistered investments in a fraudulent Ponzi scheme. In total, over a four-year period, Erickson took in an estimated \$3,500,000 from at least twenty-five investors.

Beginning in 2010, Erickson began collecting money from investors for the purpose of trading futures contracts. Erickson personally recruited one-third of his investors, with at least seven investors recruited from his local church, where Erickson

was a church elder. Erickson believed that the “Holy Spirit” had given him a proprietary system for day trading a particularly volatile type of futures contract. Erickson pooled investor funds into online brokerage accounts and began trading pursuant to his purportedly divine system.

Erickson offered investments backed by his trading results, with promises of guaranteed returns of at least 4% monthly, or 96% over a two-year term. Erickson enticed prospective investors with spreadsheets allegedly showing profitable monthly trading results under his system. In reality, however, Erickson’s spreadsheets were nothing more than promotional tools, showing only hypothetical profits and losses. Erickson never disclosed actual profits or losses to his investors. Furthermore, beginning as early as 2013, Erickson stopped trading pursuant to his system. Investors themselves had no control over trading, and were wholly reliant on Erickson to earn sufficient capital to pay their promised monthly returns.

Erickson’s investment scheme was a Ponzi scheme, which ultimately collapsed in 2014. Erickson admitted to the Enforcement Section that in the months when his system was not profitable, he paid monthly returns to investors using capital reserves deposited by later investors. In fact, over an approximately two-year period, the Enforcement Section found that while over \$2.8 million in investor funds was raised, only about \$1.5 million was actually transferred to Erickson’s brokerage accounts. The remaining funds were kept in Erickson’s checking account to pay the extravagant returns he promised to investors. As a result of Erickson’s fraudulent Ponzi scheme, investors suffered substantial losses. In fact, according to Erickson, some investors were living “hand to mouth” as a result of the losses incurred.

III. JURISDICTION AND AUTHORITY

1. As provided for by the Act, the Massachusetts Securities Division has jurisdiction over matters relating to securities.
2. The Enforcement Section brings this action pursuant to the enforcement authority conferred upon it by Section 407A of the Act, wherein the Massachusetts Securities Division has the authority to conduct an adjudicatory proceeding to enforce the provisions of the Act and its Regulations.
3. This proceeding is brought in accordance with Sections 101, 301, and 407A of the Act and its Regulations. Specifically, the acts and practices constituting violations occurred pursuant to Section 414 of the Act.
4. The Enforcement Section specifically reserves the right to amend this Complaint and/or bring additional administrative complaints to reflect information developed during the current and ongoing investigation.

IV. RELEVANT TIME PERIOD

5. Except as otherwise expressly stated, the conduct described herein occurred between January 1, 2008 and the current date (the "Relevant Time Period").

V. RESPONDENT

6. Charles L. Erickson ("Erickson") is a Massachusetts resident with a last known address in Uxbridge, Massachusetts. Erickson is not currently registered with the Division in any capacity, but has an individual Central Registration Depository number of 201891. Upon information and belief, Erickson was formerly licensed in the securities industry as a registered representative of The Paul Revere Life Insurance Company.

VI. ALLEGATIONS

A. Background

7. Beginning in 2008, Erickson began looking at the financial markets for E-Mini Russell 2000 futures contracts (“E-Mini Russells”).
8. At that time, Erickson was looking for ways to supplement his retirement income.
9. Erickson testified that he chose the E-Mini Russells because he wanted volatility, adding, “I started reading about what I call high-volatility investments and E-Mini Russells sort of jumped out at me.”
10. According to Erickson, he tracked the market for E-Mini Russells for six months before finally investing his own money.
11. At the time when he began investing in E-Mini Russells, Erickson had limited investing experience.
12. When asked by the Enforcement Section about his investing experience prior to 2008, Erickson testified, “[...] I had mutual funds through my 401k [...] I did some trading in commodities [...] I would do mutual funds more or less. I wasn’t – I figured someone else knew more about these things than I did.”
13. Erickson further testified that trading E-Mini Russells was considered day trading.
14. Erickson also testified that he had no experience with day trading.

1. The Development of the “System”

15. Erickson testified to the Enforcement Section that he had a proprietary system for trading E-Mini Russells (the “System”).
16. According to Erickson, the Holy Spirit showed him the System.

