

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 65124 / August 12, 2011**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-14069**

**In the Matter of**

**Timothy M. Gautney, Robert  
A. Bellia, Jr., and Erik S. Blum,**

**Respondents.**

**ORDER MAKING FINDINGS AND  
IMPOSING REMEDIAL SANCTIONS  
PURSUANT TO SECTION 15(b)(6) OF THE  
SECURITIES EXCHANGE ACT OF 1934 AS  
TO ROBERT A. BELLIA, JR.**

**I.**

On September 27, 2010, the Securities and Exchange Commission (“Commission”) initiated proceedings pursuant to Section 15(b)(6) of the Securities Exchange Act of 1934 (“Exchange Act”) against Robert A. Bellia (“Bellia” or “Respondent”).

**II.**

Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Making Findings and Imposing Remedial Sanctions Pursuant to Section 15(b)(6) of the Securities Exchange Act of 1934 as to Robert A. Bellia Jr., as set forth below.

**III.**

On the basis of this Order and Respondent’s Offer, the Commission finds<sup>1</sup> that:

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<sup>1</sup> The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

1. These proceedings arise out of an investigation into the churning activities of registered representatives (“RRs”) affiliated with Aura Financial Services, Inc. (“Aura”). Aura was a Birmingham, Alabama-based corporation which was registered with the Commission as a broker-dealer from February 1997 until February 2010.

2. Robert A. Bellia, Jr., 40, of Wantagh, New York, was a registered representative associated with Aura from June 2007 until August 2009. Bellia also owned Aura’s branch office in Islandia, New York and served as its branch manager until January 2009. From August 1993 until he became registered with Aura in June 2007, Bellia had been associated with twelve other broker-dealers. During his entire career at Aura, Bellia was under heightened supervision due to FINRA disciplinary history for failing to supervise registered representatives at another broker-dealer.

3. Between at least January 2008 and December 2008 in Aura’s former Islandia, New York branch office, two former RRs largely depleted the funds in seven of their customers’ accounts through improper churning.<sup>2</sup> Bellia was responsible for supervising these two RRs.

4. Courts commonly use two metrics to determine whether an account has been churned: the account’s “annualized turnover ratio” and its “cost to equity ratio,” which is also known as its “break even percentage.” An annualized turnover ratio is the number of times per year a customer’s securities are replaced by new securities. It is calculated by determining the aggregate amount of purchases in an account over a given period, calculating the ratio of those aggregate purchases to the account’s average net equity during that period, and then annualizing that ratio. A turnover rate that exceeds six is presumptive of churning. A cost to equity ratio or break even analysis determines the rate of return that an account has to earn on an annual basis just to cover transaction costs, and thus “break even.” Trading practices that require an account to earn returns in excess of 20% just to break even are indicative of possible churning.

5. One RR (“RR1”) supervised by Bellia churned the accounts of five Aura customers in violation of Section 10(b) and Rule 10b-5 of the Exchange Act. These customers had annualized turnover rates, as reflected in quarterly reports sent to Bellia, of 20 to 94 and cost to equity ratios of 87% to 2058%. Another Islandia representative (“RR2”) churned the accounts of two Aura customers in violation of Section 10(b) and Rule 10b-5 of the Exchange Act. These customers had annualized turnover rates, as reflected in quarterly reports sent to Bellia, of 40 and 59 and cost to equity ratios of 144% and 418%, respectively.

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<sup>2</sup> Churning is the excessive buying and selling of securities in a customer’s account by a broker, for the purpose of generating commissions and without regard to the customer’s investment objectives or interest or with the intent to defraud. For churning to occur, the broker must exercise control over the investment decisions in the account, either through a formal written discretionary agreement or otherwise, such as through the customer routinely accepting the broker’s recommendations without question.

6. These seven customers opened and funded their accounts after being cold-called by, or otherwise introduced to, the RRs. They had their accounts aggressively traded, though none indicated to Aura an investment objective or risk tolerance supporting that trading. None of the seven customers had an understanding of the total transaction costs they were incurring by trading through Aura.

