

STATE OF ARKANSAS
SECURITIES DEPARTMENT

IN THE MATTER OF

SUMMARY ORDER SUSPENDING

REGISTRATION PURSUANT TO

ARK. CODE ANN. § 23-42-308(c)
(1)

AND RULE 601.07(B)

MASTERS FINANCIAL GROUP, INC.

CRD # 25747

ORDER NO. 98-040-S

SUMMARY ORDER

This Summary Order is entered pursuant to Ark. Code Ann. § 23-42-308(c)(1) and Rule 601.07(B) of the Rules of the Arkansas Securities Commissioner.

Prompted by the sudden change in management resulting in the termination of all qualified principals under the registration of Masters Financial Group, Inc., ("Masters"), the staff of the Arkansas Securities Department has conducted an investigation into the events surrounding these terminations. Pursuant to the investigation, the staff has presented sufficient grounds and evidence to the Arkansas Securities Commissioner ("Commissioner") upon which he has reason to believe that Masters, through its ownership, officers and directors, has violated various provisions of the Arkansas Securities Act, Ark. Code Ann. § 23-42-101 *et seq.*, ("Act") and the Rules of the Arkansas Securities Commissioner ("Rule" or "Rules") such that he considers it necessary and in the interests of the investing public to summarily suspend the registration of Masters to conduct business as a broker-dealer in the State of Arkansas.

FINDINGS OF FACT

1. The Commissioner is charged with the duty of the enforcement of the Act and Rules pursuant to Ark. Code Ann. § 23-42-201.
2. Masters, a Delaware corporation, became licensed as a corporate broker-dealer with the National Association of Securities Dealers ("FINRA") on January 11, 1990. On November 7, 1990, Masters became registered with the Commissioner to conduct securities business in Arkansas as a broker-dealer. Masters is currently registered as a broker-dealer in Arkansas.

a. Masters' Ownership

3. According to records within the possession of the Commissioner and maintained through the Central Registration Depository ("CRD"), in particular Masters' Form BD, at the time Masters initially registered in Arkansas its sole shareholder was *Capital Placement Corporation*, a publicly held corporation.
4. On June 29, 1993, Masters' Form BD was amended to reflect a prior change to its ownership. That amendment shows that beginning in May, 1993, *Capital Placement Corporation* was deleted as owner and that *P & C Enterprises, Ltd.*, either a corporation or trust located in the

Cayman Islands, had acquired the ownership of Masters' stock. Documents received by the staff from persons purporting to be a director and a trustee of *P & C Enterprises, Ltd.*, state that it was created by William Francis Smith, CRD #500138, whose former broker-dealer firm, First Investment Securities, Inc., was permanently revoked from conducting securities business in Arkansas in 1989 and was expelled from membership with the FINRA on July 15, 1991.

5. According to the CRD, *P & C Enterprises, Ltd.*, continues to own Masters. However, documents filed with the staff on May 18, 1998, by Linda Tullos, CRD #3045130, Corporate Secretary and Member of the Executive Committee of Masters, state that *Chief Communications, Inc.*, a Nevada Corporation, has been issued a controlling interest over Masters because of a September, 1997, capital investment in Masters by *Chief*. The documents describe *Chief* as a "single purpose investment company" of Mr. Pieter Oosthuizen, a Canadian citizen and British resident, who is the President of *Chief*. According to the documents, *Chief's* infusion of capital in 1997 placed Oosthuizen as the second director, along with Woody R. Rose, CRD #500131, on the Board of Directors for Masters in October, 1997. The documents further state that in addition to *Chief*, Masters' ownership is shared with *Jonathan Worley*, CRD #2705199, nephew of William F. Smith; *Insearch Capital Corporation*; and a company named *Barnwell*, an affiliate of *Chief*.
6. According to the Secretary of State for the State of Nevada, the corporate articles for *Chief Communications Inc.* are in default and the corporation is not in good standing with the State of Nevada. Further, the President of *Chief* is shown to be Maurice O'Bannon rather than Pieter Oosthuizen. According to the Secretary of State for the State of Arkansas, the corporate charter of *Insearch Capital Corporation* was revoked on January 4, 1994.
7. The CRD does not reflect these changes in ownership or directorship for Masters. Neither *Chief Communications Inc.*, *Jonathan Worley*, *Barnwell*, nor *Insearch Capital Corporation* have been added to the CRD as having ownership interests in Masters. In addition, Masters most recent audited financial statement, submitted pursuant to Rule 302.01(B)(3), does not name a capital investment by Pieter Oosthuizen or *Chief*. Rather, the audit indicates a paid-in-capital investment by, *P & C Enterprises, Ltd.* Despite the statements in the documents, Pieter Oosthuizen to date has not been added to the CRD to indicate his directorship position with Masters.