17. Specifically, Erickson testified, “[...] it’s going to sound a little strange to you, but [...] **I believe the Holy Spirit showed me this system.**” (emphasis added).
18. The System looked at certain indicators in financial charts, which would tell Erickson to either buy or sell E-Mini Russells.
19. The Enforcement Section asked Erickson what indicators he looked at in order to make trading decisions. Erickson responded, “[...] that’s proprietary [...] I don’t want to give my system away. I don’t want to be rude, but this thing flat-out works.”
20. Erickson ultimately described the System as follows:

[...] this system, if certain things took place over 25 minutes, that would tell me either to, no, trade or either to sell short or to go long. The system produces profits either way, up or down in the market. It matters not and I didn’t care. When I say I didn’t care, it just worked for — it just gave indicators that I should buy right now whether the market is going up or down. I’m not trading anymore, but the market went up yesterday, it didn’t matter. It just didn’t matter. If the system said to do it, I would do it. During the day I could turn around, it would tell me during the day to go short, to sell, instead of buying contracts.

21. Although initially trading with his own money, Erickson stated that one of his objectives in starting the System was to help others by paying an, “[...] excellent return to people who gave me funds [...]”
22. In 2010, Erickson began accepting funds from individuals looking to make money through the System.

B. Offer and Sale of Unregistered Securities

23. Erickson testified to the Enforcement Section that during the time the System was operating, twenty-five individuals invested a total of approximately \$3,500,000 into the System.

24. Upon information and belief, Erickson had at least twenty-six individuals investing in the System.
25. Erickson stated that he recruited approximately one-third of the twenty-five investors, while the remaining investors were referrals.
26. When asked where he found the majority of his recruited investors, Erickson testified:
- Unfortunately, I found them at church, most of them at church. They trusted me. That's to my shame and my sin, all right? I found most of them [...] I would hear that they had some money and banks were paying them less than one percent. I would say, "We can sit down and I can pay you four percent a month."
27. Upon information and belief, Erickson recruited at least seven investors from his local church, located in Ashland, Massachusetts.
28. Erickson was formerly listed under the leadership of the church, as a church elder.
29. Erickson testified to the Enforcement Section that he accepted anyone who wanted to invest in his System, provided they agreed to his standard terms.
30. In meetings with prospective investors, Erickson provided each investor with his standard terms describing the provisions of each investment (the "Agreement").
31. Pursuant to a sample Agreement provided by Erickson to the Enforcement Section, in exchange for an investment of money, investors received a guaranteed monthly payment of 4% of their invested principal. *A redacted copy of the referenced Agreement is attached hereto as Exhibit 1.*
32. Erickson offered certain investors a higher guaranteed monthly payment of 5% return on the invested principal.
33. The monthly payments continued for twenty-four months, at which time Erickson would return the original investment amount.

34. The Agreement promised investors a guaranteed return of 96% over the two-year term.
35. The Agreements issued by Erickson to investors are securities in the form of investment contracts.
36. Erickson has never filed an application for the registration of, or notice of exemption from registration of, securities to be offered in the Commonwealth during the Relevant Time Period.
37. Erickson testified to the Enforcement Section that money received from investors was transferred into brokerage accounts held at TradeStation ("TradeStation"), an internet-based securities and commodities broker.
38. Erickson maintained two brokerage accounts in his own name at TradeStation.
39. With the exception of one investor ("Investor One"), Erickson comingled all investor funds into one brokerage account at TradeStation.
40. As described by Erickson, the funds from all investors, "[...] went into one pot except this one guy wanted his own pot."
41. Erickson maintained the second brokerage account at TradeStation specifically for Investor One, who requested a separate account.
42. The separate account for Investor One was managed identically to Erickson's pooled investor account at TradeStation.
43. Upon information and belief, Erickson used the investor funds in the TradeStation accounts to trade E-Mini Russells, pursuant to his System.

44. Investors had no authority to make decisions on either TradeStation account and relied upon the efforts of Erickson to earn sufficient trading returns in order to pay the guaranteed 4% monthly returns.
45. Erickson paid the fixed monthly return to investors while keeping any excess trading profits above the promised interest rates.
46. In testimony to the Enforcement Section, Erickson estimated that he kept between \$200,000 and \$250,000 for his work for managing the System.

C. Omissions, Misrepresentations, and Investment Losses

1. Omissions of Material Information

47. Erickson testified to the Enforcement Section that he understood the risks of day trading.
48. According to Erickson, “Day trading allows you to buy more contracts at the same amount of capital [...] [however] it also puts you more at risk.”
49. Erickson failed to disclose to potential investors that he had no experience day trading.
50. Erickson failed to disclose the risks associated with his strategy with investors, unless specifically asked by an investor.
51. When asked by the Enforcement Section whether he ever discussed the risk of his strategy with prospective participants, Erickson testified, “No. When I - you know, any investment you can lose everything. I certainly didn’t highlight it, let me just say that. I didn’t highlight that.”
52. Erickson testified that if asked by a prospective investor about risk and volatility, he would tell them, “Any time it’s volatile, you can lose money.”

