

With hand on the Bible, Heath said, 'I can guarantee your money's safe'

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By DEVONA WELLS and JOHN WELSH / The Press-Enterprise

Allan Schwartz sat across from Daniel Heath last April, weighing the possibility of emptying his portfolio and investing everything with D.W. Heath & Associates.

Heath reassured Schwartz that cashing in the stock was a good move. Already, Schwartz had entrusted Heath with \$125,000.

"He had his hand on the Bible and said, 'I can guarantee your money's safe here. You never know what will happen in the stock market,'" said Schwartz, 78.



David Bauman / The Press-Enterprise

Heath & Associates poured more than \$24 million from investors into building a timeshare resort near Big Bear Lake. The project, like most of the company's ventures, failed to benefit investors.

Minutes later, about a dozen Riverside County district attorney's investigators burst in with search warrants to haul away evidence for what would become the county's biggest-ever fraud prosecution.

"He said, 'I don't know what this is all about,'" according to Schwartz, who said he felt Heath "was lying right to the bitter end."

Heath was arrested in July and remains jailed on charges that he defrauded more than 1,600 investors, many of them seniors who put in all of their savings. He has pleaded not guilty to felony charges of grand theft and securities fraud. If convicted, he faces up to 200 years in prison. Heath & Associates has been closed.

Through his attorney, Heath, 48, declined to talk about the case. He did not respond to two letters requesting an interview.

Heath's hard work and abilities took him in about two decades from delivering bottled water to raising hundreds of thousands of dollars a week for his investment firm. Before his arrest, Heath drove BMWs and a Harley-Davidson, vacationed in Big Bear and lived in one of Chino Hills' most exclusive neighborhoods.

Heath, a trim, balding man with glasses, found thousands of willing investors who included fellow churchgoers, siblings and workers, according to interviews.

With the funds, Heath & Associates built Northwoods Resort and cabins in Big Bear Lake, operated 31 Quiznos franchises and a Menifee golf course and loaned money to Aquatic Rehab, a medical-rehabilitation company.

Yet only the rehabilitation venture, which was half-owned by Heath, generated a return beyond what was invested, according to Robb Evans & Associates LLC, the company appointed to analyze Heath & Associates' books and sell assets to get money back to investors.

Authorities say much of what was raised from later investors went to pay promised returns for earlier ones -- a classic Ponzi scheme. By the time Heath was arrested, authorities say his firm had collected \$192 million and owed investors \$118 million.

Robb Evans says most of it will never be returned.

Heath would have continued paying his clients if the government had not intruded, his previous attorney said.

Aaron Heath, Daniel Heath's 26-year-old son, defended his father in a March interview at the family's Chino Hills home.

"My dad is a very loving, kind and honest man," he said. "I know for a fact he didn't do any of this. Period."

The Nice Guy

Despite the accusations, many people say the same thing: What a nice guy.

Heath didn't just sell investments. Interviews with more than 40 investors reveal that he thrust himself into the role of financial adviser and good son. A regular at Bible study in jail, Heath previously attended Chino Valley Community Church and Calvary Chapel of Chino Hills.

"He's a very charismatic, very, very intelligent person. Very personable. You almost immediately like him," said Paul McGirr, who also lives in Chino Hills and said he has known Heath for 15 years.

In the mid-1970s, Heath attended Cal Poly Pomona, where he studied veterinary science and met Leslee, his future wife. Heath left school, just shy of his degree, to find work. Aaron, the first of Heath's two children, was on the way.

By 1994, Heath was raising money for his own firm. He began pushing investor money into Northwoods Resort, a Big Bear Lake hotel that would be among Heath & Associates' costliest investments, according to receiver Robb Evans. Heath's firm collected \$35.1 million from people who believed their money was going into the hotel. Instead, more than a third went to pay earlier investors, the receiver has said.

Former resort manager Thomas A. Johnson called Heath a "pleasant guy" but declined to say more.

Heath and his wife owned three top-shelf properties -- the Chino Hills home, a waterfront house in Big Bear and an ocean-view lot in Newport Beach, near Crystal Cove State Park. A bankruptcy court judge has approved the sales of the family home and the Big Bear house. Court records show an offer of \$4.9 million has been made on the ocean-view lot.

"They were the perfect couple. And you just envied them because they had so much," said Debbie Cox, an investor and fellow churchgoer.

