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Blinder, Robinson - blind 'em and rob 'em. (Meyer Blinder convicted of securities fraud, continues to fleece investors during appeals process) *Matthew Schifrin.*

Full Text:

Blinder, Robinson-- Blind 'em and rob 'em

ON DEC. 19, 1986 the Securities & Exchange Commission found that Meyer Blinder had committed securities fraud. As of Mar. 23, 1987 the president of Blinder, Robinson & Co. was to be banished from the brokerage business for life, with no reapplication possible for at least two years.

Poor Meyer. Even as the banishment order was about to go into effect, he was celebrating with a thousand of his brokers in Las Vegas. As the brokers gambled at Blinder, Robinson's annual sales convention at the Riviera Hotel & Casino, a sign in front of the casino read, "Meyer Is Back.'

Yes, Meyer Blinder was back--if indeed he ever went away--laughing at the SEC and fleecing investors on a bigger scale than ever. In late March a U.S. district court granted a stay on the SEC's action against Blinder, assuring him at least a full year of business in the usual style.

Meyer Blinder, at 65, is no run-of-the-mill flogger of penny stocks. When it comes to foisting overpriced and dubious investment merchandise on the public, he puts to shame even the notorious but now quiescent Robert Brennan of First Jersey Securities (FORBES, July 16, 1984). Blinder, Robinson is nearly twice as large as First Jersey Securities at its peak; it has almost 1,700 brokers in 61 offices, ranking tenth in the nation in number of account executives.

Blinder, Robinson is going international. It plans to open an office in Hong Kong and has a wholly owned subsidiary in West Germany. Opening four new offices and ingesting 200 trainees per month, Blinder is by far the fastest-growing brokerage firm in business today.

To be sure, Meyer Blinder still has legal problems. For example, Blinder brought Blinder International Enterprises public late last year. In the prospectus, 8 of 45 pages are devoted to litigation against the firm. There are class action suits, NASD complaints and 24 different states listed in regulatory dispute with the firm.

But so what? Thanks to able advisers like ex-NASD enforcement officer John Cox, Blinder has kept his victims and the authorities at bay for almost ten years (see box, page 36). When pressed in a civil lawsuit, Blinder pleaded bypass surgery, postponing the case for three months. While his lawyers buy time, Blinder continues to get bigger and richer. His brokers push the telephones harder and harder. His clients get poorer and poorer.

In 1986 Blinder, Robinson's revenues were up 83%, to $120 million, and profits more than doubled, to $8.6 million. This year--the SEC notwithstanding --Blinder boasts that the firm will do $200 million.

Meyer Blinder, who adorns his aging chest with gold chains, is a battle-scarred veteran of 17 years in the penny stock business. A Brooklyn boy, he got his start pushing dress carts through Manhattan's garment district, learned selling as a door-to-door salesman.

Blinder, Robinson is very much a family affair. Son Lawrence (Larry), 35, is a vice president, secretary, treasurer and director of the firm. Son Martin runs a chain of art galleries brought public by Blinder, Robinson. Meyer's wife, Lillian, is listed as a joint shareholder with her husband. Meyer's younger brother, Morris, is the president of another Blinder company, Continental Connector Industries. Although the brokerage house is, in theory, publicly owned, Meyer Blinder personally collects 5% of gross realized revenues, son Larry, 1.25%. (The Robinson in Blinder, Robinson? He's Mac Robinson, but he left the firm in the mid-Seventies.)

After Blinder, Robinson's initial public offering last November, Blinder and son Larry still own 71% of the stock. Their stake has a paper value of $165 million, after the company's brokers helped push the price from $1.50 to $3 early this year. What's Meyer Blinder worth? A fifth of a billion dollars would be a safe estimate.

Blinder, Robinson's customers should have it so good. Thanks to FORBES' unique database on initial public offerings, we were able to track the performance of Blinder, Robinson's over $200 million in initial public offerings since 1977. Of the 80 issues that came public in the past ten years, over 25% were bankrupt or were dead in the water with no bids as of early this year. Only 18 were trading above their offering price. Anyone putting $1,000 in each of Blinder's issues since 1977 (a total of $80,000) would have ended up with about $50,000 today--$40,000 of that from the penny stocks of the last three years. The first seven years' investment of $53,000 would be worth only $11,000 now. In theory, that is. In practice the typical investor would have fared even worse, because most bought in the rising aftermarket.

Blinder's new issues as a rule trade up during the first year or so, when Blinder brokers are pushing them hard. By then the early clients are out of the stocks, although not necessarily out of Blinder's toils. The stocks have been sold and resold, usually at rising prices, to other customers. On each transaction, the firm makes a huge profit because of the gap between what it pay investors for a stock and what it sells the same stock for. That gap can be 100% or more.

The usual practice is: Keep pushing the stock up, moving it from hand to hand at higher and higher prices until the "story' behind the stock wears thin. Then just walk away from it.

Take the sad case of Mary Nangano, a Long Island housewife who had an account with Blinder, Robinson's Great Neck, N.Y. office during 1981 and 1982. Her broker was Anita Goldberg --a top producer for the firm today and the wife of the firm's training chief, Jay Goldberg. Goldberg sold over $11,000 worth of six penny stocks to Nangano. Five out of six of them were "on the way up.'

"She used to hound me day after day to buy more and more,' says Nangano. "She was so convincing.' Unfortunately, after months passed and the calls stopped, Nangano began to get nervous. She could no longer find price quotes for her stocks. Repeated calls to Goldberg for binds were unanswered. "She would never come to the phone,' says Nangano.

Finally, early in 1983, Nangano requested her stock certificates. Today, her kitchen drawer is filled with certificates that cost nearly $9,500. Their worth? Maybe $500.

