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BEFORE THE ARKANSAS SECURITIES COMMISSIONER

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Case No. S-12-0013

ARKANSAS SECURITIES DEPT.

Order No. S-12-0013-12-OR03

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IN THE MATTER OF  
LARRY P. STIDMAN

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### CONSENT ORDER

This consent order is entered pursuant to the Arkansas Securities Act, codified at Ark. Code Ann. §§ 23-42-101, *et seq.* (Repl. 2000), (Act), the Rules of the Arkansas Securities Commissioner promulgated under the Act (Rules) and the Arkansas Administrative Procedures Act, codified at Ark. Code Ann. §§ 25-15-201, *et seq.* (Repl. 2002) in accordance with an agreement by and between the Staff of the Arkansas Securities Department (Staff) and Larry P. Stidman in full settlement of all claims brought against Stidman by the Staff in its complaint filed on May 17, 2012.

Stidman admits the jurisdiction of the Act and the Arkansas Securities Commissioner (Commissioner), waives his right to a formal hearing and, without admitting or denying the findings of fact made herein, consents to the entry of this order and agrees to abide by its terms.

### FINDINGS OF FACT

1. Larry P. Stidman, CRD No. 5908681, is an Arkansas resident. He is licensed with the Arkansas Insurance Department as a resident producer insurance agent. He does business as an insurance agent through Complete Benefits Solutions, LLC, of Hot Springs, Arkansas (CBS). He was registered as an investment adviser representative with and was employed by Brokers International Financial Services, LLC, (BIFS) from May 16, 2011, until January 27,

2012. He is presently seeking employment and registration with Gradient Securities, LLC, as an investment adviser representative.

ABACUS INVESTMENT PARTNERSHIP

2. Stidman formed Abacus Investment Partnership (Abacus) by means of a partnership agreement dated October 1, 2010 (Agreement). According to the Agreement, Stidman was to “hold a permanent position as Managing Partner and . . . oversee the partnership operations” and would “have the power and authority to take such action from time to time as may be deemed necessary, appropriate and/or convenient in connection with the management” of the business affairs of Abacus, including specifically performing all “banking transactions,” submitting “purchase, renewal and investment instructions” and taking “any other actions in the Partnerships best interest.”
3. Although the Agreement specified in one part that one of three partner duties was to “Participate in deciding what investments to make by voting” in proportion to each partner’s investment, the permissible investments were set out in two other places in the agreement. Under the heading, “PURPOSE,” it was stated that “The purpose of the Partnership is to invest the assets of the Partnership in Life Settlements, money market funds and/or other properties.” Under the heading, “INVESTMENT POLICY,” it was stated that:

The Partnership will invest for long-term results, reinvest all net earnings, invest regularly and has a goal of earning a fourteen percent (14%) compounded annual return. . . . The Partnership’s investment strategy involves the purchase of Life Settlement policies, money market funds and interest bearing accounts. The Partnership will only invest in Life Settlement policies showing:

- a. The current insured’s age is in the buy zone
- b. Its’ [sic] annualized return at life expectancy is 10% or Higher
- c. Expected maturity of five years or less

4. Under the terms of the Agreement, all the partners' investments were to be placed in individual capital accounts, and all partners were to share equally in profits and losses "in proportion to the value of each of their capital accounts." The Agreement required initial investments to be for a minimum of \$10,000. Assuming that the "Partnership's primary investment vehicles has an average maturity of three (3) years," the Agreement provided that the partners' "initial deposits/investments will not be available for withdrawal during the first 29 months."
5. Administration expenses were listed in the Agreement to include such things as "consulting, educational material, . . . investment advisory services, . . . and other items in the Partnerships best interest," and the funds used to pay for these expenses will be "withheld from all capital contributions in the amount of two percent (2%)." A \$49 fee was authorized in the Agreement upon the distribution or withdrawal of a partner's investment.
6. Stidman offered and sold investments in Abacus to two investors, one who will be referred to as P1, who invested \$10,000 on February 24, 2011, and another who will be referred to as P2, who invested \$30,000 on March 10, 2011. He told each investor that investments made in Abacus would be used to purchase life settlements, which were life insurance policies of wealthy individuals purchased for an amount less than the death benefit. Profits would be made, Stidman said, when the individuals died, and Abacus collected the death benefit. From what Stidman told the investors, they believed that they needed to do nothing to obtain a return on their investments and that Stidman would do all that was necessary to realize a return on their investments. Stidman told each investor in Abacus that he was forming a

group of investors to invest a minimum of \$50,000 to \$100,000.

