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10 **UNITED STATES DISTRICT COURT**
11 **CENTRAL DISTRICT OF CALIFORNIA**
12

13 SECURITIES AND EXCHANGE
COMMISSION,

14 Plaintiff,

15 vs.

16 HOMESTEAD PROPERTIES, L.P.;
17 HOMESTEAD LIMITED, L.L.C.;
CALIFORNIA WEALTH
18 MANAGEMENT GROUP, d.b.a. IFC
ADVISORY; HEATH M.
19 BIDDLECOME; and WILLIAM C. TAK

20 Defendants,

21 HOMESTEAD NORTHLAND MHC,
LLC and JACKSON MHC, L.L.C.

22 Relief Defendants
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Case No.

**COMPLAINT FOR VIOLATIONS OF
THE FEDERAL SECURITIES LAWS**

1 Plaintiff Securities and Exchange Commission (“Commission”) alleges as
2 follows:

3 **JURISDICTION AND VENUE**

4 1. This Court has jurisdiction over this action pursuant to Sections 20(b),
5 20(d)(1) and 22(a) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C.
6 §§ 77t(b), 77t(d)(1) & 77v(a), Sections 21(d)(1), 21(d)(3)(A), 21(e) and 27 of the
7 Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78u(d)(1),
8 78u(d)(3)(A), 78u(e) & 78aa, and Sections 209(d), 209(e)(1) and 214 of the
9 Investment Advisers Act of 1940 (“Advisers Act”), 15 U.S.C. §§ 80b-9(d), 80b-
10 9(e)(1) and 80b-14. Defendants have, directly or indirectly, made use of the means
11 or instrumentalities of interstate commerce, of the mails, or of the facilities of a
12 national securities exchange in connection with the transactions, acts, practices and
13 courses of business alleged in this Complaint.

14 2. Venue is proper in this district pursuant to Section 22(a) of the
15 Securities Act, 15 U.S.C. § 77v(a), Section 27 of the Exchange Act, 15 U.S.C. §
16 78aa, and Section 214 of the Advisers Act, 15 U.S.C. § 80b-14, because certain of
17 the transactions, acts, practices and courses of conduct constituting violations of
18 the federal securities laws occurred within this district, and all of the defendants
19 reside and/or are located in this district.

20 **SUMMARY**

21 3. This matter involves an investment adviser fraud perpetrated by
22 defendant Heath M. Biddlecome and the defendant entities he controls. Between
23 June 2007 and at least November 2009, Biddlecome operated defendant
24 Homestead Properties, L.P., (the “Homestead Fund” or the “Fund”), an investment
25 fund that holds itself out as specializing in investing in mobile home park
26 communities. The Fund is managed by Biddlecome and its general partner,
27 Homestead Limited, L.L.C., and advised by defendant California Wealth
28 Management Group, dba IFC Advisory (“IFC”), an investment adviser registered

1 with the Commission and owned and operated by Biddlecome.

2 4. Biddlecome and the Homestead Fund raised \$9.8 million from 36
3 investors, at least 33 of whom were between 60 and 97 years old. At least 29 of
4 these investors were referred by defendant William C. Tak, a senior vice president
5 of IFC.

6 5. In October 2008, without ever informing investors, Biddlecome
7 transferred \$4.5 million of investor funds into a brokerage account held in the
8 Homestead Fund's name. Biddlecome immediately began day trading in this
9 account, including making numerous short sales, trading options, and trading on
10 margin. Not surprisingly, the account has performed erratically, alternating
11 between six figure trading losses and profits in various months. In September and
12 October 2009, the account's value declined \$1.9 million, and its current value is
13 now \$5 million. The Homestead Fund's investors have never received any
14 information about this brokerage account, or Biddlecome's trading strategy.

15 6. The Homestead Fund offering materials contain several
16 misrepresentations concerning (1) its intention to conduct yearly audits (as of late
17 August 2009, no Homestead Fund audit had ever been performed); (2) payment of
18 commissions to a registered broker-dealer (the Homestead Fund paid nearly
19 \$400,000 in commissions directly to Tak, who was operating as an unregistered
20 broker-dealer for purposes of the Homestead Fund offering); and (3) quarterly
21 distributions of the Homestead Fund's net profits (although the Homestead Fund's
22 unaudited balance sheets show a \$380,000 loss since inception, the fund distributed
23 a total of \$562,177 of investor capital back to some investors). Additionally,
24 Biddlecome diverted some of the investor funds to pay at least \$11,441 in personal
25 credit card expenses.