Nangano is no lonely exception. Not one of the more than two dozen former brokers FORBES talked to-- some former managers and big producers --thought they had made money for their clients in the long run.

From 1977 until mid-1984 Blinder, Robinson issues almost always were priced at 10 cents per share. But in August of 1984, starting with Touchstone Software, Blinder switched to new issues priced at a penny a share. Why? Smart marketing. If Blinder marks up a stock issued at a penny to 2 cents bid, 3 cents asked, clients don't flinch. But if Blinder wanted the same markup on a 10-cent deal, it would need to move prices to 20 cents bid, 30 cents asked. Who would miss an investment "opportunity' over a penny or two a share? Penny shares are harder to track because Nasdaq won't quote shares under 3 cents.

How does Blinder get away with milking customers like this? By remembering what P.T. Barnum said: There's one born every minute. As fast as one client is milked dry, another is attracted. Those 1,700 brokers average 100 calls a day each--170,000 telephone calls a day, at least 850,000 a week, over 40 million a year. Assuming an average of 10 calls per live prospect, that leaves 4 million people contacted every year. But there are, after all, about 250 million people in the U.S.--and 5 billion in the world.

The real name of the Blinder, Robinson game is cold calling. Get out the old directory, bial the number and pitch the voice on the other end. A Blinder salesperson must know how to pitch, but needn't know much about the merchandise. Just memorize the pitch.

These 61 branch offices and 1,700 brokers who spread Meyer's rumors and sell his stocks--and are told not to ask too many questions--are disciplined in a way that would give credit to the old German general staff.

The basic cadre, the officer corps, is a group of some 130 branch managers and assistants. These young, aggressive and often ruthless salesmen have one main function: Hire salespeople.

The salesmen themselves, like recruits in the army, are expendable. Branch managers typically attract brokers by running advertisements in local newspapers for seminars. "A carrer in the stock market,' they say and, "$75,000 your first year.'

FORBES visited three such seminars in the metropolitan New York area in late 1986 and early 1987. The presentations are formula: Emphasize Blinder's growth, tout the firm as a full-service investment bank, have a broker tell his rags-to-riches story and mention penny stocks as little as possible. It's a case of "push the merchant, not the merchandise.'

The first rude awakening for the recruits comes at boot camp--Blinder's three-week "state of the art' training school in Denver. What's the boot camp like? After a tour of the lavish Blinder building, the recruit is handed a telephone book and told to get busy. There follows three weeks of phone-book cold calling from Blinder's scripted three-call system.

The salesmen are rigidly schooled by Jay Goldberg (Anita's husband), once a top broker for First Jersey Securities and later at Rooney, Pace. Goldberg is thus a graduate of the Ivy League of junk stock promotion.

On the first call, the salesman simply introduces himself and says his research department comes up with fine investment opportunities from time to time. May he call you if something comes up, he asks. That's all. No pressure.

Second call: We've found nothing really good yet, but we are thinking of you and may have something soon.

The third call is the killer: Boy, have we got something hot for you. Could you handle 100,000 shares? How about 50,000?

Contrary to what the recruits are told at the carrer seminars, all training expenses eventually come out of the trainee's pocket.

Blinder, Robinson's independent contractor agreement, which every new broker signs, clearly states that brokers will pay most of their own expenses--pens, paper, even the leads furnished by the manager from sucker lists or from responses to Blinder, Robinson advertisements.

For trainees, Blinder does pick up the tab for a round-trip flight to the Denver training complex and a hotel room that the broker shares for three weeks. That probably costs Blinder $2,000. Blinder gets that back with interest by shaving the brokers' take on early transactions by $3,000.

If a broker wants to leave before two years are up and go to another brokerage firm within a 60-mile radius, Blinder slaps a fine of $25,000 or the last six months' pay (whichever is greater) on the broker. Few departing brokers will pay up, but several have told FORBES that Blinder simply withholds their final paycheck.

Almost anyone, then, can become a Blinder salesperson. What does it take to be a Blinder manager? "The ability to produce big numbers without tripping over your conscience,' sayd one two-year veteran.

Take Peter Aiello, who went from managing an office at First Jersey to running Blinder's Wall Street office in 1982 and 1983. Peter Aiello has a list of securities violations a mile long. In June 1983 he was suspended from the business for four months. Aiello never returned to Blinder, moving through a series of now-defunct, disreputable firms. He is now running an o-t-c firm in New York called Viceroy Securities.

Not every Blinder manager is cut from this shoddy cloth, but most of them must learn to look the other way when it comes to examining the merchandise they push.

What they push is what the firm wants them to push--stocks for which the firm makes the market and, it follows, can make a big spread. Blinder managers must approve all broker trades. If a salesman tries to fill an order for, say, IBM or GM, the manager will probably tell him: "What are you doing? You can make much more money in Blinder stocks.' That's putting it mildly.

Each day at Blinder, brokers receive a set of inside prices and outside prices for Blinder, Robinson stocks. The gap between the two sets of prices is wide and represents the salesperson's gain on the transaction.

Here's an example: In May 1985, Blinder brokers were able to get shares of Circle Seven Oil & Gas (a 1981 Blinder issue that was originally offered at 15 cents) from their trading department at an "inside' price of 3.2 cents per share. The brokers in turn could sell it to their clients for the "outside' price of 6.5 cents a share. A 100% markup or commission. Compare this with the 10% or so that a full-service broker charges on a typical small transaction.

Not all that spread stays with the Blinder salesperson, of course. The salesperson gets 50% and people further up the line--office managers, district managers--get another 8%. As we mentioned earlier, Meyer and his son get 6.25% between them. The other 35% or so stays with the house. On a modest order, say $1,000, the salesperson can easily net $150.