b. Master's Management and David R. Kane

8. Prior to January 1, 1998, Masters had three (3) agents under its registration who were qualified, in accordance with the Act and Rules, to be "principals" for the firm. They were: (a) Woody R. Rose, CRD #500131 - whose registration with Masters was voluntarily terminated on January 30, 1998; (b) Richard R. Torres, CRD #1555032 - whose registration with Masters was voluntarily terminated on February 13, 1998; and Larry Dean Malone, CRD #318111 - whose registration with Masters was voluntarily terminated on April 24, 1998. In addition to his principal status, Rose was the sole director on the Board of Masters and its President. Torres held the position of Vice-President of Masters.
9. Masters' principals, along with Masters' Financial and Operations Principal, Edward Wyrobeck, voluntarily terminated their status with Masters because of the arrival of David R. Kane, CRD #263749, to Masters. Kane arrived at Masters in early January, 1998, ostensibly on authority from *P & C Enterprises, Ltd.*, to hire new management for Masters. Kane was the subject of registration revocation proceedings by the FINRA for failing to pay costs and fines associated with complaints filed against him. Kane is prohibited from associating with any FINRA member in any capacity, including clerical or ministerial duties.

10. To certify his authority over Masters, Kane offered the staff three documents dated February 2, 1998. Each purported to be signed by Ivan Burgess, who, according to subsequently acquired documents, is a director/trustee over *P & C Enterprises, Ltd.* In significant part, the three documents provided the following:

- (a) Kane was appointed the sole signatory over Masters' bank accounts and,
- (b) Kane was appointed to Masters' Board of Directors.

11. Answers by Ivan Burgess to inquiry of *P & C Enterprises, Ltd.* regarding Kane's authority over Masters, have stated the following:

- (a) The three February 2, 1998, Ivan Burgess documents offered by Kane were not signed by Ivan Burgess, although Kane had been hired to look into the financial affairs of Masters and was allowed to do all things necessary to allow operations to continue;
- (b) *P & C Enterprises, Ltd.* had no previous business relationship with Kane and Kane was selected based upon the recommendation of one of *P & C Enterprises, Ltd.*'s clients;
- (c) *P & C Enterprises, Ltd.* did not investigate or check the securities background of Kane prior to his employment with *P & C Enterprises, Ltd.*

12. On May 12, 1998, the staff asked Ivan Burgess to provide information on the following no later than May 18, 1998:

- (a) The name of the client who recommended Kane;
- (b) What type of entity is *P & C Enterprises, Ltd.*? If a corporation, the names of the shareholders or individual with ultimate authority over *P & C Enterprises, Ltd.* and Ivan Burgess. If a trust, what type of trust is *P & C Enterprises, Ltd.*; and
- (c) In what capacity does Keith High serve *P & C Enterprises, Ltd.*? If he is no longer associated with *P & C Enterprises, Ltd.*, when was that association terminated, who was involved in that termination, and why did the termination take place?

Keith High has been described as an "administrator," "agent" and "director" of *P & C Enterprises, Ltd.* As "director," High executed Woody Rose's original employment agreement with Masters. He purportedly executed a January 3, 1998, memorandum giving Kane authority to hire new management at Masters as authorized "agent," and, Ivan Burgess represented High to have been an "administrator" of *P & C Enterprises, Ltd.*

To date, neither Ivan Burgess nor any other representative of *P & C Enterprises, Ltd.*, has responded to the staff's request for information.

13. On the basis of his purported authority, Kane established an "Executive Committee" to manage Masters and announced the employment of Jimmy Swink, Jr., CRD #1075296, for the purpose of building a sales force. Swink is not currently registered as an agent with the Commissioner.
14. According to the May 18, 1998, documents submission by Linda Tullos to the staff, the "Executive Committee" consists of three positions:
 - (a) Principal: supervisor/compliance officer over floor activity and sales of securities;
 - (b) Regulatory Compliance and Financial and Operations Principal ("FINOP"): oversees state, FINRA, and SEC compliance, licensing, and reporting; and
 - (c) Orders and Clearing Interface: oversees trade execution with Masters' clearing firm.

Those positions are currently held by Noel Hamm, CRD #1031859; Linda Tullos; and Nancy L. Kane, CRD #3020802, respectively.