26 7. The Defendants, by engaging in the conduct described in this
27 Complaint, have violated, and unless enjoined will continue to violate, the
28 antifraud provisions of the federal securities laws. By this complaint, the

1 Commission seeks emergency relief against the Defendants, including a temporary
2 restraining order, an asset freeze, an order expediting discovery, and an order
3 prohibiting the destruction of documents, as well as preliminary and permanent
4 injunctions, disgorgement with prejudgment interest, and civil penalties.

5 **DEFENDANTS**

6 8. **Homestead Properties, L.P.** is a Delaware limited partnership
7 formed by Biddlecome in 2007 as an investment fund. It is based in Culver City,
8 California, and its general partner is Homestead Limited, L.L.C. The Homestead
9 Fund is not registered with the Commission in any capacity.

10 9. **Homestead Limited, L.L.C.** is a Delaware limited liability company
11 formed by Biddlecome in 2007. Biddlecome is the sole managing member of
12 Homestead Limited, and, as such, he makes all of the investing decisions for the
13 Homestead Fund. Homestead Limited is not registered with the Commission in
14 any capacity.

15 10. **California Wealth Management Group, d.b.a. IFC Advisory** is a
16 California corporation formed in June 2004 and based in Culver City, California.
17 IFC is wholly owned by Biddlecome, who serves as its president, lead portfolio
18 manager, and chief compliance officer. In January 2005, IFC registered with the
19 Commission as an investment adviser under the Advisers Act. As of September
20 2008, IFC managed over 400 discretionary accounts with approximately \$78
21 million under management. According to a Form ADV, Part II that IFC filed with
22 the Commission in January 2008, the firm provides investment advice to the
23 Homestead Fund.

24 11. **Heath M. Biddlecome**, age 41, is a resident of Carpentaria,
25 California. Biddlecome has been the principal of IFC since July 2004, and was
26 formerly a registered representative of Purshe Kaplan Sterling Investments
27 (“PKS”), a broker dealer registered with the Commission. In March 2009,
28 Biddlecome voluntarily resigned from PKS following questions the firm raised

1 concerning the Homestead Fund.

2 12. **William C. Tak**, age 43, is a resident of Newport Beach, California.
3 Tak is currently a senior vice president of IFC, and works in IFC's Culver City
4 office. Tak was formerly a registered representative of PKS until July 2009, when
5 the firm terminated his association.

6 **RELIEF DEFENDANTS**

7 13. **Homestead Northland MHC, LLC** is a California limited liability
8 company formed in October 2007. It is solely owned by the Homestead Fund, and
9 Biddlecome is its sole member. Homestead Northland MHC is listed as the
10 borrower of a property located in Ada, Ohio that the Homestead Fund purchased in
11 March 2008.

12 14. **Jackson MHC, L.L.C.** is a Delaware limited liability company
13 formed in March 2009 and based in Culver City, California. The sole member of
14 Jackson MHC is the Homestead Fund, and it was formed for the purpose of
15 holding title to certain property purchased by the Homestead Fund in January
16 2009. Biddlecome is the manager of Jackson MHC.

17 **FACTUAL BACKGROUND**

18 A. **The Homestead Fund Offering**

19 15. Biddlecome formed the Homestead Fund in June 2007, and began
20 selling security interests to investors soon thereafter. As represented to investors,
21 the primary purpose of the Homestead Fund is to invest in mobile home park
22 communities.

23 16. The Homestead Fund is not registered with the Commission in any
24 capacity and has not registered any offering of its securities under the Securities
25 Act or a class of securities under the Exchange Act.

26 17. Between June 2007 and November 2009, the Homestead Fund raised
27 over \$9.8 million from 36 investors nationwide. Many of the Fund's investors
28 were also IFC advisory clients. Most of these investors were 60 years old or older,

1 with at least two investors in their 90s at the time they invested. Tak solicited at
2 least 29 of these investors, and Biddlecome solicited at least one investor in
3 February 2008.

4 18. The Homestead Fund's private placement memorandum ("PPM")
5 dated June 1, 2007 provides that the Homestead Fund would "engage in the
6 business of acquiring or managing a diverse portfolio of real estate assets
7 composed primarily of income producing properties, with an emphasis on the
8 manufactured home community [sic] located throughout the United States."

9 19. The PPM states that Biddlecome, the sole managing member of
10 Homestead Limited, the Homestead Fund's general partner, would "make all the
11 investing decisions for the [Homestead] Fund."