But read a Blinder invoice and you will never see the term "commission.' Officially, there are no commissions. Just inside prices, which the customer doesn't see, and outside prices, which he does see.

At Blinder, Robinson, because profit margins are fat, the firm can afford to deal with little people with small amounts to invest--the most gullible type of investor. With the typical transaction small, the pressure is to keep turnover high.

One key strategy that Blinder branch managers allow brokers is "crossing,' or, as Blinder brokers call it, "simultaneous transactions.'

First Jersey's specialty was interbranch crossing--shifting stock from one branch to another at different prearranged prices--to churn profits. With Blinder, Robinson the crossing is often done right within a single branch, within a single broker's client book. Customer A is advised to sell a stock, while Customer B is urged to buy the same stock. Since the difference between the inside and outside prices is sometimes 100%, the firm keeps at least half the money involved in each such cross.

Here is how a typical cross works. In August 1985 Blinder issued units of Touchstone Software at a penny a unit. The day before the units began trading, a Blinder manager in West Palm Beach divided the allotment of new-issue units among her brokers and told them to get their crosses ready for the next day's opening-- meaning, get their suckers lined up. The manager said the units would probably open the next day at 2 cents bid, 4 cents asked--a tremendous increase over the offering price.

Customers allowed to buy at the offering price could now be offered a chance to double their money by selling out at the inside price. The shares they sold for twice the offering price would be resold for four times the offering price. Brokers then went back to their desks and went through their books to "make matches' for the next day.

One West Palm Beach broker sold Client A 200,000 units, clients B and C, 100,000 units each. When the broker made the allotment, he told lucky clients A and B: "If the units go up much past 1.5 cents, let's take our profits and get out.' They both agreed.

He next called two new clients, D and E. He told them the issue was sold out, but it would open hot and the units would still be a great buy anywhere below 5 cents. The clients agreed to buy. Client C picked up another 50,000 shares on the same understanding.

The next day, then Touchstone did indeed open at 2 cents bid, 4 cents asked, the broker merely handed in matched order tickets for trades he had set up the day before. No calls necessary. The customers were happy because for 4 cents they got units they were told were a bargain at 5.

Let's look at what happened:

Clients A and B were taken out of their penny units at 2 cents. Their gain was $3,000, or 100%. Client A's units were crossed to Client D at 4 cents, or $8,000. Client B's units were also crossed to C and E at 4 cents. The firm's markup came to $6,000. Its profit: twice what the original customer made.

Everybody happy? Not clients C, D and E, who spent 4 cents for shares, 2 cents more than they could sell them for the same day.

What about the lucky folks who got in at the original offering for a penny a share? Or those who bought in the early aftermarket, before the staged runup was over? Few of them would have gotten out whole, either. According to former brokers, one of Blinder's cardinal rules is: Whenever possible, avoid sending out money to clients. You can be pretty certain a Blinder broker crossed A's and B's profits into another of Blinder's stocks--what customer could resist making a switch recommended by a broker who had just doubled his money?

What happens to Blinder, Robinson stocks when they have been pushed as far as they will go and are allowed to drop into oblivion? Some are recycled. Source Venture, 39%-owned by Meyer and his wife, Lillian, helps the recycling. It calls itself a diversified holding company. Among its holdings are: King of Video and Telstar. Both are stocks Blinder, Robinson pushed some years ago but later lost interest in. Source bought them up cheap and recycled them through Blinder's distribution system in their new package. Sour wine in new bottles.

The key is this: Handle only house-brand merchandise like Source Venture. That way, not only do you make huge profits on the spread, but you can move the prices up and down pretty much at will.

How do you manufacture your own merchandise when you are dealing with securities? One way is through the use of blind pools. These are companies that raise money from the public without stating specifically what they intend to do with the money. Such blind pools are perfectly legal. According to current Blinder brokers, Blinder is selling clients almost one blind pool a week.

But you won't see Blinder, Robinson's name on the blind pools' prospectuses. Blinder lets other brokers or the organizers themselves bring the pools public, keeping its own name off the prospectus. But by one means or another Blinder gets its hands on a big block of the stock. It does so through the exercise of warrants, granted by the pool organizers, and through merging into the pool companies in which Blinder, Robinson, one of the Blinders or a Blinder crony has a major interest.

Blinder sales managers usually will tell brokers that there is "imminent news' coming out, news about a hot company that will be merged into the blind pool, so they had better buy stock in the blind pool before the news hits. Customers can then be churned back and forth at rising prices, with Blinder taking a big bite out of each transaction and leaving all the investors happy--for a while.

Take Kiwi Ventures, a blind pool first offered to the public in late August 1985. According to the prospectus, which bore no underwriter's name, the original principals of Kiwi were John Stovall, president of the apparently defunct Utah Gold & Silver Exchange, his wife, Erin, and Edward Loeser, an anesthesiologist.

By early September 1985 Blinder brokers were busily touting Kiwi. Its price went from 8 cents to as high as 11 cents a share. FORBES questioned several brokers who sold Kiwi, and not one had seen a prospectus or financial documents on the blind pool. They were selling a story, not a stock.

FORBES found a copy of the Kiwi Ventures offering statement. As noted, there was no mention of Blinder, Robinson on the prospectus, but Blinder, Robinson was a principal marketmaker in the stock.

Apparently from the woodwork, there now emerged holders of Kiwi warrants--the Blinder customers had not been told these existed--who exercised their warrants for 57 million shares at 2 cents and 5 cents a share. Who were these mysterious warrant holders? Indications were they were either Blinder, Robinson, or one of the Blinders or both. It is likely that many of these cheap shares later found their way into customer accounts at much higher prices.

