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# Scam Artists Find L.A. Ripe For the Picking

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While Bernard Madoff's alleged $50 billion Ponzi scheme has dominated the headlines, a growing number of similar scams have emerged in Los Angeles.

At least a half-dozen cases of alleged investment fraud have come to light in Los Angeles County in recent months. Though fraud statistics are spotty, evidence suggests this area has seen a disproportionately large number of Ponzi schemes and related scams.

According to data released this month by the U.S. Securities and Exchange Commission, one-third of all the emergency asset seizures since January – an action the agency typically takes when securities fraud is suspected – have been coordinated from the agency's L.A. regional office.

"The numbers are up sharply in our local office," said Rosalind Tyson, director of the SEC's L.A. outpost. "I've been with the office for 26 years (and) it absolutely is one of the busiest times I've seen."

The cases vary in scope and size, as well as in targeted investors. In one case, a financier allegedly stole nearly $20 million to support his lavish lifestyle; in another, a hedge fund manager allegedly claimed several well-known investors were involved in the fund, though they were not.

Los Angeles is a popular place for swindlers, experts surmise, because the area is home to large numbers of wealthy people, as well as major concentrations of minority groups, where Ponzi schemes tend to flourish. What's more, the nation's entertainment capital is one of the few places in the country where someone can come into vast sums of money without drawing much attention.

Many schemes have come to light lately as the economy has declined. Since Ponzi schemes rely on new investment to fund payouts to previous investors, the scams often fall apart when the markets turn south and investment capital disappears.

"It's much easier to cover up during the days when you could get new investment money," said Seong Kim, a partner in the Century City office of law firm Steptoe & Johnson LLP, who has handled fraud cases for more than a decade. "It's when things dry up that it comes to light that it was a Ponzi scheme."

**'Guaranteed safe'**

One alleged Ponzi scheme held up for more than five years before falling apart in January.

GJB Enterprises Inc., a purported commercial finance lender in West Los Angeles, had been drawing investments since at least earlier this decade. The company, founded by Gerald Berke, claimed to operate a so-called factoring business whereby it would purchase other businesses' accounts receivable. For years, GJB made regular interest payments to investors, a number of whom increased their stakes.

But early this year, GJB stopped sending out monthly checks to investors, prompting several lawsuits against Berke and his company. In March, a Los Angeles Superior Court judge appointed Stephen Donell receiver of the company.

Investors, who have alleged GJB was a sham business disguising a Ponzi scheme, may have lost more than $10 million, though it is too early to tell how much money can be recovered.

Donell, who has assembled a team of forensic accountants to look into the business, said GJB had few accounting records and it could take months to determine where the money has gone, though it does not

appear to have been used for the stated intention of commercial lending.

“There is no evidence of a legitimate business operation,” Donell said. “What I can say is it appears funds from investors were used to pay returns back to other investors. That would be the classic definition of a Ponzi scheme, but it’s not up to me as receiver to make that determination.”

Berke’s attorney declined to comment.

Some of the more overt schemes spur immediate action by the SEC, which has increased its enforcement efforts in the wake of the Madoff debacle.

Last month, the agency charged Clelia Flores with securities fraud and is seeking to recover millions of dollars she allegedly stole in a Ponzi scheme targeting Latino immigrants.

According to a lawsuit filed April 13 in federal court in Los Angeles, Flores in 2006 began soliciting investment from the Latino community for, as she put it, a “guaranteed safe” investment program. Over the next year and a half, through her El Segundo firm, Maximum Return Investments Inc., Flores raised $23 million from 150 investors in seven states by offering returns of as much as 25 percent in real estate and commodities investments. But according to the SEC, she used $3.5 million for personal expenses, including buying a home and throwing lavish parties.

It is not unusual for Ponzi schemes to target minorities, said Lew Freeman, founding principal of forensic accounting and consulting firm Lewis B. Freeman & Partners. Indeed, immigrant groups are breeding grounds for investment scams because trust is easy to establish and there tends to be more reluctance to report questionable activity to the authorities, he added.

“Most pyramid schemes or Ponzi schemes are affinity fraud – it’s usually (run) by another person of your affinity group,” he said.

The large concentration of minority groups, combined with a culture in which lavish spending can be inconspicuous, is a large reason why many Ponzi schemes crop up in Southern California, Freeman said. “If I did it in Chippewa Falls, Minn., I’m going to stand out.”

**Collateral damage**

Some scams are simply based on lies.

On April 29, the SEC shut down a pair of Beverly Hills hedge funds run by Bradley Ruderman, alleging that he had raised at least $38 million since 2002 by falsely claiming that Lowell Milken and Oracle Chief Executive Larry Ellison were associated with the funds. Moreover, Ruderman claimed the hedge funds had assets in excess of $800 million, when they actually had less than $650,000.

Ruderman also claimed to hold stakes in companies such as Apple Inc. and Microsoft Corp., though it is unclear whether the funds held any such positions. The hedge funds were not registered with the SEC.

After revelations of the alleged scam, Tyson, director of the SEC’s local office, said Ruderman “was willing to say or do anything to persuade investors to entrust their money to him.”

Though the funds were not alleged to be Ponzi schemes, the SEC said Ruderman made at least one “Ponzi-like payment” this year.

Already, the collapse of some of these investments is having ripple effects throughout Los Angeles.

The Children’s Museum of Los Angeles filed for bankruptcy last month after a judge froze the assets of investor Bruce Friedman, who had pledged $10 million to the museum. Museum Chief Executive Cecilia Aguilera-Glassman did not respond to multiple phone calls and an e-mail inquiry regarding the museum’s

future. However, news reports have suggested the city might take over the institution.

The SEC has accused Friedman of operating a fraudulent investment scheme through Sherman Oaks investment firms Diversified Lending Group Inc. and Applied Equities Inc.

According to a suit filed March 5, Friedman raised $216 million from investors by guaranteeing high returns on real estate investments. Instead, the SEC alleges, Friedman used as much as $17 million of the money to support his lavish lifestyle, including the purchase of a $6.5 million Malibu home. Friedman also diverted funds to his philanthropy, the Friedman Charitable Foundation, which supported local causes.

In addition to the Children's Museum, which has yet to open its doors, Friedman's situation could affect the plan to build 50 baseball fields across Los Angeles. Friedman's charity, which was a sponsor of the Los Angeles Dodgers, had partnered with the Dodgers Dream Foundation on the project. It had pledged as much as $5 million to build the fields.

Dodgers spokesman Charles Steinberg said the organization has already built eight fields and started work this month on a ninth. Executives have not discussed whether they will seek the money pledged by Friedman, but they expect to finish the entire project.

"We were saddened and concerned" when Friedman's situation came to light, Steinberg said. "We don't know over a long-term project who our partners may be, (but) it's our intentions to fulfill this vision."

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