7. Aura's Written Supervisory Procedures ("WSP"), dated 2007-2008, and in effect during the time of the churning by the two RRs, stated, among other things, that an annualized turnover ratio greater than six:

warrant[s] immediate attention and further review of a larger sample size, if applicable. The D[esignated] P[rincipal] should take immediate steps to determine that such trading activity is acceptable to the customer (acknowledgment by customer in writing may be sought), and conforms to the customer's objectives. Otherwise, steps may be taken to close the trading activity in the customer's accounts.

8. At least each quarter, Aura's Compliance Department provided Bellia with excerpts of a report containing annualized turnover ratios, break even ratios, and other account metrics for the largest commission producing accounts from his branch. Aura's active account letter procedure, which was unwritten, required Bellia to send such letters to all customers whose accounts had turnover ratios greater than six.

9. The active account letters, entitled "Intent to Maintain Active Account," did not explain why Aura was sending the letters to the customers and they were not sent along with cover letters. The body of the form letters did not identify the respective accounts as actively traded or that they had recently shown a certain number of trades or a certain amount of turnover, but stated that "certain clients may wish to engage in more frequent trading in their accounts." The letters included a general disclosure of the risks associated with "frequent" trading and numerous blanks for the customer to complete concerning numbers of trades over the past year, anticipated trades in the future year, investment objective, risk exposure, and other financial information. After the customer filled in the blanks, the firm's procedures contemplated that the customer would sign the letter and return it to the Aura branch where his account was located. If information in the returned active account letter did not indicate changes from the customer's original application, the returned active account letter was maintained at the branch office. According to Aura's Chief Compliance Officer, branch managers were supposed to call, or have an RR call, customers and send out additional active account letters if customers did not return their letters.

10. Bellia failed reasonably to supervise RR1, from January 2008 through December 2008, and RR2, from April 2008 through August 2008, while they were registered with Aura and subject to Bellia's supervision in Aura's Islandia, New York branch office. The level of trading in the accounts of RR1's customers and RR2's customers was not merely indicative of potential churning, but was extreme.

11. While Bellia supervised RR1 and RR2, during at least each quarter of 2008, Bellia received excerpts of reports from Aura's Compliance Department containing, among other account information, annualized turnover ratios and break even ratios for the largest commission producing accounts from his branch. These reports included the names of RR1 and RR2's churning victims, all of whom had at least double digit annualized turnover rates. The turnover rates listed were far in excess of the turnover rate of six that Aura's WSPs cautioned warranted immediate attention and review by the supervisor.

12. As reflected in the quarterly reports for 2008, RR1's victims had annualized turnover rates of 20 to 94 and cost to equity ratios of 87% to 2058%. With each successive quarter of 2008, RR1's victims grew in number or their turnover rates and cost to equity ratios increased in value. One of RR1's victims appeared on the report sent to Bellia in the first quarter with a turnover rate of 20 and a cost to equity ratio of 87%. In the second quarter, that victim's turnover rate increased to 43 and his cost to equity ratio increased to 188. In the third quarter, two of RR1's victims appeared on the report with turnover rates up to 59 and cost to equity ratios up to 2050%. By the fourth quarter, five of RR1's victims appeared on the report, with turnover rates up to 94 and cost to equity ratios up to 2058%. RR2's victims appeared on the report for the second quarter with annualized turnover rates of 40 and 59 and cost to equity ratios of 144% and 418%, respectively.<sup>3</sup>

13. Pursuant to Aura's Active Account Letter procedure, Bellia was required to send Active Account Letters to all customers with turnover rates exceeding six. Despite such requirements, and, notwithstanding that RR1 was under heightened supervision, Bellia and Aura were only able to produce Active Account Letters for two of RR1's five customers and for none of RR2's two customers. Bellia did not keep a log or otherwise track whether the letters were returned. When the letters did not come back, Bellia's practice was to direct the RRs to contact the customers. Bellia failed to take any steps to modify his practice in the face of repeated red flags of excessive trading in the RRs' customer accounts.