On Nov. 4, 1985 Kiwi changed its name to Western International Pizza. The very next day a stock transfer merged 17 Godfather's Pizza franchises in Arizona into Kiwi. Here again was the find hand of Blinder, Robinson. Only a few months before the merger, Meyer Blinder and his lawyer, Philip Lowery, had purchased for themselves a half-interest in the pizza chain, thus becoming major shareholders in the new company when the merger later went through. In effect, Meyer Blinder had the benefit of a new company without the ordeal of an initial public offering.

The pizza outfit now has 400 million shares outstanding and the stock sells for around 1 cent a share, giving it a total market value of $4 million. Rich, that, for a company that lost $1 million in fiscal 1986. Presumably the additional shares became additional merchandise for the Blinder, Robinson marketing-and-markup machine.

Now we come to Humboldt Financial, a blind pool that came public in early 1985. About a month after Humboldt went public, while it was still a blind pool, it agreed to merge with a privately owned manufacturer of plated metal products called Continental Connector. Who owned Continental? The company had once been part of the Dunes Hotel & Casino through a partnership controlled by Mafia frontman Morris Shenker. And now, it turned out, it was 86%-owned by Meyer and Morris Blinder. Now part of a public company. Continental split its common shares and authorized 900 million shares--lots of stock for the Blinder brokers to peddle at a seemingly low price. The company assets were $7 million. Continental Connector has already bought one of Morris Blinder's companies, Technitron, for $3 million. And the game goes on.

It's not for nothing, then, that even the firm's own salespeople call Blinder, Robinson "Blind 'em and rob 'em.' How does Meyer Blinder get away with it? Beats us.

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Crime wave. (brokers marketing stocks of little or no value; includes related article on Sam Sarcinelli) *Richard L. Stern; Matthew Schifrin; David Henry.*

Crime wave

FROM THE MID-1970S TO 1986 the notorious First Jersey Securities ran a giant and well-documented nationwide stock manipulation scheme that victimized thousands of investors out of countless millions of dollars (FORBES, July 16, 1984). Robert Brennan has retreated from the scene with only part of his fortune intact, but even bigger bucket-shop operations survive and prosper. Denver-based Blinder, Robinson & Co. (FORBES, Apr. 20) may collect $200 million this year from its still-growing clientele, in large part by inflating and jiggering the prices of the penny stocks it peddles.

If you walked into any bank in the U.S., pointed a gun at--or merely threatened--the teller and took even $1,000, the chances are excellent that you would wind up in jail. Maximum sentence: 20 years, eligible for parole after one-third the sentence length. But bank robbery is pretty dumb these days, since in this country there's a far more civilized and risk-free way to steal. Hang up a brokerage shingle and peddle stocks of little or no value.

The men behind First Jersey and Blinder, Robinson are watching the sunset this summer, not from behind bars, but from nice homes in ritzy neighborhoods. First Jersey is essentially still doing business under another name (Sherwood Capital, certain executives of which are now being investigated by a federal grand jury), and the fortunes of Blinder, Robinson have never been better.

How do they scam the public? First Jersey raised well over $100 million through stock offerings for International Thoroughbred Breeders, a company controlled by the firm's then-president, Robert Brennan, and set up to fulfill his dream of becoming a big shot in racing. With First Jersey brokers trading it back and forth between trusting customers in various offices, the stock kicked as high as 11 1/4. Recently it collapsed to a more realistic 69 cents. Fantasy for Brennan, nightmare for investors. And that, believe it or not, was one of First Jersey's better deals. One of Blinder, Robinson's hottest stocks, King of Video, went from 15 cents a share in 1981 to more than 35 cents within a year. It is now at a penny. But Blinder's troops are still out pushing the failing video distributor under the name of its new holding company, Source Venture Capital.

These are some of the bigger boys on the block. They make part of their money from the brokerage fees generated when they churn their customers' accounts. But the obscene profits come because they own these dicey stocks themselves--always bought low and unloaded on their customers at increasingly high prices. Hundreds of far smaller boiler rooms and bucket shops, using similarly shabby business practices, continue to ply their trade, too. The dismaying truth is that the men and women who operate these enterprises know that they can easily outrun, outwit and outmaneuver most any law enforcement agency so brash as to think of going after them.

And yet it is safe to say that investors almost certainly lost several billion dollars last year from these firms, big and small. For example, those operating in the highly manipulated and superrisky penny-stock market raised more than $200 million last year just in new shares priced under $1.

But in an astounding number of dubious investments, big and small, the companies that are so effectively hyped to the greedy and gullible are simply names on paper with no product to sell. In one Utah case, for example, hundreds of customers were taken for some $5 million when brokers at Salt Lake City-based Equity One Securities kited a $25,000 public offering of Freedom Coin Co., a bogus rare coin dealer, from a penny a share to $2, before the scheme collapsed last year. Freedom's promoter was fined about $100,000, and Equity One now is operating under another name, Fitzgerald, DeArman & Roberts.

We have written about many of these folks over the years, as well as brokers at more reputable firms who manipulate markets, churn accounts and dabble in the other sleazy corners of securities fraud. Often our stories have begun or ended with a familiar question: "Where is the SEC?'

Gary Lynch, 36, chief of enforcement of the SEC, resents our barbs. This conscientious and dedicated public servant says we aren't fair to his hardworking agency. Lynch points out that the SEC had "initiated a number of cases' going back years against First Jersey, Blinder and another shabby swindler, Rooney, Pace (FORBES, Dec. 1, 1986). Initiated, yes; successfully prosecuted, no. All three firms went merrily on, bilking investors even as the commission's proceedings wound their way slowly through the SEC and the courts. "That's part of the American system of fair justice,' says an exasperated Lynch. "These people have a right to appeal, they have a right to due process and to be treated the same as anyone before our agency. That's the law.'