12 20. Per the PPM, Homestead Limited was entitled to a 1% management
13 fee (presumably of the amount invested in the Homestead Fund), as well as .5%
14 fee for administrative expenses, 50% of each investor's profits in excess of a 7%
15 hurdle rate, and 40% of each investor's profits in excess of a 5% selling price
16 hurdle rate for liquidating events and the sale of property owned by the Homestead
17 Fund.

18 21. Since inception, the Homestead Fund has made only three real estate
19 investments. First, in February 2008, the Homestead Fund purchased an
20 assignment of an interest in a second mortgage in Auburn Hills, Michigan for
21 \$2.75 million.

22 22. The second investment, in March 2008, was \$1.2 million for the
23 purchase of a property in Ada, Ohio. Relief defendant Homestead Northland
24 MHC, LLC is listed as the borrower for this property.

25 23. The third investment was made on January 20, 2009, when the
26 Homestead Fund paid \$850,000 to purchase a mobile home park in Jackson,
27 Michigan. This property was initially titled in Biddlecome's name, but on March
28 31, 2009, it was assigned to relief defendant Jackson MHC, LLC, backdated to

1 January 20, 2009.

2 **B. Biddlecome Transfers \$4.5 Million To A Brokerage Account**

3 24. In October 2008, Biddlecome transferred \$4.5 million of investor
4 funds into a newly opened brokerage account. He did so without disclosing to
5 investors a change in the Homestead Fund's investment strategy. The account is
6 titled in the name of the Homestead Fund, and carries the IFC logo, which is
7 identified as the account's "independent investment adviser."

8 25. Shortly after transferring the investor funds, Biddlecome began
9 engaging in highly speculative and risky trading activity, buying and selling
10 options, and exchange traded funds, short selling, and trading on margin. Not
11 surprisingly, investment returns in the account have been erratic. In two months,
12 Biddlecome earned over \$900,000, but in two other months, he lost in excess of \$1
13 million.

14 26. In September and October 2009, the Homestead Fund cumulatively
15 lost over \$1.9 million as a result of Biddlecome's trading activity.

16 27. As of October 31, 2009, the brokerage account's balance was
17 \$5,066,829.

18 28. IFC failed to provide any documentation concerning the Homestead
19 Fund's brokerage account to the Commission's examination staff during the staff's
20 December 2008 routine examination of IFC, despite their written request to
21 produce all custodial account statements up to, and including, November 30, 2008.
22 Biddlecome was IFC's point of contact with the Commission's staff during their
23 examination of the firm.

24 **C. Misrepresentations Contained Within The Homestead Fund's PPM**

25 29. The PPM states that a Beverly Hills accounting firm would "be
26 responsible for auditing the Homestead Fund's books on a yearly basis." The PPM
27 further states that the audit would be provided to the Homestead Fund's investors
28 "within a reasonable time after the close of the year."

1 30. As of August 29, 2009, no such audit of the Homestead Fund had ever
2 been completed.

3 31. The PPM states that Homestead Limited would pay sales
4 commissions to third parties, who were registered representatives of a broker-
5 dealer.

6 32. Despite this representation, the Homestead Fund paid commissions of
7 nearly \$400,000 directly from its bank account to Tak, rather than Homestead
8 Limited paying Tak through a registered broker-dealer.

9 33. Neither Biddlecome nor Tak were associated with a registered broker-
10 dealer that approved their solicitations for the Homestead Fund offering at the time
11 they solicited investors and sold the interests.

12 34. The PPM stated that the Homestead Fund would make quarterly
13 distributions of its accrued net profits to investors, defined as the quarterly gross
14 income less payments of the Homestead Fund's operating expenses and the general
15 partner's compensation.

16 35. According to unaudited financial information prepared by
17 Biddlecome, the Homestead Fund lost \$53,272 in 2007, lost \$328,269 in 2008, and
18 made \$2,100 between January and March 2009.

19 36. Despite these losses, the Homestead Fund distributed a total of
20 \$560,000 to certain investors in 2007 and 2008. Biddlecome made these
21 distributions from investors' original capital contribution to the Homestead Fund.

22 37. Unknown to investors, and in contravention of the Fund's PPM,
23 Biddlecome misappropriated at least \$11,441 to pay his personal credit card bills in
24 January and March of 2009.

