

UNITED STATES DISTRICT COURT  
DISTRICT OF CONNECTICUT

UNITED STATES SECURITIES AND	)	
EXCHANGE COMMISSION,	)	
	)	
Plaintiff,	)	
	)	
v.	)	Case No.
	)	
DEER HILL FINANCIAL GROUP, LLC and	)	
STEPHEN B. BLANKENSHIP,	)	JURY TRIAL DEMANDED
	)	
Defendants.	)	
	)	

**COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF**

Plaintiff Securities and Exchange Commission (“the Commission”) alleges the following against defendants Deer Hill Financial Group, LLC (“Deer Hill”) and Stephen B. Blankenship (“Blankenship”):

**PRELIMINARY STATEMENT**

1. From at least 2002 through at least November 2011, Defendant Stephen B. Blankenship engaged in a scheme to misappropriate at least \$600,000 from at least 12 brokerage customers by falsely representing that he would invest their funds in securities through Defendant Deer Hill Financial Group, LLC, a Connecticut-based limited liability company formed by Blankenship.

2. Most of the investors lied to by Blankenship were brokerage customers of his, first at Syndicated Capital, Inc., a registered broker-dealer based in Santa Monica, California and then at Vanderbilt Securities, LLC, a registered broker-dealer based in Melville, New York. In many instances, Blankenship lured his customers to withdraw money from their brokerage

accounts with promises that they could obtain a greater rate of return, while in other instances Blankenship simply falsely told his customers that he was changing his brokerage affiliation.

3. In all cases, the brokerage customers that chose to invest with Blankenship through Deer Hill believed, due to Blankenship's assurances, that Blankenship was investing their money in established securities such as publicly traded mutual funds or securities. After Blankenship received the customers' funds, Blankenship gave many customers purported "account" statements from Deer Hill that falsely represented that he had invested their money in a variety of investments.

4. In reality, Blankenship did not use the customers' money to purchase the investments as represented. Instead, Blankenship used the customers' money: (1) for his personal expenses; (2) to pay business expenses; and (3) to make Ponzi-like payments to other customers who requested a return of all or part of their investment.

5. Through the activities alleged in this Complaint, Blankenship and Deer Hill: (a) engaged in fraud in the offer or sale of securities, in violation of Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)]; (b) engaged in fraudulent or deceptive conduct in connection with the purchase or sale of securities, in violation of Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)], and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]; (c) engaged in fraudulent or deceptive conduct with respect to investment advisory clients, in violation of Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 ("Advisers Act") [15 U.S.C. § 80b-6(1) and (2)]; and (d) acted as unregistered broker-dealers in violation of the registration provisions of the federal securities laws, specifically, Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)].

6. Accordingly, the Commission seeks: (a) the entry of a permanent injunction prohibiting from further violations of the relevant provisions of the federal securities laws; (b) disgorgement of ill-gotten gains, plus pre-judgment interest; and (c) the imposition of a civil penalty due to the egregious nature of violations.

### **JURISDICTION AND VENUE**

7. The Commission brings this action pursuant to Section 20(b) of the Securities Act [15 U.S.C. §77t(b)], Sections 21(d) and 21(e) of the Exchange Act [15 U.S.C. §§78u(d) and 78u(e)], and Section 209(d) of the Advisers Act [15 U.S.C. § 80b-9(d)].

8. This Court has jurisdiction over this action pursuant to Section 22 of the Securities Act [15 U.S.C. § 77v], Section 27 of the Exchange Act [15 U.S.C. § 78aa], Section 214 of the Advisers Act [15 U.S.C. § 80b-14], and 28 U.S.C. § 1331.

9. Venue is proper in this Court pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Acts, practices, and courses of business constituting violations alleged herein have occurred within the jurisdiction of the United States District Court for the District of Connecticut and elsewhere.

10. Defendants, directly and indirectly, have made use of the means and instrumentalities of interstate commerce and of the mails in connection with the acts, practices, and courses of business alleged herein, and will continue to do so unless enjoined.

11. The conduct alleged herein also involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and resulted in substantial loss, or significant risk of substantial loss, to other persons.

**DEFENDANTS**

12. **Stephen B. Blankenship**, age 63, was at all relevant times a resident of New Fairfield, CT. Until he was terminated in November 2011, Blankenship was a registered representative of Vanderbilt Financial Services, Inc (“Vanderbilt”), a registered broker-dealer. Blankenship has never been registered with the Commission as a registered investment adviser.