Lynch should have said that's the way the courts are interpreting the law. With our courts more concerned these days with rights than with wrongs, smart lawyers can quite easily maneuver slippery clients through loopholes in the law. Brennan at First Jersey Securities was a prime example. In the end, he quit the business under his own steam, taking many millions of dollars with him. Recently a federal judge slapped down the state of Maine when it tried to get a better settlement for Brennan's victims.

Enforcement chief Lynch proudly points out that the commission brought 312 enforcement cases in 1986--up 61% since 1981. That's good but not nearly good enough. Over the period in which the SEC started 61% more actions, trading volume more than tripled, and the number of broker/dealers more than doubled. Investor complaints to the SEC have gone up nearly 55% in the same period, to about 25,000.

In the same period the agency's staff declined by 4%. "It's like a city tripling in size, while its police force declines by 4%,' says former SEC staffer Richard Phillips, now a prominent Washington attorney.

The fundamental problem seems to be that the U.S. simply does not take securities crime seriously enough. It's a quiet crime. Nobody dies from it. As with other crimes, many of the victims are too embarrassed to complain. There are no vociferous lobbies for victims of securities fraud. On the contrary, the crooks often dispense political largesse and enjoy a certain amount of immunity.

No wonder that, as things now stand, con men are too often able to thumb their noses at regulators. Colorado Division of Securities Commissioner Royce Griffin and his New York counterpart, Orestes Mihaly, say that the Willie Suttons of the brokerage business simply don't have to worry about criminal prosecution. When it believes it has a serious case, the Securities & Exchange Commission usually has three alternatives: It can ask a U.S. attorney to bring a criminal case, it can file a civil suit in federal court, or it can move the case through its own administrative law procedure.

Under John Shad's reign as SEC chairman (he's leaving to be U.S. ambassador to the Netherlands), criminal prosecution was pursued relatively infrequently. Of the 298 enforcement actions (injunctive actions and administrative proceedings) initiated by the SEC in 1986, 85 were referred to the Justice Department for criminal prosecution. Contrast that with 116 out of 287 ten years ago.

"The penalties don't fit the crime,' says Colorado's Griffin. "A $10,000 fine or a 30-day suspension isn't going to terrify con men.' Regulatory slaps on the wrist and high-priced legal counsel "become a cost of doing business for securities violators,' says New York's Mihaly.

The toughest civil penalty, permanently barring a broker from selling securities, rarely occurs. "Let's face it,' says Griffin, "it's very hard to get kicked out of the securities business.' Short suspensions have come to be known on Wall Street as "Caribbean vacations.' One lawyer explains, "Part of my job for clients was to postpone cases long enough so they could take suspensions around Christmas time, which is a slow season on Wall Street anyway.'

A measure of the casual approach to securities fraud that permeates the entire government bureaucracy is the Justice Department's general unwillingness to take SEC cases unless there are headlines to be made. The SEC, after all, has to convince the Justice Department to take them. With the exception of a handful of U.S. Attorneys in states like New York and New Jersey, most federal prosecutors aren't interested. Why? Securities cases are far more complex and harder to try--and win--than the typical bank robbery.

But even using civil proceedings, the commission could put securities scammers out of business a lot faster than it does. Delay is built into the system. The commission itself must review and approve all formal investigations before they begin. Most times when an SEC investigator wants to issue a subpoena and conduct a formal investigation, long memos are prepared, reviewed in the home office and then sometimes further reviewed by as many as four or five SEC divisions in Washington before receiving final approval by the commission. The time elapsed is frequently three to six weeks.

Once an action is started, the SEC all too often prefers its own administrative proceeding, with its own administrative law judges, to a more potent civil injunctive case in federal court. Why? First, the commission is far less likely to lose a case before one of its own. But administrative cases are often the slowest-moving. Even when the SEC wins, such cases can be appealed by the defendants through the federal courts.

An administrative case against First Jersey initiated in 1979 (under Stanley Sporkin, who is now a federal judge) was still plodding through the SEC in 1983. It wasn't until 1984 that a federal judge approved an injunction, which meant that if Brennan continued his ways he could be criminally prosecuted. Last year, under mounting pressure, Brennan got out of the business and sold the firm, thus faring far better than his customers. Several First Jersey employees were criminally prosecuted by U.S. Attorneys for lying to the SEC, but the government lost all the cases.

Or take the latest action against Blinder, Robinson. The case involved fraud committed in 1979. The action crawled through the administrative system until last December, when a commission decree finally banned Meyer Blinder from the business. Still, Blinder is appealing in the courts and his firm is growing each day. It runs advertisements in local newspapers for customers and for salesmen, and politicians like Gary Hart have taken campaign contributions from Meyer Blinder.

Another way the SEC all but guarantees that crooked companies will escape serious prosecution: The agency often refers investors' complaints to the tedious and tolerant enforcement bureaus at the various stock exchanges and the NASD. Numerous investor complaints in the spring of 1985 against the notorious Rooney, Pace, for example, were turned over to the New York Stock Exchange, where Rooney, Pace was a member. In the summer of 1986 New York Stock Exchange officials discovered that Rooney, Pace was out of capital. The exchange could have closed the firm, but that's not how it treats members. Rooney, Pace continued to operate and swindle investors until it closed early this year.

With the boom in securities markets, the number of registrations filed with the agency has more than doubled in ten years. Hidden in this avalanche of paper, naturally, is an increasing number of fraudulent companies and phony securities offerings. But the commission's response has been to turn away rather than look closer. Chairman Shad ordered his staff to move that paper. One Shad policy: All initial public offerings must be reviewed within 30 days of filing. The result often has been perfunctory review of new securities filings, including notoriously fraudulent blind pools. One example is Memory

Metals, a public offering in November 1984, which went through without a hitch although the slightest investigation by the SEC would have revealed it was the same scam the agency had put out of business nine years before.