7. Stidman did not tell P1 and P2 that he would use their funds for anything other than the investments in life settlements and the expenses he lined out for P1. Stidman specifically did not tell P1 or P2 that he would use their funds to pay debts incurred in Stidman's insurance business, or to benefit Stidman and his wife, as will be more particularly set out under the section of this order bearing the heading *ABACUS BANK ACCOUNT*.
8. Stidman returned P2's \$30,000 investment in two payments at P2's request, the first payment of \$10,000 made on April 7, 2011, and the second payment of \$20,000 made on May 23, 2011. Stidman returned P1's \$10,000 investment in one payment made on January 31, 2012.
9. Stidman never purchased a life settlement contract because he never collected the minimum amount needed or made any other investment on behalf of Abacus.

*ABACUS INVESTMENT CLUB*

10. Stidman formed Abacus Investment Club (Abacus Club) by means of a partnership agreement dated July 1, 2011, (Agreement II). According to Agreement II, this was to be a general partnership with a three month term, beginning on August 1, 2011, and ending on October 31, 2011. The stated purpose of the partnership was to invest in "stocks, bonds, options, commodities, money market funds and other securities for the financial and educational benefit of the Partners." Stidman was to be the managing partner and was given the same authority as he was given as the managing partner in Abacus in the exact same language, i.e., he would "oversee the partnership operations" and would "have the power and authority to take such action from time to time as may be deemed necessary, appropriate and/or convenient in connection with the management" of the business affairs of Abacus

Club, including specifically performing all “banking transactions,” submitting “purchase, renewal and investment instructions” and taking “any other actions in the Partnerships best interest.”

11. As with Abacus, all the partners’ investments in Abacus Club were to be placed in individual capital accounts, and all partners were to share equally in profits and losses “in proportion to the value of each of their capital accounts.” Agreement II required initial investments to be for a minimum of \$1,000.
12. Stidman sold one partnership in Abacus Club to a person who will be referred to as P3. P3 met Stidman at P3's church where Stidman had conducted a seminar on financial and insurance services offered through CBS. After the seminar, P3 emailed Stidman asking about investing in life settlements. Stidman emailed back on July 25, 2011, that P3 could invest in life settlements for a minimum of \$10,000. As an alternative, Stidman told P3 that he could invest in an investment club “for a short-term partnership actively trading Options, Futures & Commodities during the period 8/1/11 - 10/31/11 with a 4-5% period target return (annualized return of 16% - 20%).” Although the minimum investment was \$1,000, Stidman told P3 that he recommended an initial investment of \$5,000 to \$10,000. Stidman emailed P3 a copy of Agreement II on July 28, 2011, and P3 invested \$5,000 on the same day.
13. During the three month term of this investment, P3 received several emails from Stidman setting out in detail how P3's investment was doing, making money “using a wide mixture of options, futures , & commodities.” According to Stidman’s emails, his investment strategy resulted in a better result than the Dow Jones average, the Standard and Poor 500 and NASDAQ, making 5.18% for the three month period, “which when annualized out equals a

20.72% return on investment.” In late February, 2012, Stidman returned P3's \$5,000 investment plus \$259, representing that the \$259 was a return on investment, achieved by Stidman's efforts in trading “options, futures and commodities.”

14. In reality, Stidman never opened a trading account with any broker-dealer for Abacus Club and made no trades at all. All Stidman's emails about investment strategy were untrue.

ABACUS BANK ACCOUNT

15. On March 16, 2011, Stidman opened a bank account for Abacus (Abacus Account) that he used for both Abacus and Abacus Club. On that date, Stidman deposited the \$40,000 collectively invested in Abacus by P1 (\$10,000) and P2 (\$30,000).
16. On April 7, 2011, Stidman used \$13,000 of these funds to pay back a commission to an insurance company, a transaction that had nothing to do with P1, P2 or Abacus. On the same date, Stidman paid P2 back \$10,000 of her investment. These transactions left a balance of \$17,000 in the Abacus Account.
17. On May 20, 2011, Stidman deposited \$3,050.00 into this account, which brought the balance up to \$20,050.00. Stidman used \$20,000 of these funds to repay the remainder of P2's investment on May 23, 2011. This payment left the Abacus Account with a balance of \$50. On that date, P1's \$10,000 investment had not been repaid or invested.
18. The next transaction in the Abacus Account occurred on August 2, 2011, when Stidman deposited P3's \$5,000 investment in Abacus Club, resulting in an account balance of \$5,050. Stidman used these funds to pay personal bills and expenses connected with CBS. Stidman wrote checks to himself, one noted to be for “FA [financial advisor] Management Fee” for \$150 and another for \$1,500, noted to be for “Comm.” Stidman wrote a check for \$1,150 to

CBS noted to be “Admin Fees.” Stidman and his wife made cash withdrawals totaling \$2,100. Stidman used the Abacus Account to pay CBS’s electricity bills to Entergy totaling \$859.57. By August 16, 2011, the Abacus Account had a balance of \$40.43.

19. On January 30, 2012, Stidman deposited \$10,000, resulting in a balance of \$10,040.43. On January 31, 2012, Stidman used \$10,000 to return P1's investment, resulting in a balance in the account of \$40.43.