15. Linda Tullos' May 18, 1998, documents' submission describes Noel Hamm as having "experience in every aspect of sales activity and supervision including being a long time trainer." According to the CRD, Hamm is not properly qualified to hold the position of principal. Not only has Hamm not taken the requisite general securities principal exam, he did not pass the required agent state law exam by the minimum 80% standard prescribed in Rule 302.01(C)(1)(b). Additionally, Hamm has never taken the general securities sales supervisor exam. Hamm filed for Chapter 7 bankruptcy in 1995, and had civil judgments entered against him in 1987 and 1986 in the amounts of \$49,041.22 and \$200,651.35.
16. In the May 18, 1998, documents' submission, Tullos is described as having had "a strong background in compliance with securities firms" However, the CRD reveals Tullos has never held an agent's registration nor had previous employment with a securities' firm. Of notable significance is Tullos' lack of experience in the areas of compliance, financial and operations management in the securities' business.
17. According to the CRD, Nancy L. Kane has never held an agent's registration nor had previous employment in any capacity with a securities' firm. Nancy Kane has not applied to take any securities' agent or principal exam.
18. According to the CRD, there are no qualified principals currently under Masters' registration. Nonetheless, Tullos has submitted documentation which states: "Two other top level principals have been hired and are in various stages of re-licensing. One is testing for FIN OP." According to the CRD, Terry Burns Red, CRD #1213460, who has been registered with Masters since April, 1998, is contemplating taking the FINOP exam. Burns took the exam as recently as April 27, 1998, and failed to pass it on that occasion.

RELEVANT STATUTES AND RULES

19. Ark. Code Ann. § 23-42-110 states:

It is unlawful for any person to make or cause to be made, in any document filed with the commissioner or the commissioner's designee or in any proceeding under this chapter, any statement which is, at the time in light of the circumstances under which it is made, false or misleading in any material respect.

20. Ark. Code Ann. § 23-42-205 gives the Commissioner the authority to "require the production of any books, papers, correspondence, memoranda, agreements, or other documents or records which the commissioner deems relevant or material to the inquiry."
21. Rule 302.01(D)(3)(a) requires every broker-dealer using the CRD to file correcting amendments with the CRD when there are changes in ownership, management or control of a broker-dealer, or a change in any of the firm's officers or persons in similar positions.
22. Ark. Code Ann. § 23-42-301(e)(1)(A) requires every broker-dealer registered in Arkansas to have at least one registered agent designated the principal with direct supervisory authority over the purchase and sale of securities in Arkansas. Rule 302.01(C)(1)(b) supplements Section 301 by requiring agents designated as principal of a broker-dealer to have attained a passing grade of 80% on the agent state law exam. Rule 302.01(E)(5) further supplements Section 301 by providing that:

The registration of a broker-dealer who ceases to have a registered principal shall be involuntarily suspended until such time as the broker-dealer has obtained a new principal. No offers or sales of securities may be made to residents of Arkansas during this period of suspension.

23. Ark. Code Ann. § 23-42-308(a)(2)(B) authorizes the suspension of a broker-dealer's registration if the Commissioner finds a broker-dealer has willfully violated or willfully failed to comply with any provision of the Act or Rules.
24. Ark. Code Ann. § 23-42-308(a)(2)(I) authorizes the suspension of a broker-dealer's registration if the Commissioner finds the broker-dealer is not "qualified on the basis of such factors as training, experience, and knowledge of the securities business."
25. Ark. Code Ann. § 23-42-308(c)(1) authorizes the summary suspension of a broker-dealer's registration by the Commissioner. Rule 601.07(A) allows the suspension of a broker-dealer's registration for the causes set forth in Arkansas Code Ann. § 23-42-308(a). Rule 601.07(B) allows the Commissioner to summarily suspend a broker-dealer's registration without the necessity of first instituting a proceeding.

CONCLUSIONS OF LAW

26. Masters has violated Ark. Code Ann. § 23-42-301(e)(1)(A) in that Masters has no registered agent who qualifies as a principal and can be designated responsible for direct supervision over purchases and sales of securities in Arkansas.
27. Pursuant to Rule 302.02(E)(5), Masters' registration is involuntarily suspended because it has ceased to have a registered principal. No offers or sales of securities may be made to residents of Arkansas during this period of suspension.
28. Masters has violated Ark. Code Ann. § 23-42-308(a)(2)(B) by willfully failing to comply with various provisions of the Act and Rules, namely:

(a)

Masters has failed to amend its Form BD to reflect the ownership interests of *Chief Communications, Inc.*; Pieter Oosthuizen; *Barnwell*; Jonathan Worley; and *Insearch Capital Corporation* in violation of Rule 302.01(D)(3)(a);

- (b) Masters has failed to amend its Form BD to reflect the director positions of Pieter Oosthuizen and Linda Tullos in violation of Rule 301.01(D)(3)(a); and
- (c) Masters, through its officers and directors, has filed documents with the Commissioner which contain false or misleading statements in violation of Ark. Code Ann. § 23-42-110, namely:
 - (i) David Kane submitted three documents dated February 2, 1998, purporting to be signed by Ivan Burgess when in fact they were not;
 - (ii) Linda Tullos' documents' submission of May 18, 1998, states that a capital investment was made by *Chief Communications, Inc.*, to Masters in 1997; however, the audited financial statement of Masters for 1997 does not reflect a capital investment by *Chief* but rather by *P & C Enterprises, Ltd.*; and
 - (iii) Linda Tullos' documents' submission of May 18, 1998, describes: 1) Noel Hamm as having "experience in every aspect of sales activity and supervision including a long time trainer" when Hamm is not qualified to be a principal and has not taken the requisite general securities sales supervisor or principal's exam; and 2) Linda Tullos as having had "a strong background in compliance with securities firms" when Tullos has never held an agent's registration nor had previous employment with a securities' firm.