The commission admits that it gave full review to just 14% of the 76,708 full disclosure filings of all kinds that it received last year. Only 1,741 of the 12,000 10-Ks that were filed were reviewed.

Shad told FORBES that, with computerization, the elimination of unnecessary filing reports and other management changes, his smaller staff is actually able to do more work--including review more documents--than it has in years. Shad says SEC reviews of corporate disclosure filings have increased 71% since 1981. He says that broker/ dealer inspections are up 73%, while the number of broker /dealers is up only 57%. Every initial public offering that is an equity offering is reviewed.

True, but the fact remains that less than 15% of the filings were scrutinized last year. The 73% jump in broker/ dealer inspections means that 481, or less than 5%, were examined.

New investment products are proliferating as fast as old scams. The last time anything similar happened was in the early 1960s, and at that time Congress demanded action from the commission. It had become increasingly apparent that the SEC was not adjusting to the rapidly changing industry environment, including the increasing importance of institutional trading. A major trading scandal had erupted at the American Stock Exchange. Congress ordered a so-called Special Study of Securities Markets, authorized the budget and the staff, and made it clear that it was willing to act on the recommendations of the panel. It made numerous recommendations, including extending reporting requirements to over-the-counter companies. Most of the recommendations were enacted either as new law or as amended commission rules.

Can the U.S. afford to spend more money to go after securities fraud? The SEC pays its own way through the fees it collects. Since 1983 it has in effect been running a budget surplus. In 1986 it collected twice as much as it spent. The agency throws its earnings into the U.S. Treasury's general fund.

Can the government do more about securities fraud without tying up the capital markets in red tape and hampering their efficient functioning? Of course it can. Certainly, much of the deregulation of the markets has been for the best so far as the economy is concerned. Anyway, new laws are not what is needed. More vigorous enforcement of existing laws would do the trick. There is something wrong with a situation wherein rampant fraud is practiced with impunity. In the area of protecting the small and the not-so-small investor from outright con men, the SEC is falling down badly.

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Never, but never, give a sucker an even break. (Arnold Kimmes, includes related article) *Richard L. Stern; Matthew Schifrin; Claire Poole.*

Never, but never, give a sucker an even break

LAST JULY French police swept down on Le Mas des Roses--"Farmhouse of the Roses"--a lovely, pink stucco villa overlooking the Mediterranean near Cannes. The gendarmes arrested the resident, New York-born Tommy Quinn. This

51-year-old convicted international stock swindler and disbarred Mafia lawyer (FORBES, Sept. 23, 1985) was living high on the hog, but now he molders in the dank and nasty confines of Paris' Prison de la Sante, where prisoners, it is said, are packed six or seven to the cell. Without hope of bail, Quinn awaits trial on charges of securities fraud--what the French call "aggravated fraud." Minimum sentence, if convicted: perhaps ten years.

Good-bye, Farmhouse of the Roses.

Quinn's longtime associate, Arnold Kimmes, 68, nicknamed Charlie, was a lot luckier. Charlie Kimmes was on his yacht that sunny day, and when the gendarmes came to call, Kimmes slipped away. He then returned to the U.S. Kimmes apparently decided he would rather take his chances with the U.S.' permissive system of justice than with the far tougher French system. After all, insider-trading criminal Ivan Boesky got off fairly lightly, reportedly gaining time to squirrel away healthy chunks of his wealth before waltzing off to a country club prison in Lompoc, Calif.

Kimmes' sudden return home was certainly a bit of luck for the federal authorities. FORBES has learned that Kimmes is singing and, like Boesky, he appears to be turning state's evidence against former colleagues. Some of what he is saying is contained in a 600-page affidavit filed in Denver by the Internal Revenue Service as part of a tax evasion probe.

Among the former associates already fingered by Kimmes is the notorious Meyer Blinder of Blinder, Robinson & Co.--"Blind 'em and rob 'em" (FORBES, Apr. 20, 1987). Apparently, with Kimmes' statements, Internal Revenue was able to obtain search warrants for Blinder's sumptuous offices in Englewood, Colo. (As a by-product of the search, authorities removed a slot machine and a craps table from Blinder's office, which appropriately had an air of a casino rather than a brokerage house.)

As defiant as ever, Meyer Blinder had this to say about Kimmes' damaging statement: "I met the man one time for 15 minutes and the goddamn guy is a liar. The man is a two-time loser, made a deal with the government so they wouldn't put him back in jail and made allegations against me. The allegations are completely untrue, and I will prove them in the court room. The only money I washed is I forgot a $10 bill in one of my suits when it went to the dry cleaner, and it got laundered.

"The gestapo, when they come to your house, remember, I told you they will. It all started in Germany, baby."

Emerging from Kimmes' statements is information linking his operation to a worldwide ring of stock frauds, involving a loosely connected network of 250 bucket shops disguised as brokerage houses that have taken at least 100,000 investors for up to $1 billion in dozens of countries and perhaps at least as much again in the U.S.

It's strange. The investing public is staying away from legitimate stocks but is showing a seemingly endless appetite for worthless securities.

FORBES was able to put together aspects of this epidemic of fraud through information gathered piecemeal from law enforcement authorities, victims and some insiders around the world, as well as from thousands of pages of documents, including Kimmes' interview with the Internal Revenue Service.

Here's a small but fairly typical example of Kimmes' version of how the crooks separate people from their investment money:

The stock was called Ventures National, listed here in the so-called pink sheets of thinly traded over-the-counter stocks. The company was born in the Salt Lake City garage-office of Kimmes' partner Michael Wright. Ventures National was a blind pool. A blind pool is nothing more than a shell corporation, which may or may not have cash in it. Since it has no business, it need say little in the prospectus about what management plans on doing with any money it raises, merely something like: "Management intends to acquire companies."