ADDITIONAL FACTS

20. From a bank account other than the Abacus Account, Stidman paid back P3's \$5,000 investment plus the \$259 Stidman represented to be a return on the investment. P3 received that check on February 25, 2011.

21. In regard to investments in Abacus, a search of the records of the Department reflects no registration, no proof of exemption from the registration provisions of the Act and no notice filing filed in the case of a covered security under federal law in accordance with Ark. Code Ann. § 23-42-509.

22. In regard to investments in Abacus Club, a search of the records of the Department reflects no registration, no proof of exemption from the registration provisions of the Act and no notice filing filed in the case of a covered security under federal law in accordance with Ark. Code Ann. § 23-42-509.

23. All three investors received their principal amount back. Only P3 received any return on his investment, but it was not generated by the buy and sale of stocks, bonds, options, commodities, money market funds, as Stidman represented to P3 that his investment would be used.

## CONCLUSIONS OF LAW

24. The Commissioner has jurisdiction over this matter pursuant to Ark. Code Ann. § 23-42-308.
25. In the offer and sale of investments in Abacus to P1 and P2, Stidman offered and sold unregistered securities in violation of Ark. Code Ann. § 23-42-501.
26. In the offer and sale of an investment in Abacus Club to P3, Stidman offered and sold an unregistered security in violation of Ark. Code Ann. § 23-42-501.
27. Stidman's statements to the investors that their funds would be used only to purchase investments when the funds were used for a variety of purposes for the personal benefit of Stidman, his wife and his insurance business were material misstatements of fact in violation of Ark. Code Ann. § 23-42-507(2). This conclusion stands even though the investors all received their investments back.

## UNDERTAKING

In settlement of this matter, but without admitting or denying the findings of fact made above, Stidman agrees with the Staff to:

- 1) Not apply for registration pursuant to the Act in any capacity and specifically as a investment adviser or representative of an investment adviser for five years from the date of this order; and
- 2) Pay a \$5,000 fine.

## OPINION

This order is in the public interest. The facts set out in ¶¶ 1 - 23 support the violations of the Act and Rules set out in ¶¶ 25 - 27.

## ORDER

IT IS THEREFORE ORDERED that:

1. Stidman's registration with BIFS is hereby revoked as of the last date on which his registration was effective in Arkansas in accordance with Ark. Code Ann. § 23-42-308(a)(2)(B) and § 23-42-308(e)(3).
2. The application for registration as an investment adviser representative for Gradient Securities, LLC, is hereby denied in accordance with Ark. Code Ann. § 23-42-308(a)(2)(B).
3. Stidman is fined \$5,000 in accordance Ark. Code Ann. § 23-42-308(g), but collection of this fine will not be attempted by the Staff unless and until Stidman attempts to be registered in any capacity pursuant to the Act.
4. In accordance with Stidman's undertaking, no application for registration for any position pursuant to the Act and specifically as a investment adviser or representative of an investment adviser will be accepted or granted within five years of the date of this order.

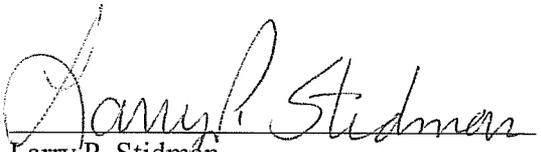
WITNESS MY HAND AND SEAL this 24<sup>th</sup> day of September, 2012.



A. Heath Abshure  
ARKANSAS SECURITIES COMMISSIONER

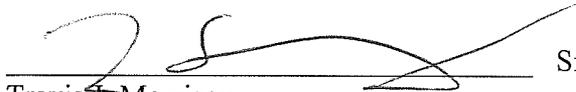
CONSENT TO ENTRY OF ORDER

Larry P. Stidman hereby acknowledges that he has been served with a copy of this Order, has read it, is aware of his right to a hearing and has waived that right. He acknowledges that he is consenting to the entry of this order, including the undertaking that is a part of this order, voluntarily after consulting with counsel and that no threats, offers, promises or inducements of any kind have been made by any member of the Staff to induce him to consent to the entry of this order.

  
Larry P. Stidman

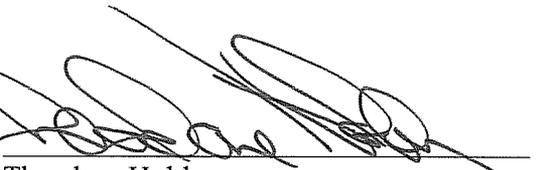
Signed this 24<sup>th</sup> day of September, 2012.

APPROVED AS TO FORM AND CONTENT

  
Travis J. Morrisey  
*Attorney for Larry P. Stidman*

Signed this 24 day of September, 2012.

APPROVED AS TO FORM AND CONTENT

  
Theodore Holder  
*Attorney for the Staff*

Signed this 24<sup>th</sup> day of September, 2012.