29. Masters is not qualified to be registered as a broker-dealer on the basis of such factors as training, experience, and knowledge of the securities business in accordance with Ark. Code Ann. § 23-42-308(a)(2)(l) in that Masters is under the management of a three member "Executive Committee" consisting of Noel Hamm, Linda Tullos, and Nancy Kane. Linda Tullos and Nancy Kane have never had an agent's registration and have not been previously employed with a securities firm. Hamm is not currently qualified to hold a principal's license in Arkansas and has never passed any supervisory or principal's exam. Masters does not have a qualified principal in its employment.

OPINION

It is the opinion of the Commissioner that it is in the public interest to suspend the registration of Masters to conduct business in Arkansas as a broker-dealer. This opinion is based exclusively upon the facts and occurrences in this matter which indicate significant violations of the Act and Rules. In determining suspension to be appropriate at this time, the Commissioner has considered the interests of Masters and its existing clients in maintaining an uninterrupted investment service against his statutory obligation to enforce the provisions of the Act to ensure the integrity and trust rightfully expected from the investing public in an Arkansas registered broker-dealer.

The various violations of the Act and Rules evidence a broker-dealer with whom the investing public and the Commissioner can and should reasonably question its integrity and trust. Masters' ownership (although the facts place in question who that is) chose to hire a consultant for the purpose of overhauling Masters' management. Masters' ownership hired Kane, admitting it performed no background check on his previous securities' experience. That check would have informed the ownership that Kane was, by FINRA rule, prohibited from associating with a member broker-dealer such as Masters. Flowing from ownership's decision to employ Kane, his overhaul of management has led to no principal currently being employed at Masters, and perhaps more importantly, no persons in management who have the requisite training, knowledge and experience in the securities business to manage and supervise a broker-dealer firm. Further, Masters' ownership and management have failed to respond to legitimate inquiries of the staff regarding the current events at Masters, and, in certain responses, have offered false and misleading information.

The Rules require the registration of a broker-dealer to be suspended when that broker-dealer ceases to have a registered principal. Such is the case here. The Act allows the suspension of a broker-dealer's registration when that broker-dealer does not have the requisite training, experience and knowledge in the securities business. Such is the case here. These facts are compounded by Masters' failure to answer questions by the staff regarding its ownership/management situation and its deliberate falsification of information supplied to the staff. The Commissioner is of the opinion it would be against the public's interest to allow Masters to continue to operate as an Arkansas registered broker-dealer.

ORDER

IT IS THEREFORE ORDERED THAT the Arkansas registration of Masters Financial Group, Inc., be suspended until such time as Masters Financial Group, Inc., demonstrates the following to the Commissioner:

- I. Masters has in its employ persons of requisite training, experience and knowledge to manage and supervise the firm;
- II. Masters has in its employ person(s) qualified and registered as principals who have direct responsibility over the supervision of the purchase and sale of securities in Arkansas;
- III. Masters has in its employ persons who will fully and truthfully respond to all inquiries previously made to Masters by the staff or may be made in the future by the staff regarding the matters of this Order.
- IV. Masters has provided the Commissioner with complete and current information, as required by the Rules, regarding Masters' ownership and management.

IT IS FURTHER ORDERED THAT Masters immediately notify, by telephone, its Arkansas customers of this Order and provide those customers with a copy of this Order.

DATE: June 2, 1998

Time: 11:15 a.m. CST

MAC DODSON

Arkansas Securities Commissioner

NOTICE OF SUMMARY ORDER

Pursuant to Ark. Code Ann. § 23-42-308(c)(2) and 308(c)(3), Masters Financial Group, Inc., is hereby notified that this Summary Order suspending its broker-dealer registration with the Arkansas Securities Commissioner has been entered. The Summary Order sets forth the facts and grounds for its entry. Masters Financial Group, Inc., is notified of its right to make a written request to the Commissioner to hold a hearing on this Summary Order. If requested, the hearing will be set within fifteen (15) days of receipt of the written request by the Commissioner. If no hearing is requested, or the Commissioner does not order such hearing, the Summary Order will remain in effect until it is modified or vacated by the Commissioner.

MAC DODSON

SECURITIES COMMISSIONER