

SEC: Fund owner fabricated \$730 million; \$75 million gone

DON THOMPSON, Associated Press Writer
Friday, January 16, 2004
©2004 Associated Press

(01-16) 17:06 PST SACRAMENTO (AP) --

The owner of a Southern California investment firm fabricated more than \$730 million in "fictitious" interest payments due to thousands of clients nationwide -- but still is missing \$75 million in real money, federal regulators alleged Friday.

Financial Advisory Consultants was supposed to have nearly \$814 million on hand for its investors, many of whom entrusted owner James Paul Lewis Jr. with their life savings.

But the Securities and Exchange Commission said more than \$730 million of that money never existed.

Lewis simply created the money in monthly reports to investors in which he recounted extraordinary annual returns of 20 percent and 40 percent from twin investment funds, the SEC said in asking for a preliminary injunction shutting down the Orange County firm.

Even accounting for the fictitious funds, Lewis still should have \$75 million more than investigators can find, the SEC said.

A federal judge last month froze financial assets the SEC estimated are worth about \$10 million, including about \$2.3 million in cash, \$5.8 million in investments in two private companies, and interests in three residences.

Friday's filings put the amount of paid-in investor principal at nearly \$84 million as of the day the FBI's pre-Christmas raid of the El Toro firm.

The missing money is more evidence that a federal judge should grant a preliminary injunction against Lewis, 57, of Laguna Niguel, at a hearing Thursday, the SEC said.

Lewis has failed to respond to the government's motion, failed to show up to give court-ordered testimony under oath, and refused to provide a court-ordered accounting of his finances citing his constitutional right to avoid self-incrimination, the SEC noted. His previous attorney withdrew this week due to a conflict of interest, and no new attorney has registered as Lewis' representative.

The judge is expected to grant the SEC's motion by default, attorneys said.

No criminal charges have been filed, but the FBI and SEC allege Lewis was operating a giant, 20-year Ponzi scheme in which early investors are paid with funds contributed by later investors.

The latest SEC filing modifies that description to a "Ponzi-like" scheme, acknowledging that Lewis may have made some legitimate investments with clients' money.

"In no event, however, did Lewis make the returns on investment which he represented to investors he had made and Lewis did use monies from new investors to repay sums due earlier investors," the filing asserts.

At the time he was shut down, Lewis had 3,290 investors across the United States. Over the last 10 years, he has handled more than 5,200 accounts.

The SEC on Friday also asked a federal judge to make permanent the appointment of a receiver to search for more of Lewis' assets to divide up among investors.

Robb Evans & Associates already has been acting as receiver, and filed a preliminary financial report Friday. Evans said he is just beginning what will be a long process of reconstructing Lewis' financial history from bank statements, canceled checks and other financial information.

The effort will be more complicated because no computerized records exist for Lewis' disbursements to clients, nor for money the SEC says Lewis speculated on international currency exchanges.

The SEC also filed a sworn statement from Diana Robertson, who said she has known Lewis for 25 years and worked as one of his two administrative assistants since March 2001.

Robertson said she never took any phone calls from the buyers or sellers of the businesses Lewis claimed he was buying and selling with investors' money, nor from any medical professionals to whom Lewis said he was leasing medical equipment and providing medical malpractice insurance.

Lewis instead spent his morning trading Euros on his computer and one day told her he had "earned more money today than most men earn in their lifetime."

When one client asked who would take over the firm if something unforeseen happened to Lewis, Lewis responded by naming as his successor a man who at the time had been dead for several years, Robertson said.