13. **Deer Hill Financial Group, LLC** (“Deer Hill”) is a Connecticut limited liability company that Blankenship formed with its principal place of business located in Danbury, Connecticut. Blankenship is the sole member of Deer Hill. Deer Hill has never been registered with the Commission in any capacity.

14. Together, Blankenship and Deer Hill are referred to in this complaint as the “Defendants.”

**STATEMENT OF FACTS**

**A. Overview of the Defendants’ Scheme to Defraud**

15. Since at least April 1992, Stephen B. Blankenship was a registered representative of registered broker-dealers and a state licensed insurance agent. To conduct his business, Blankenship established Deer Hill in the State of Connecticut. In addition to purchasing and selling securities products through his affiliated broker-dealers, Blankenship also sold insurance products and provided tax preparation services.

16. As of November 2011, Blankenship was responsible for approximately 90 Vanderbilt brokerage accounts. Most of these accounts had been with Blankenship at Vanderbilt and predecessor broker-dealers for at least two decades. At least 10 came to Blankenship through relationships he had formed through his participation in Walnut Hill Community Church in Bethel, CT.

17. Since at least 2002, Blankenship has misappropriated at least \$600,000 from at least twelve customers. Generally, Blankenship accomplished this misappropriation by luring brokerage customers, initially from Syndicated Capital and later from Vanderbilt, to invest with him directly through Deer Hill. In many instances, he told his brokerage customers that they could obtain a greater rate of return by withdrawing money from their brokerage accounts and investing directly with him.

18. In all cases, the customers that chose to invest with Blankenship through Deer Hill believed, because of Blankenship's misrepresentations, that Blankenship was investing their money in established securities. However, Blankenship never invested monies directly with him through Deer Hill in any securities. Instead, Blankenship took the customer funds and transferred them to his personal bank account and/or made unauthorized use of these funds to pay other customers or for his personal expenses, including travel, grocery shopping, credit card payments, mortgage payments, and improvements on his home.

19. To hide his conduct, Blankenship, in many instances created and provided his customers with fictitious account statements printed on Deer Hill letterhead. In all instances the investments described on the account statements did not exist.

**B. Specific Examples of the Defendants' Fraud Against Customers**

20. Customer F. A. ("F.A.") became a Blankenship brokerage customer in approximately 2001 through a church contact. F. A., a senior citizen, had retired and sold his family home and intended to down-size. After using the proceeds from the sale of the home to purchase a mobile home and a small cottage, F. A. wanted to invest the remaining \$165,000. Blankenship advised F. A. to give him the \$165,000 and that he would invest it for him through Deer Hill in the stock market and provide him with a guaranteed return of \$1600 per month. F.

A. provided Blankenship with the funds. Blankenship never invested F. A.'s money and used it for personal purposes.

21. To further his scheme, in 2008, Blankenship advised F. A. that his account had lost \$20,000 due to the downturn in the market. Blankenship went on to advise F.A. that he would "build it back up" by transferring the assets to municipal bonds and mutual funds. Blankenship never transferred the assets and never invested the F. A. money in municipal bonds or mutual funds.

22. Customer R. J. ("R. J."), who is retired, has been a Blankenship customer since at least 2006 when he established brokerage accounts and an IRA with Vanderbilt Securities. In 2007, Blankenship convinced R. J. to close some of his Vanderbilt brokerage accounts, including his IRA, to re-invest approximately \$185,000 with Deer Hill. Blankenship told R. J. that he could get a better return through a "house" account at Vanderbilt held by Deer Hill.

23. The Vanderbilt "house" account never existed, but Blankenship sent R. J. false periodic statements on Deer Hill letterhead reflecting that R. J.'s investment in his "Vanderbilt account" was growing in value.

24. For example, as of September 27, 2011, R. J.'s Deer Hill Vanderbilt "house" account statements showed a balance of \$263,862, all of which was purportedly invested in a Pacific Investment Management Company, LLC (commonly called PIMCO) account. However, there was no Deer Hill Vanderbilt "house" account and no investment of R.J.'s funds by Blankenship in PIMCO. Moreover, Blankenship never had an affiliation with PIMCO. In fact, R. J.'s real Vanderbilt account showed a balance for the same period of \$330.