53. Erickson continued, “As amazing as it sounds, when you look back on it, some people gave me just the money and they walked away with that piece of paper [the Agreement]. No supporting material other than that little history I showed you.”
54. Erickson also did not require any investors to furnish information regarding their personal wealth or ability to risk the loss of their investments.
55. Upon information and belief, some of Erickson’s investors were unable to bear the financial risk associated with Erickson’s investment strategy.
56. According to Erickson, he later found out that certain people invested in the System were living “hand to mouth.”

2. Misrepresentations of Trading Results

57. According to Erickson, when meeting with potential investors, he would show them the Agreement along with a document displaying monthly trading results.
58. Specifically, Erickson showed investors a spreadsheet displaying the profits or losses of one E-Mini Russell, traded pursuant to his System, in a given timeframe.
59. Upon information and belief, investors understood the spreadsheets displayed by Erickson to represent Erickson’s actual profits and losses.
60. Erickson did not provide investors with the results of actual trades that he made or anything that would substantiate the spreadsheets.
61. Erickson testified to the Enforcement Section that the spreadsheets he showed to investors were hypothetical, stating, “[...] this was just for what I call promotional purposes, this thing. They’re real numbers but they’re just promotional purposes.”
62. Later in his testimony, Erickson elaborated, stating, “[s]ometimes I would show them where I got those numbers from. I would show them like a monthly chart of - not

chart, a recording of the profits and loss every day, but **it was just a pure recording of what one contract would have done that day had I done the system.**”

(Emphasis added).

63. As early as 2013, Erickson was not using the System to make trades.
64. Erickson testified to the Enforcement Section that Investor One received supplemental information for his investment.
65. Specifically, Erickson gave status updates to Investor One regarding his separate TradeStation account.
66. When asked whether he would provide Investor One with the account statements directly from TradeStation, Erickson invoked his rights under the 5th Amendment to the United States Constitution.
67. Erickson testified that he provided Investor One with photos of the daily trading results in a given month for one E-Mini Russell contract traded pursuant to the System.
68. Erickson testified to the Enforcement Section that the results shown to Investor One were hypothetical results, showing profits or losses if Erickson had traded pursuant to the System.
69. Erickson also invoked his right against self-incrimination and refused to answer when questioned as to why he did not provide Investor One with the actual trading results from his account.

3. Misrepresentation of Trading Activities

70. Erickson testified to the Enforcement Section that when he prospected new investors, he would explain that he had, “[...] a System that is doing very well.”

71. Upon information and belief, individuals who invested with Erickson expected him to trade pursuant to the System.
72. During 2013, Erickson deviated from the System, but continued to represent to investors that he was trading pursuant to the System.
73. Erickson testified to the Enforcement Section that he continued to accept investor funds after deviating from the System. Erickson did not disclose this to investors:

Q: Did you tell them that you had a system?

A: Yes.

Q: Okay. So they were investing on the basis that you were going to be trading on the system?

A: Yes, yes.

74. Erickson accepted funds from new investors as late as September 29, 2014, well after he deviated from the System and began experiencing losses.

4. The System Collapses

75. Upon information and belief, Erickson began to suffer significant trading losses beginning in 2013.
76. Erickson did not notify any investors of any significant losses until approximately September, 2014, when he was unable to make all of his promised interest payments.
77. In October or November of 2014, Erickson notified all investors of his losses, stating, "I told them that I lost everything, principal, interest."
78. In a letter to his investors on December 4, 2014, Erickson told all investors that he had "[...] zero capital and almost zero assets[...]"
79. In a follow up letter to investors on January 4, 2015, Erickson stated, "[t]he system works. I did not work the system!"

80. When asked by the Enforcement Section why he did not work the System, Erickson replied, “[t]hat’s a great question. That’s what everybody asks me.”
81. Upon information and belief, all of Erickson’s investors suffered significant losses through their investment in Erickson’s investment program, likely totaling hundreds of thousands of dollars.

D. The Investment Scheme Constituted an Illegal Ponzi Scheme

82. Over approximately a four-year period, Erickson estimated that that he took in \$3,500,000 of investor funds.
83. According to bank records reviewed by the Enforcement Section, between January 28, 2012 and October 27, 2014, Erickson received over \$2,800,000 in investor funds.
84. Erickson did not generate sufficient funds through the System to pay the guaranteed monthly returns to investors.
85. Between February 1, 2012 and January 14, 2015, while Erickson took in millions in investor funds, only \$1,558,570 was transferred to the trading accounts held at TradeStation.
86. Over that same time period, only \$570,715 was transferred back to Erickson’s bank account from TradeStation for payouts to investors, while at least \$1,400,000 was actually paid to investors.
87. Erickson used the funds from new investors to pay the guaranteed returns to earlier investors.
88. Erickson testified to the Enforcement Section that the System did not make money every month, and in the months that the System did not make money, returns were paid out of reserves.