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- 1 a. with scienter, employed devices, schemes, or artifices to
2 defraud;
- 3 b. obtained money or property by means of untrue statements of a
4 material fact or by omitting to state a material fact necessary in
5 order to make the statements made, in light of the
6 circumstances under which they were made, not misleading; or
7 c. engaged in transactions, practices, or courses of business which
8 operated or would operate as a fraud or deceit upon the
9 purchaser.

10 44. By engaging in the conduct described above, Defendants Biddlecome
11 and Homestead Limited violated, and unless restrained and enjoined will continue
12 to violate, Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

13 **THIRD CLAIM FOR RELIEF**

14 **FRAUD IN CONNECTION WITH THE PURCHASE OR SALE OF**
15 **SECURITIES**

16 **Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder**
17 **(Against Biddlecome and Homestead Limited)**

18 45. The Commission realleges and incorporates by reference paragraphs 1
19 through 37 above.

20 46. Defendants Biddlecome and Homestead Limited, and each of them,
21 by engaging in the conduct described above, directly or indirectly, in connection
22 with the purchase or sale of a security, by the use of means or instrumentalities of
23 interstate commerce, of the mails, or of the facilities of a national securities
24 exchange, with scienter:

- 25 a. employed devices, schemes, or artifices to defraud;
- 26 b. made untrue statements of a material fact or omitted to state a
27 material fact necessary in order to make the statements made, in
28 the light of the circumstances under which they were made, not

1 misleading; or

- 2 c. engaged in acts, practices, or courses of business which
3 operated or would operate as a fraud or deceit upon other
4 persons.

5 47. By engaging in the conduct described above, Defendants Biddlecome
6 and Homestead Limited violated, and unless restrained and enjoined will continue
7 to violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5
8 thereunder, 17 C.F.R. § 240.10b-5.

9 **FOURTH CLAIM FOR RELIEF**

10 **FRAUD BY AN INVESTMENT ADVISER**

11 **Violations Of Sections 206 (1) and (2) of the Advisers Act**

12 **(Against Biddlecome and IFC)**

13 48. The Commission realleges and incorporates by reference paragraphs 1
14 through 37 above.

15 49. Defendants Biddlecome and IFC, by engaging in the conduct
16 described above, directly or indirectly, by the use of the mails or means and
17 instrumentalities of interstate commerce:

- 18 a. with scienter, employed and are employing devices, schemes
19 and artifices to defraud clients or prospective clients; or
20 b. engaged in and are engaged in transactions, practices, and
21 courses of business which operated as a fraud or deceit upon
22 clients or prospective clients.

23 50. By reason of the activities described herein, Defendants Biddlecome
24 and IFC violated and unless restrained and enjoined will continue to violate
25 Sections 206(1) and (2) of the Advisers Act, 15 U.S.C. §§ 80b-6(1) and (2).

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1 **FIFTH CLAIM FOR RELIEF**

2 **FRAUD BY AN INVESTMENT ADVISER**

3 **Violations of 206(4) of the Advisers Act and Rule 206(4)-8 Thereunder**

4 **(Against Biddlecome and IFC)**

5 51. The Commission realleges and incorporates by reference paragraphs 1
6 through 36 above.

7 52. At all times alleged in the Complaint, Biddlecome and IFC each were
8 investment advisers as defined under the Advisers Act. Specifically, IFC was
9 registered with the Commission as an investment-adviser, and Biddlecome
10 exercised exclusive control over IFC. Biddlecome and IFC managed the
11 investments of the Fund in exchange for compensation in the form of a
12 management fee.

13 53. Biddlecome and IFC, by engaging in the conduct described above,
14 directly or indirectly, by use of the mails or means and instrumentalities of
15 interstate commerce:

- 16 a. engaged in transactions, practices, or courses of business which
17 operate as a fraud or deceit upon investors in the Premium
18 Return Funds;
- 19 b. made untrue statements of a material fact or omitted to state a
20 material fact necessary to make the statements made, in the
21 light of the circumstances under which they were made, not
22 misleading, to investors or prospective investors in a pooled
23 investment vehicle; or
- 24 c. otherwise engaged in acts, practices, or courses of business that
25 were fraudulent, deceptive, or manipulative with respect to
26 investors or prospective investors in a pooled investment
27 vehicle.

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1 account statements of one of its advisory clients, to representatives of the
2 Commission's examination staff upon their request.

3 60. By engaging in the conduct described above, IFC violated, and unless
4 restrained and enjoined will continue to violate, Section 204 of the Advisers Act,
5 15 U.S.C. § 80b-4.