25. Customer U. K. ("U. K.") has been a brokerage customer of Blankenship for ten to fifteen years. During that time, U. K. transferred his assets to new brokerage accounts every

time Blankenship changed his affiliation with various brokerage firms. Approximately two to three years ago, Blankenship advised U. K. that he was transitioning from Vanderbilt to PIMCO and that U.K. had to transfer his assets to new PIMCO accounts. U. K. complied and wrote checks in the amount of approximately \$200,000 to Deer Hill to facilitate the transfer. U. K. even noted the PIMCO investment on at least one check by writing the word "PIMCO" on the check's memo line.

26. Blankenship never opened PIMCO accounts on behalf of U. K. or any other customer and Blankenship had no affiliation with PIMCO. Deer Hill bank records show that Blankenship deposited U. K.'s purported PIMCO investment into a Deer Hill bank account and reflect that Blankenship used those funds to pay other Deer Hill customers, and/or for personal expenses.

27. Customer R. G. ("R. G.") has been a brokerage customer of Blankenship's for a few years. On August 5, 2010, Blankenship called R. G. and told her that her Vanderbilt investment was not doing well and suggested that she move it to a PIMCO account. R. G. accepted the advice and wrote Deer Hill a check for \$44,000.

28. R. G. stopped receiving account statements and became concerned. R. G. asked Blankenship for statements and received crude typed pieces of papers with numbers on them. R. G. asked for her money back from Blankenship and asked to close her account. Blankenship sent R. G. a check that R.G. was unable to cash due to insufficient funds. R. G. contacted Blankenship again and requested a bank check instead and Blankenship complied.

29. It appears from Deer Hill bank records that Blankenship may have obtained the funds to reimburse R. G. from other Deer Hill customers. Blankenship, as noted above, never had an affiliation with PIMCO and never opened a PIMCO account for the benefit of R. G.

30. Customer R. M. (“R. M.”) and his wife have been customers of Blankenship since at least 2002. In the fall of 2010, R. M. told Blankenship that he had an additional \$50,000 that he wanted to invest in a liquid account such as a money market type fund.

31. On or about November 18, 2010, Blankenship sent a letter to R. M. advising him that the Janus Flexible Bond Fund was “an excellent investment vehicle for money that you are holding in cash,” and that it was “considered an All weather fund.”

32. Based on this advice, R.M. provided Blankenship with a check in the amount of \$50,000 payable to Deer Hill.

33. Blankenship told R. M. that he would invest the \$50,000 in the Janus Flexible Bond Fund Class C away from his Vanderbilt brokerage accounts and provided R.M. with fictitious account statements on Deer Hill letterhead stating that he had 4,664.18 shares in the Fund.

34. Blankenship never made this investment for R.M. and instead used the funds to pay other Deer Hill customers, and/or for personal expenses. In fact, Blankenship and Deer Hill never had any affiliation and/or investment in any Janus Fund.

35. Customer V.M. (“V.M.”) is a semi-retired senior citizen and has considered Blankenship to be her financial adviser and brokerage representative for over a decade.

36. V.M. met Blankenship through church and invested at least \$100,000 with Blankenship through Deer Hill. Blankenship told V.M. that her money was being invested in a “Bond” fund and provided V.M. with fictitious account statements on Deer Hill letterhead reflecting the purported investment.

37. Blankenship never made this investment for V.M. and instead used the funds to pay other Deer Hill customers, and/or for personal expenses.



**FIRST CLAIM FOR RELIEF**  
**(Violation of Section 17(a)(1) of the Securities Act)**

38. Paragraphs 1 through 37 are re-alleged and incorporated by reference as though fully set forth herein.

39. By engaging in the conduct described above, Blankenship and Deer Hill, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, have employed devices, schemes, and artifices to defraud.

40. Blankenship and Deer Hill intentionally or recklessly made the untrue statements and omissions and engaged in the devices, schemes, artifices, transactions, acts, practices, and courses of business described above.

41. By reason of the foregoing, Blankenship and Deer Hill violated Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

**SECOND CLAIM FOR RELIEF**  
**(Violation of Sections 17(a)(2) and (3) of the Securities Act)**

42. Paragraphs 1 through 37 are re-alleged and incorporated by reference as though fully set forth herein.

43. By engaging in the conduct described above, Blankenship and Deer Hill, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, have obtained money or property by means of untrue statements of material fact or by omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and engaged in transactions, practices, or courses

of business that operated or would operate as a fraud or deceit upon the purchasers of such securities.

