SEC accuses dead fund manager of luring govt. officials into $34 million Ponzi scheme

The US market regulator Securities and Exchange Commission (SEC) sued, Friday, the estate of a dead fund manager - Kenneth Wayne McLeod - accusing him and his firms of duping law enforcement agents and other government employees into investing at least $34 million in a Ponzi scheme.
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The headquarters of the US Securities and Exchange Commission are seen in Washington
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According to the SEC, McLeod, through his firms F&S Asset Management Group Inc. and the Federal Employee Benefits Group Inc (FEBG), had duped government officers into investing their money in a bogus government bond fund. McLeod had promised that the fund offered returns of 8-10 percent, according to the complaint. In some cases, he also showed some investors false FEBG Bond Fund account statements, which showed inflated interest earnings.

The complaint said that McLeod never invested any of the money for purchasing any bond. Instead, he used it to fund his lavish lifestyle, including annual trips to the Super Bowl for himself and 40 of his friends.

Many of the government officers had invested the money in their retirement and savings account in the bogus fund. Some had even invested their inheritances and children's tuition savings.

McLeod's target audience was federal law enforcement agencies, including the US Drug Enforcement Administration, the Federal Bureau of Investigation (FBI), the Bureau of Alcohol, Tobacco, Firearms and Explosives, the Federal Air Marshal Service, the US Secret Service and the US Attorney's Office. It was not clear how many people McLeod managed to fool or how he managed to fool them. "To perpetuate the scheme, McLeod told investors that their principal would be locked up for various periods of up to eight years, supposedly due to the long term nature of the fund's underlying bonds," the SEC said.

According to the lawsuit, McLeod ran a Ponzi scheme. A Ponzi scheme is a fraudulent investment operation that pays returns to separate investors from their own money or money paid by subsequent investors, rather than from any actual profit earned. The scheme fails when the corrupt money manager is eventually unable to meet redemptions.

However, it seemed the scammer's luck was running out. On June 18, reportedly the day when the SEC completed its investigation against McLeod, he sent an e-mail to investors, saying he wanted to shut down FEBG. According to the SEC complaint, McLeod told investors that they should expect "to be contacted in the coming days or weeks by the regulators charged with this termination/task."

"I pray that at some point in time you can and will forgive me," Mcleod wrote in the e-mail.
"I have spent the vast majority of my adult life helping tens of thousand federal employee's become better prepared for their financial future and I am proud of that legacy," the e-mail read.

On June 22, McLeod was found dead in his car in Jacksonville, Florida. Melissa Bujeda, spokeswoman for the Jacksonville sheriff's office, said he died of a self-inflected gunshot wound.

Two days later, the SEC filed the lawsuit against McLeod.

"McLeod victimized law enforcement agents and other government employees who dedicated their lives to the service of this country," regional SEC director (Miami) Eric Bustillo said in a statement. "The victims gave years of public service and McLeod stole their futures."

US District Judge Federico Moreno, on Thursday, ordered an emergency freezing of the assets of McLeod's estate and the two firms he ran. A court receiver has been appointed to attempt recovery of the money for investors.

The Ponzi scheme McLeod operated is not new. Many such frauds have been unraveled in the financial crisis, the most infamous of which was decades-long $65 billion fraud committed by financier Bernard Madoff. Madoff, 72, is currently serving a 150-year prison sentence.

Last month, Kenneth Starr, a financial adviser to Hollywood actors like Uma Thurman, Wesley Snipes, Sylvester Stallone and Al Pacino was arrested and charged with fleecing his clients by operating a complex Ponzi scam of at least $60 million. Starr was indicted on June 10 by a grand jury in New York alleging 20 counts of wire fraud, a count of securities fraud, money laundering and fraud. Starr used clients' money to buy expensive baubles for his wife and a $7.5 million Upper East Side condominium. (For more details on Kenneth Starr, read **Kenneth Starr – the rise and fall of a Ponzi star**)

Earlier this month, in a separate incident, an influential Florida lawyer - Scott Rothstein - was handed down a 50-year imprisonment sentence after he was found guilty of running a Ponzi scheme worth over $1 billion. Rothstein bilked clients to support his lavish lifestyle that included buying several homes, sports cars and a yacht. The sentence handed down was 10 years more than what the prosecutors had requested as the court said it was particularly troubled by the fact that Rothstein had abused the judicial system for his scam, forging the signatures of at least three federal judges. "These acts constitute the most egregious wrongs a licensed attorney can commit," US District Judge James Cohn told Rothstein in federal court in Fort Lauderdale, Florida, while handing down the sentence.