6 **EIGHTH CLAIM FOR RELIEF**

7 **AIDING AND ABETTING FAILURE TO MAINTAIN RECORDS BY A**
8 **REGISTERED INVESTMENT ADVISER**

9 **Aiding and Abetting Violations of Section 204 of the Advisers Act**

10 **(Against Biddlecome)**

11 61. The Commission realleges and incorporates by reference paragraphs 1
12 through 36 above.

13 62. Defendant Biddlecome knowingly provided substantial assistance to
14 IFC's violation of Section 204 of the Advisers Act.

15 63. By engaging in the conduct described above, defendant Biddlecome
16 aided and abetted IFC's violations, and unless restrained and enjoined will
17 continue to aid and abet violations of Section 204 of the Advisers Act, 15 U.S.C.
18 § 80b-4.

19 **PRAYER FOR RELIEF**

20 WHEREFORE, the Commission respectfully requests that the Court:

21 **I.**

22 Issue findings of fact and conclusions of law that the defendants committed
23 the alleged violations.

24 **II.**

25 Issue judgments, in forms consistent with Fed. R. Civ. P. 65(d), temporarily,
26 preliminarily and permanently enjoining (1) defendant Biddlecome, and his
27 officers, agents, servants, employees, and attorneys, and those persons in active
28 concert or participation with any of them, who receive actual notice of the

1 judgment by personal service or otherwise, and each of them, from violating
2 Sections 5 (a), 5(c) and 17(a) of the Securities Act, 15 U.S.C. §§ 77e(a), 77e(c) and
3 77q(a), Sections 10(b) and 15(a) of the Exchange Act, 15 U.S.C. §§ 78j(b) and
4 78o(a), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5, and Sections 206(1),
5 206(2), and 206(4) of the Advisers Act, 15 U.S.C. §§ 80b-6(1) and 80b-6(2), and
6 Rule 206(4)-8 thereunder, 17 C.F.R. § 275.206(4)-8, and aiding and abetting
7 violations of Section 204 of the Advisers Act, 15 U.S.C. § 80b-4; (2) defendant
8 Tak, and his officers, agents, servants, employees, and attorneys, and those persons
9 in active concert or participation with any of them, who receive actual notice of the
10 judgment by personal service or otherwise, and each of them, from violating
11 Sections 5(a) and 5(c) of the Securities Act, 15 U.S.C. §§ 77e(a) and 77e(c), and
12 Section 15(a) of the Exchange Act, 15 U.S.C. § 78o(a); (3) defendant Homestead
13 Properties, L.P., and its officers, agents, servants, employees, and attorneys, and
14 those persons in active concert or participation with any of them, who receive
15 actual notice of the judgment by personal service or otherwise, and each of them,
16 from violating Sections 5(a) and 5(c) of the Securities Act, 15 U.S.C. §§ 77e(a)
17 and 77e(c); (4) defendant Homestead Limited, L.L.C., and its officers, agents,
18 servants, employees, and attorneys, and those persons in active concert or
19 participation with any of them, who receive actual notice of the judgment by
20 personal service or otherwise, and each of them, from violating Sections 5(a), 5(c),
21 and 17(a) of the Securities Act, 15 U.S.C. §§ 77e(a), 77e(c) and 77q(a), and
22 Section 10(b) of the Exchange Act, 15 U.S.C. §§ 78j(b), and Rule 10b-5
23 thereunder, 17 C.F.R. § 240.10b-5; and (5) defendant IFC, and its officers, agents,
24 servants, employees, and attorneys, and those persons in active concert or
25 participation with any of them, who receive actual notice of the judgment by
26 personal service or otherwise, and each of them, from violating Sections 204,
27 206(1), 206(2), and 206(4) of the Advisers Act, 15 U.S.C. §§ 80b-4, 80b-6(1) and
28 80b-6(2), and Rule 206(4)-8 thereunder, 17 C.F.R. § 275.206(4)-8.

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III.

Issue, in a form consistent with Fed. R. Civ. P. 65, a temporary restraining order and a preliminary injunction freezing the assets of each of the defendants, prohibiting each of the defendants from destroying documents, and granting expedited discovery.

IV.

Order each defendant and relief defendant to disgorge all ill-gotten gains from the defendants' illegal conduct, together with prejudgment interest thereon.

V.

Order each defendant to pay civil penalties under 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).


VI.

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 application or motion for additional relief within the jurisdiction of this Court.

VII.

Grant such other and further relief as this Court may determine to be just and necessary.

DATED: November 11, 2009



Marc J. Blau
Attorney for Plaintiff
Securities and Exchange Commission