

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION**

**UNITED STATES SECURITIES
AND EXCHANGE COMMISSION,**

Case No.

Plaintiff,

v.

HON.

ERNEST J. ROMER, III,

Defendant.

_____ /

COMPLAINT

Plaintiff, the United States Securities and Exchange Commission (“SEC”) alleges as follows:

SUMMARY OF THE ACTION

1. The SEC brings this civil law enforcement action to address Defendant Ernest J. Romer, III’s (“Romer”) multi-million-dollar securities fraud. From approximately 2014 through 2016, Romer defrauded at least 30 of his retail brokerage customers out of approximately \$2.7 million. During that time period, Romer worked as a registered representative associated with CoreCap Investments, Inc., a registered broker-dealer with the SEC (“CoreCap Investments”).

2. Romer persuaded at least 30 of his customers to sell securities in their CoreCap Investments accounts and transfer the proceeds to either P&R Capital, LLC (“P&R Capital”) or CoreCap Solutions, LLC (“CoreCap Solutions”). Romer represented to customers that upon transferring money to P&R Capital and CoreCap Solutions, he would invest their money in the stock market and earn them a better return than their current

investments. Based on Romer's representations, the customers understood that CoreCap Solutions and P&R Capital were affiliated with CoreCap Investments.

3. Romer's statements to his customers were false. P&R Capital and CoreCap Solutions were Romer's personal businesses and had no relationship to CoreCap Investments. Romer did not invest the customers' money in the stock market for their benefit. He instead stole the money for his own personal use. Romer commingled approximately \$2.7 million of customer funds with his advances from CoreCap Investments and other sources for a total of approximately \$4.4 million. Of that, Romer used approximately \$3.5 million for trading in his personal brokerage accounts, paid approximately \$714,000 to cover his personal expenses, paid approximately \$343,000 to customers of his prior brokerage firms, paid approximately \$302,000 to customers of CoreCap Investments, and transferred approximately \$41,000 to family members.

4. By engaging in this conduct, Romer violated Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)] and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder.

5. In connection with this lawsuit, the SEC seeks a permanent injunction against Romer to enjoin him from future violations of the above-cited provisions of the federal securities laws. The SEC further seeks an order requiring Romer to pay disgorgement, plus prejudgment interest, of the ill-gotten gains that he received through his fraud, along with the imposition of civil penalties pursuant to Section 20 of the Securities Act [15 U.S.C. § 77t] and Section 21 of the Exchange Act [15 U.S.C. § 78u].

JURISDICTION AND VENUE

6. The Court has jurisdiction over this action pursuant to Sections 20 and 22 of the Securities Act [15 U.S.C. §§ 77t and 77v] and Sections 21 and 27 of the Exchange Act [15 U.S.C. §§ 78u and 78aa]. Defendant Romer, directly or indirectly, has made use of the means or instruments of transportation or communication in interstate commerce, or the means or instrumentalities of interstate commerce, or of the mails, or of any facility of any national securities exchange in connection with the acts, practices and courses of business alleged in this Complaint.

7. Venue is proper in this Court pursuant to Section 22 of the Securities Act [15 U.S.C. § 77v] and Section 27 of the Exchange Act [15 U.S.C. §78aa] because certain of the acts, practices and courses of business constituting the violations alleged in this Complaint occurred within the jurisdiction of the United States District Court for the Eastern District of Michigan. In addition, during the relevant time period, Defendant Romer resided and conducted business within the Eastern District of Michigan.

THE DEFENDANT

8. Ernest J. Romer, III is 57 years old and is a resident of Shelby Township, Michigan. From October 2012 until his termination in January 2017, Romer was a registered representative associated with CoreCap Investments. Romer held Series 7, 63 and 66 licenses. CoreCap Investments terminated Romer in January 2017 for engaging in undisclosed outside business activities. In July 2017, the Financial Industry Regulatory Authority (“FINRA”) barred Romer in all capacities from association with any FINRA members. In August of 2017, the Michigan Department of Licensing and Regulatory

Affairs (“LARA”) revoked Romer’s securities agent registration, barring Romer from registration with a broker-dealer.

FACTS

Romer’s Professional Background

9. Romer has been a registered representative associated with various broker-dealers since at least 1993. Many of his customers followed Romer from broker-dealer to broker-dealer. In 2012, Romer began working for CoreCap Investments.

Romer’s Offering Fraud and Misappropriation Scheme

10. In 2014, Romer began recommending that certain of his CoreCap Investments customers sell securities in their CoreCap Investments accounts and transfer the proceeds to bank accounts in the name of either P&R Capital or CoreCap Solutions. Romer represented that he would use the funds to make investments which would earn better returns than their current investments. Romer told some customers he would invest their funds in a variable annuity and told others he would invest in stocks or mutual funds. Based on Romer’s representations, including Romer’s installation of misleading signage directly behind the reception desk in the CoreCap Investments branch office where he worked that read “CoreCap Solutions,” the customers understood that P&R Capital and CoreCap Solutions were affiliated with CoreCap Investments.

11. Many of Romer’s customers were elderly retirees and unsophisticated investors. They had most of their life savings invested with Romer. Based on their decades-long relationship, the customers trusted Romer and agreed to sell securities and transfer their funds as Romer recommended.

12. Based on Romer's recommendations, from approximately 2014 to April 2016, customers sold securities in their CoreCap Investments account, transferred the proceeds to their personal bank accounts, and then wrote personal checks or provided cashier's checks to P&R Capital or CoreCap Solutions. Romer deposited those checks into P&R Capital and CoreCap Solutions bank accounts, over which he had sole control.