89. Erickson explained that reserves were the remaining funds in the TradeStation account.

90. When asked specifically by the Enforcement Section whether he would make interest payments by drawing from the capital in the account from the participants, Erickson responded, “Yes, yes.”

VII. VIOLATIONS OF LAW

A. COUNT I – VIOLATIONS OF MASS. GEN. LAWS ch. 110A, § 101

91. Section 101 of the Act states that:

It is unlawful for any person, in connection with the offer, sale or purchase of any security, directly or indirectly

- (1) to employ any device, scheme, or artifice to defraud,
- (2) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading, or
- (3) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

MASS. GEN. LAWS ch. 110A, § 101.

92. The Enforcement Section herein re-alleges and restates the allegations of fact set forth in paragraphs 1 through 90 above.

93. The conduct of Respondent, as described above, constitutes violations of MASS. GEN. LAWS ch. 110A, § 101.

B. COUNT II - VIOLATIONS OF MASS. GEN. LAWS ch. 110A, § 301

94. Section 301 of the Act provides:

It is unlawful for any person to offer or sell any security in the commonwealth unless:—

- (1) the security is registered under this chapter;
- (2) the security or transaction is exempted under section 402; or

(3) the security is a federal covered security.

95. The Enforcement Section herein re-alleges and restates the allegations of fact set forth in paragraphs 1 through 90 above.

96. The conduct of Respondent, as described above, constitutes violations of MASS. GEN. LAWS ch. 110A, § 301.

VIII. STATUTORY BASIS FOR RELIEF

Section 407A of the Act provides, in pertinent part:

(a) If the secretary determines, after notice and opportunity for hearing, that any person has engaged in or is about to engage in any act or practice constituting a violation of any provision of this chapter or any rule or order issued thereunder, he may order such person to cease and desist from such unlawful act or practice and may take such affirmative action, including the imposition of an administrative fine, the issuance of an order for an accounting, disgorgement or rescission or any other such relief as in his judgment may be necessary to carry out the purposes of [the Act].

MASS. GEN. LAWS ch. 110A, § 407A.

IX. PUBLIC INTEREST

For any and all of the reasons set forth above, it is in the public interest and will protect Massachusetts investors for the Director to enter an order finding that such “action is necessary or appropriate in the public interest or for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of this chapter [MASS. GEN. LAWS ch. 110A].”

X. RELIEF REQUESTED

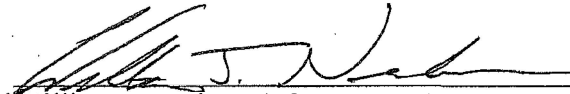
The Enforcement Section of the Division requests that an order be entered:

- A. Finding as fact all allegations set forth in paragraphs 1 through 90, inclusive of the Complaint;

- B. Finding that all the sanctions and remedies detailed herein are in the public interest and necessary for the protection of Massachusetts investors;
- C. Requiring Respondent to permanently cease and desist from violation of the Act and Regulations in the Commonwealth;
- D. Censuring Respondent;
- E. Requiring Respondent to provide an accounting for those losses attributable to the alleged wrongdoing;
- F. Requiring Respondent to compensate investors for those losses attributable to the alleged wrongdoing;
- G. Requiring Respondent to disgorge all profits and other direct or indirect remuneration received from the alleged wrongdoing;
- H. Permanently barring Respondent from associating or registering in the Commonwealth as a broker-dealer, broker-dealer agent, or as a partner, officer, director, or control person of a broker-dealer;
- I. Permanently barring Respondent from associating or registering in the Commonwealth with any investment adviser, any entity exempted from registration as an investment adviser in the Commonwealth, and any issuer of any securities in the Commonwealth;
- J. Imposing an administrative fine on Respondent in an amount and upon such terms and conditions as the Director or Presiding Officer may determine; and
- K. Taking any such further action which may be in the public interest and necessary and appropriate for the protection of Massachusetts investors.

**MASSACHUSETTS SECURITIES DIVISION
ENFORCEMENT SECTION**

By and through its attorneys,



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Dated: June 2, 2015

Exhibit 1



Dear 

Thank you for your business.


Here are the particulars for placing \$5,000 into this system.

- 1) Beginning the first week in May, 2014, I will be sending you a monthly payment for \$200 (a return of 4.0% simple interest, monthly).
- 2) Those \$200 payments will continue for a total of twenty-four (24) months, i.e. through April, 2016, for a total of \$4,800.
- 3) In April, 2016, you will also receive your original amount of \$5,000.
- 4) Currently, I am not making any offer(s) to continue this past September, 2016.

Profitably yours,



Charles L. Erickson



I agree to leave this \$5,000 in this plan until April, 2016.