Wright specialized in creating blind pools, hiring lawyers and accountants and getting the pool registered with the Securities & Exchange Commission. According to the prospectus, Ventures' principal shareholders and officers were President John Peterson, a 24-year-old former shoe store manager from Salt Lake City, his sister and his brother-in-law.

If Ventures was a typical case, however, Peterson and the others were simply lending their names in return for a few thousand dollars. The real principals? Arnold Kimmes and Wright.

Ventures proceeded to offer units consisting of shares and warrants-to-buy shares. It was "self-underwriting," meaning it was brought public by the company itself without a broker as an underwriter. After the offering, Ventures would have 30 million shares outstanding and warrants for another 120 million shares.

To whom was this vast number of shares sold? To Kimmes and Wright--but not directly. Kimmes and Wright set up nominees--other people's names--and registered the Ventures securities in these names. The money to pay for the shares came from where? Presumably from Kimmes. After the public offering Ventures National had $270,000 in cash. Exit Michael Wright, center stage Kimmes.

Kimmes' next step: create the illusion of a public market. Kimmes arranges the sale of shares from the nominees of the initial public offering to nominee accounts in actual brokerage firms. Although he is apparently the real owner, his name does not appear on the transfer books; the accounts are held in the names of people willing to front for Kimmes. One of the principal brokerage firms involved was Chelsea Securities, situated--you guessed it--in boiler room paradise Newport Beach, Calif. According to the affidavits, Chelsea was chiefly funded by Kimmes, Wright and Tommy Quinn.

With the stock seemingly widely distributed, it was time to establish a "public market" for the shares. Kimmes typically would arrange for the shares to be listed in the pink sheets. The pink sheets are daily reports issued by the National Quotation Bureau covering transactions in thinly traded stocks. The pink sheet listing created the illusion of a legitimate stock with a legitimate market.

So far, Kimmes hasn't made a dime. But his killing is not far off. On Aug. 13 and 14, 1986, eight months after the supposed initial public offering, Chelsea Securities sold 90 million shares of Ventures to Blinder. The price: $1.8 million, at prices ranging from 1 cent to 2-1/2 cents per share. Presumably, the other 60 million shares' worth of unexercised warrants were sold as part of the package. In the slang of the stock underworld, such a completely packaged company is known as "stox in a box."

Now Kimmes is out. He received at least $1.8 million for his blind pool company. (Actually he received more than $1.8 million, because there were additional purchases of Ventures stock by Blinder, Robinson from other brokerage firms.) Kimmes is happy as can be and Blinder has the merchandise he needs to pass off on the public.

Now the deal is ready for the suckers. The bait is in place, the trap is set. And according to Kimmes, Meyer Blinder is the man who springs the trap.

Within a few days of buying the stock, Blinder brokers--he had some 1,700 of them in 82 offices--were working the telephones. According to Blinder research reports, the salespeople apparently told clients that Ventures would soon merge with a Florida-based military contractor that had a fantastic new product, AM/FM stereo hats. Radio hats? That was the pitch. People would wear radios on their heads, like hats.

The merger was real enough. Ventures' old "officers" from Kimmes' time disappeared. The new major shareholders included an entity listed in the 10-K as "Blinder Robinson Jr.," shown as owning 10% of the now 590 million shares outstanding.

Four days after Blinder bought the stock from Kimmes, it was moved out at 4 cents a share--roughly three times what it cost Blinder. By the end of 1986, it was at 6-1/4 cents a share.

In Kimmes' scenario, Blinder clearly made millions. The public shareholders? By the end of 1987 the Ventures shares were trading at less than 2 cents--and probably not worth it--and the stereo hat business lost $445,000. But like Kimmes and Wright before him, Meyer Blinder was smiling all the way to the bank.

Back for a moment to Charlie Kimmes. He had a problem. He made a healthy profit selling shares to Blinder on the Ventures deal. He certainly didn't want to give up his profits to Internal Revenue. That was why he'd arranged that the shares were in other people's names, mostly Europeans, to avoid U.S. taxes. But Kimmes was the real owner. Without endorsing the checks for the proceeds in his own name, Kimmes sends the proceeds to Switzerland. The Swiss end is handled by a fellow named Robert Doorn, reputedly one of the world's best money launderers. Doorn takes 10% for his pains. (How does Kimmes get at the money when he wants it? See box, opposite) Meanwhile, let's get on with the stock swindle story.

The pattern is clear: Think of Kimmes as a manufacturer of stocks and people like Blinder as the retailers. Kimmes would invent companies, register them with the Securities & Exchange Commission and then arrange to sell wholesale blocks of the stock to Blinder. Blinder's highly compensated salespeople would then unload the worthless stuff on the public at a huge markup. Ventures National was only 1 of 16 blind pools that Kimmes claims he and Wright manufactured and sold in this manner to Blinder.

Another Kimmes-manufactured blind pool, Executive Capital, went public in October 1986. A year later, after winding its way through the Blinder retail system, it merges with a harness-racing stud farm. New owners? Blinder, his wife and cronies. Another, Humboldt Financial, eventually merges with metals manufacturer Continental Connector, owned by Blinder and his brother, Morris.

What does Blinder gain by the mergers? Control of public companies and whatever stockholder capital they have in them.

Where did Tommy Quinn come in? He has teamed up with Kimmes for years. In 1985 Quinn and Neal Bruckman, another stock scamster, introduced Kimmes to Blinder through Blinder's brother, Morris. For the introduction, Kimmes says he agreed to give Quinn and Bruckman 50% of the profits derived from manufacturing worthless companies of Blinder's retail operation. And Kimmes says Morris was given a 5% commission.