14. The failure to contact RR1's customers is particularly egregious because RR1 was on heightened supervision due to his disciplinary history. Additionally, RR1 had been the subject of six complaints from Aura customers during the relevant period. Two of the Aura customer complaints alleged churning and the other four alleged that customers had not in fact signed paperwork for their accounts. RR1 also was discharged from broker-dealers in 2002 and 2005, both times for unauthorized trading, and was permitted to resign from a broker-dealer in 2006 for unauthorized use of a sales script.

15. Bellia was aware of RR1's disciplinary history and was required to follow the firm's heightened supervisory procedures for RR1. Bellia testified that the heightened supervisory procedures he was required to perform included reviewing all of RR1's incoming and outgoing

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<sup>3</sup> RR2 was voluntarily terminated from Aura in August 2008 for reasons purportedly unrelated to churning.

correspondence, reviewing all of RR1's trade tickets, and checking RR1's orders for suitability. It is unclear whether Bellia actually performed those extra procedures. Had he done so, additional red flags of RR1's churning would have been apparent. For example, if Bellia had been reviewing RR1's trade tickets and checking RR1's orders for suitability, then red flags of discrepancies between the objectives and risk tolerances of at least three of RR1's churning victims likely would have been apparent. Three of RR1's churning victims are reflected on the active account reports with investment objectives of capital appreciation and moderate risk tolerances.

16. Before coming to Aura in March 2008, RR2 had been associated with seventeen other broker-dealers since 2000, including prior tenures at Aura for two months in 2007 and six months in 2005. RR2's known history showed thirteen customer complaints, including two from Aura customers during the relevant period. One Aura customer complaint claimed damages of \$69,000 from unauthorized trading; the other complaint claimed failure to follow customer instructions and settled for \$12,500. In 2006, FINRA fined RR2 \$15,000 and suspended him for ninety days for unauthorized trading while he was employed at another firm. Between 2006 and when he joined Aura for two months in May 2007, RR2 was either discharged or permitted to resign from three other broker-dealers for various reasons.

17. If Bellia had reasonably followed up on the red flags of high trading in the customer accounts of RR1 and RR2 or if he had diligently followed the heightened supervisory procedures for RR1, it is likely that he would have prevented or detected the RRs' violations of Section 10(b) and Rule 10b-5 of the Exchange Act.

18. As a result of the conduct described above, Bellia failed reasonably to supervise the RRs within the meaning of Section 15(b)(4)(E) of the Exchange Act, as incorporated by reference in Section 15(b)(6) of the Exchange Act.

19. Bellia has submitted a sworn Statement of Financial Condition dates November 17, 2010 and other evidence and has asserted his inability to pay disgorgement plus prejudgment interest.

#### **IV.**

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Bellia's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 15(b)(6) of the Exchange Act, Bellia shall be, and hereby is barred from association in any capacity with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization.

B. Bellia shall be, and hereby is, barred from participating in any offering of a penny stock, including: acting as a promoter, finder, consultant, agent or other person who engages in activities with a broker, dealer or issuer for purposes of the issuance or trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock.

C. Bellia shall pay disgorgement of \$5,959 and prejudgment interest of \$901.40, but that payment of such amount is waived and the Commission foregoes the imposition of a civil penalty based upon Respondent's sworn representations in his Statement of Financial Condition dated November 17, 2010 and other documents submitted to the Commission.

D. The Division of Enforcement may, at any time following the entry of this Order, petition the Commission to: (1) reopen this matter to consider whether Respondent provided accurate and complete financial information at the time such representations were made; and (2) seek an order directing payment of disgorgement and pre-judgment interest. No other issue shall be considered in connection with this petition other than whether the financial information provided by Respondent was fraudulent, misleading, inaccurate, or incomplete in any material respect. Respondent may not, by way of defense to any such petition: (1) contest the findings in this Order; (2) assert that payment of disgorgement and interest should not be ordered; (3) contest the amount of disgorgement and interest to be ordered; or (4) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Elizabeth M. Murphy  
Secretary