The Chino Hills home has six bathrooms, a pool and a fireplace to warm the master bedroom, according to a recent listing at Realtor.com. Sale price: \$1.45 million.

"It's the kind of house you'd see in the magazines," McGirr said.

Leslee Heath filed for bankruptcy days after her husband was arrested. Two months ago, cardboard boxes readied for moving filled the garage and entryway of the house.

Backyard trees were flush with green, thanks to a wet winter, Aaron Heath said. There was no money for a gardener. Algae covered the pool.



Kurt Miller / The Press-Enterprise
Daniel Heath's home in Chino Hills went up for sale after he was jailed and his wife filed for bankruptcy. A court-appointed receiver wants proceeds from the sale of the home to be distributed to investors.

Since her husband was jailed, Leslee Heath has worked at a driving school earning \$10 an hour and paints portraits of people's pets, said Aaron Heath, who was visiting from Arizona. Leslee Heath was not at home when her son was interviewed, and she couldn't be reached by mail or phone.

Looking for a Home Run

Often, a Ponzi scheme starts with the best intentions, experts say.

Its perpetrator may have a good idea, a solid business plan. But when financial pressures mount, stress and temptation can overwhelm.

"We want to do what's right, but we're more than prepared to do what's wrong," said Barry Minkow, who ran ZZZZ Best, a carpet-cleaning company that turned out to be a Ponzi scheme. Minkow was convicted in 1987 of securities fraud and is now a pastor and fraud investigator.

Those behind the con fool themselves into thinking one good deal can put everything right, experts say.

"It kind of tends to spin out of control and they're looking for a way out, a home run to make up for all the losses," said Brick Kane, chief operating officer at Robb Evans.

Kane blamed Heath & Associates' investment failures on poor business judgment. In court documents, Heath chalked up bad performance to the "long term" nature of the investments and "dynamics of the market."

Some investors believe Heath and the other defendants hid money to be retrieved once they're out of custody. Should Heath begin spending previously undiscovered money, a pending Securities and Exchange Commission judgment would empower the receiver to seize such funds.

Serenading Investors

Dozens of investor interviews reveal that Heath eagerly courted seniors, lavishing them with attention and advice.

He spent whole afternoons explaining his investments and peppered conversation with references to church and family.

Heath hosted ritzy Christmas balls where his father, John Heath, 78, serenaded guests with soulful arias. Pictures of the annual events sat in albums at the lobby of the firm's Hemet and Brea offices.

Denis O'Brien, also a defendant in the Heath case, said he typically went home after an eight-hour day. But not Heath, who O'Brien said tightly controlled financial information about the company.

"Dan worked all the time. You'd always find him at his desk," O'Brien said during an interview in March at the county jail in Banning.

Jeanne Newman, who managed the firm's Hemet office until 2003, said Heath was a friend to clients. His arrest came as a shock, she said.

"I just thought Dan was brilliant, and our clients loved him. We all thought he was great, and we helped so many people, it seemed," she said.

Investor Geraldine Richardson, who died three years ago, named Heath as trustee to handle her assets once she was no longer able, said Katherine Jorgensen, attorney for the new trustee.

Richardson's cousin, Darlene Trout, said: "I saw him take my cousin's hand after her husband died and say, 'I'll take care of you, dear. You don't have to worry about a thing.' "

But Heath blocked efforts to settle Richardson's \$1.5 million trust, which has 36 beneficiaries including charities, Jorgensen said. He would not account for the proceeds of selling Richardson's home and missed court dates, she said.

Like many investors who caravan to Heath-case court dates, Presbyterian minister Phyllis Hart has few kind words for Heath. "He can't have any conscience at all, because he did this to older people. He knew our financial situation, that we didn't have a lot of money."

Hart, 69, got most of her money out of the firm three years ago, but not before Heath tried changing her mind.

According to Hart, Heath said, " 'How could you do this? You're getting 9 percent. In fact, I've got more to sell you.' But I was very suspicious by then."

Heath's father, 78, also is a jailed defendant in the case. But he knew nothing of illegal activity at Heath & Associates, said his attorney Jeff Van Wagenen. He said his client declined to answer a reporter's questions about the firm; John Heath also did not respond to a letter seeking an interview.

The elder Heath invested his life savings but wouldn't say how much, Van Wagenen said.

"John was proud of Dan," Van Wagenen said. "If your father thinks you're successful, the last thing you're going to tell him is it's fraud, if it was in fact illegal."

Staff writer Paul Herrera contributed to this report.

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