44. Blankenship and Deer Hill made the untrue statements and omissions of material fact and engaged in the devices, schemes, artifices, transactions, acts, practices, and courses of business described above.

45. By reason of the foregoing, Blankenship and Deer Hill have violated Section 17(a)(2) and (3) of the Securities Act [15 U.S.C. § 77q(a)(2)-(3)].

**THIRD CLAIM FOR RELIEF**  
**(Violation of Section 10(b) of the Exchange Act and**  
**Exchange Act Rule 10b-5)**

46. Paragraphs 1 through 37 are re-alleged and incorporated by reference as though fully set forth herein.

47. As more fully described in paragraphs 1 through 37 above, Blankenship and Deer Hill, in connection with the purchase and sale of securities, by the use of the means and instrumentalities of interstate commerce and by the use of the mails, directly and indirectly used and employed devices, schemes, and artifices to defraud; made untrue statements of material fact and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and engaged in acts, practices, and courses of business which operated or would have operated as a fraud and deceit upon purchasers and sellers and prospective purchasers and sellers of securities.

48. Blankenship and Deer Hill knew or were reckless in not knowing, of the facts and circumstances described in paragraphs 1 through 37 above.

49. By reason of the foregoing, Blankenship and Deer Hill violated Section 10(b) of the Exchange Act [15 U.S.C" §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. 240.10b-5].

**FOURTH CLAIM FOR RELIEF**  
**(Violation of Section 15(a) of the Exchange Act)**

50. Paragraphs 1 through 37 are re-alleged and incorporated by reference as though fully set forth herein.

51. While engaged in this conduct, Deer Hill was not registered as a broker or associated with a registered broker or dealer.

52. While engaged in this conduct, Blankenship's activities were not under the supervision or approval of the brokers with which he was associated.

53. Defendants Blankenship and Deer Hill by the conduct described above, directly or indirectly, singularly or in concert, made use of the mails or the means or instrumentalities of interstate commerce to effect transactions in, or to induce or attempt to induce, the purchase or sale of securities, without registering with the Commission as a broker or dealer.

54. By engaging in the conduct described above, Defendants Blankenship and Deer Hill violated Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)].

**FIFTH CLAIM FOR RELIEF**  
**(Violations of Sections 206(1) and 206(2) of the Advisers Act)**

55. Paragraphs 1 through 37 are re-alleged and incorporated by reference.

56. By reason of the foregoing, Defendants Blankenship and Deer Hill, directly and indirectly, by the use of the means and instrumentalities of interstate commerce and by the use of the mails, while acting as an investment adviser: (a) with scienter, employed devices, schemes, and artifices to defraud advisory clients or prospective advisory clients; and (b) engaged in transactions, practices, or courses of business which operated as a fraud or deceit upon clients or prospective clients.

57. By reason of the foregoing, Defendants Blankenship and Deer Hill violated

Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §80b-6(1) and (2)].

**PRAYER FOR RELIEF**

**WHEREFORE**, the Commission respectfully requests that this Court:

A. Enter a permanent injunction restraining and enjoining Defendants Blankenship and Deer Hill and each of their agents, servants, employees and attorneys and those persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, including facsimile transmission or overnight delivery service, from directly or indirectly engaging in the conduct described above, or in conduct of similar purport and effect, in violation of:

1. Section 17(a) of the Securities Act [15 U.S.C. §77q(a)];
2. Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5];
3. Section 15(a) of the Exchange Act [15 U.S.C. §78o(a)]; and
4. Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§80b-6(1), 80b-6(2)].

B. Issue an Order requiring Defendants Blankenship and Deer Hill to disgorge the ill-gotten gains they received as a result of the violations alleged in this complaint, including pre-judgment interest.

C. Order Defendants Blankenship and Deer Hill to pay an appropriate civil penalty pursuant to Section 20(d) of the Securities Act [15 U.S.C. §77t(d)], Section 21(d)(3) of the Exchange Act [15 U.S.C. §78u(d)(3)], and Section 209(e) of the Advisers Act [15 U.S.C. §80b-9(e)]

D. Retain jurisdiction over this action to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

E. Award such other and further relief as the Court deems just and proper.

**JURY DEMAND**

The Commission hereby requests a trial by jury.

Respectfully submitted,

**SECURITIES AND EXCHANGE COMMISSION**

By its attorneys,

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