13. In April 2016, Romer began instructing customers to transfer money directly from their CoreCap Investments accounts to the P&R Capital bank account. In those instances, Romer completed all the required paperwork, had the customers sign it, and then sent it to CoreCap Investments' back office for processing.

14. In total, approximately 22 customers sent \$1,962,887 to P&R Capital and 11 customers sent \$738,200 to CoreCap Solutions.

Romer's Misappropriation of Customer Funds

15. Contrary to Romer's representations, P&R Capital and CoreCap Solutions were Romer's personal businesses and had no relationship to CoreCap Investments, and the customers' money was not used to purchase securities for the customers.

16. Instead, Romer used another joint checking account in his name to commingle the \$2.7 million he raised from his customers with approximately \$1.0 million in advances that he received from CoreCap Investments, approximately \$495,000 in cashier's checks, and approximately \$242,000 from other sources. Romer used approximately \$3.5 million for trading in his personal brokerage accounts, realizing trading losses, primarily from options trading, of about \$3.1 million. Romer also used approximately \$714,000 of the commingled funds for personal expenses, including mortgage payments, credit cards bills, shopping, college costs for his children, Detroit

Lions tickets, and cash withdrawals. Additionally, Romer transferred approximately \$41,000 to family members.

17. From the time Romer began misappropriating his customers' funds, he used some of their money to repay other customers at one of his former brokerage firms, who had suffered losses in a private offering in 2010 and 2011. Eventually, Romer used approximately \$343,000 of his customers' funds for this fraudulent purpose.

18. Some of Romer's CoreCap Investments customers requested that he return some of their funds. He used funds from other CoreCap Investments customers to make those payments. In total, Romer made approximately \$302,000 of such Ponzi-like payments, using money he received from his victims.

19. Romer never disclosed to his CoreCap Investments customers that he would use, or had used, their funds for any of the purposes described in Paragraphs 16-18, above.

20. Romer acted deliberately, with the intent to deceive. He never intended to make the investments he promised to his customers, and he never invested any of the money he raised from his customers for their benefit.

21. As a result of Romer's false and misleading statements, at least 30 customers transferred at least \$2.7 million to Romer.

Uncovering Romer's Fraud

22. As early as mid-2015, some of Romer's customers began to question him about their investment returns and tax documentation. Romer was unable to provide the customers with any documentation relating to the investments because none of the money had been invested as promised. Instead, Romer told his customers various lies, including

that their money was safe and that he was waiting for better buying opportunities or market movement before investing on their behalf.

23. Eventually, certain of Romer's customers complained to the local criminal authorities. In September 2017, Romer was charged with embezzlement by the Macomb County Prosecutor's Office. In July 2018, he pled no contest to those charges, and is currently awaiting sentencing.

COUNT ONE

**Violations of Sections 17(a)(1), 17(a)(2) and 17(a)(3) of the Securities Act
[15 U.S.C. §§ 77q(a)(1), 77q(a)(2) and 77q(a)(3)]**

24. The SEC realleges and incorporates by reference paragraphs 1 through 23.

25. Romer, in the offer or sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce, or by the use of the mails, directly or indirectly, Defendant Romer knowingly, willfully or recklessly: (a) employed devices, schemes and artifices to defraud; (b) obtained money or property by means of an untrue statement of material fact or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in transactions, practices or courses of business which operate or would operate as a fraud or deceit upon the purchasers and prospective purchasers of such securities.

26. Romer knowingly, recklessly, or negligently engaged in the fraudulent conduct described above.

27. By engaging in the conduct described above, Romer, directly or indirectly, violated, and unless restrained and enjoined, will continue to violate, Sections 17(a)(1),

17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(1), 77q(a)(2) and 77q(a)(3)].

COUNT TWO

**Violations of 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]**

28. The SEC realleges and incorporates by reference paragraphs 1 through 23.

29. Romer, directly or indirectly, by the use of the means and instrumentalities of interstate commerce, or of the mails, or of any facility of any national securities exchange, in connection with the purchase or sale of securities, knowingly, willfully or recklessly: (a) used or employed devices, schemes, or artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, or courses of business which operated or would operate as a fraud and deceit upon purchasers and prospective purchasers of the securities offered and sold by Romer.

30. Romer knowingly or recklessly engaged in fraudulent conduct described above.

31. By engaging in the conduct described above, Romer has violated, and unless restrained and enjoined, will continue to violate, 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].

RELIEF REQUESTED

WHEREFORE, Plaintiff respectfully requests that this Court grant the following relief:

I.

Enter an Order finding that Defendant Romer committed, and unless restrained, will continue to commit, the violations alleged in this Complaint.

II.

Permanently restrain and enjoin Defendant Romer from, directly or indirectly, violating of Sections 17(a)(1), 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(1), 77q(a)(2) and 77q(a)(3)] and 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].

III.

Order Defendant Romer to disgorge the ill-gotten gains that he received as a result of the violations alleged in this Complaint, plus prejudgment interest;

IV.

Order Defendant Romer to pay civil penalties pursuant to Section 20 of the Securities Act [15 U.S.C. § 77t] and Section 21 of the Exchange Act [15 U.S.C. § 78u];

V.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable applications or motions for additional relief within the Court's jurisdiction;

VI.

Granting such other and further relief as the Court deems necessary and appropriate.

JURY DEMAND

Pursuant to Rule 38 of the Federal Rules of Civil Procedure, Plaintiff hereby requests a trial by jury on all issues so triable.

Dated: September 18, 2018

Respectfully Submitted,

**UNITED STATES SECURITIES AND
EXCHANGE COMMISSION**

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