Why did they cut Quinn in? Remember, Quinn and Kimmes were longtime partners, and Kimmes was not just manufacturing companies for Blinder, he was also creating blind pools for his and Quinn's

European-based retail operations. Using captive brokerage names like Kettler Investment and Equity Management Services, the Quinn-Kimmes Europe-based salespeople used long-distance phoning to extend their own operations throughout the world.

Now the scamsters were operating on a worldwide basis, selling blind pools. Why blind pools? Because blind pools involve little in the way of disclosure. Blind pools are perfectly legal in the U.S. Some are legitimate investments promoted by reputable firms looking for genuine venture capital opportunities. But many serve no other purpose than to raise money from the public, which the sponsors can subsequently drain off.

There has been a rash of blind pools registered with the Securities & Exchange Commission in recent years. Anxious to facilitate the raising of money for new ventures, the SEC has made registration faster and easier. Unfortunately, this speeding up has played into the hands of crooks. FORBES has identified at least 40 of the 360 or so blind pools registered with the SEC since 1985 as related in some way to Kimmes and Quinn.

Why would Blinder and the other boiler room operators need Kimmes to create blind pools? Why not just register the blind pools himself? First off, things have gotten pretty hot for Blinder, Robinson these days. The firm is being investigated by the SEC as well as by numerous state securities administrators, and hardly needs any additional attention from the cops. Second, by purchasing shares in these blind pools from someone else, Blinder escapes many federal disclosure requirements and ownership restrictions that would make his operation more difficult and far less profitable.

Blinder's operation, in any case, has also been seemingly invulnerable. It has managed to continue running despite every charge the authorities have thrown at him. (Things may have changed, however, with the recent Internal Revenue Service four-day search of Blinder's plush Englewood, Colo. headquarters in November.)

Blinder wasn't the only one fingered by Kimmes. Law enforcement officials say that Kimmes has implicated many other boiler rooms, plus employees of otherwise legitimate brokerage houses who helped manipulate the prices of dozens of stocks in the U.S. over-the-counter market. Will there be arrests? Or more raids? The Feds won't say.

Like the Hindu pantheon of gods, where the faces are many but the underlying spirit one, the global stock fraud business shows hundreds of names but the same disreputable characters keep turning up again and again. And if the authorities make it hot for one operator, another one soon steps into his place.

In part because of pressure from the regulators, Blinder, Robinson & Co, once king of the penny stock firms, is shrinking. It has closed several offices and is trying to sell office equipment and furniture. Jay Goldberg has left the firm. He was Blinder's training director, the sales wiz who helped Blinder perfect the old "three call system"--(two calls to set up the customer's lust for bigger bucks; the third call to nail them with the stock pitch). Interestingly, Goldberg was earlier a top man at the now defunct First Jersey.

But if Blinder is shrinking, other similar outfits are springing up. Jay Goldberg is now with Investors Center, an up-and-coming penny stock outfit based in Hauppauge, N.Y. Investors Center reports some $1.4 million in capital, 850 brokers, and some 25 branch offices in eight states. The firm's president, Brooklyn-born Anthony Stoisich, started the firm five years ago with $40,000 in capital. He is a high school dropout who ran a fish market before he got into penny stocks. According to brokers, today he rides to work in a limousine from his home in Islip, N.Y.

Investors Center's product? Sani-Tech Industries, marketer of sanitary toilet seats and Arnex Investments, franchiser of Party Harty party stores. Investors Center, as you might expect, is also in the blind pool game. At least two blind pools peddled by the firm are controlled by a Westchester lawyer named Michael Duban. Duban is a man of many hats. Besides being a blind pool owner, and appearing on lots of other Investors Center's new shares' prospectuses because he is the firm's legal counsel, he is Investors Center's controlling stockholder.

The names change but the game doesn't. Consider Power Securities, based in Las Vegas, one of the newest, largest and certainly fastest growing blind pool and penny stock merchants now going. Power uses the same cold call, high pressure, sales techniques Blinder and its ilk perfected, according to former Power salesmen. At least three states and the NASD have investigated this outfit for a variety of irregularities.

In early 1987 Richard Marchese, 29, Power's owner, who, after dabbling in everything from construction to the vending machine business, built the firm with $200,000 in capital and 12 brokers in Rochester, N.Y. Today Power has about 1,300 brokers, $1.1 million in net capital and is registered to trade stocks in some 40 states. Recently it held its annual Christmas Party for its brokers at the Las Vegas Hilton.

The Power network markets stocks--some blind pools--that other firms have brought public. Power has also been pushing the stock of a moneylosing company named Star Publications, one of whose new products these days is a collapsible, disposable razor. Recent market capitalization: $60 million, while revenues for the nine months ending last April were a stunningly limp $2,500.

Remember, too, the infamous Robert Brennan and First Jersey (FORBES, July 16, 1984). Two years ago Brennan sold many of his offices to Sherwood Group. But some of the top First Jersey players remained at Sherwood, pushing some of First Jersey's dubious old wares, Pubco, Electromedics and Medivix, for instance.

When Sherwood started losing money after the October 1987 crash, it sold some of those former First Jersey offices to Hibbard Brown and a publicly traded brokerage house, F.N. Wolf. Turns out that F.N. Wolf is partly owned by former First Jersey top executive John Dell. Hibbard Brown? One shareholder is a man named George Stamos. He owned a piece of First Jersey from 1974 to 1976. And Stamos' new $6 million investment in Hibbard is actually a loan from Bob Brennan. Hibbard also makes markets in old First Jersey stocks, including a number of Brennan favorites: International Thoroughbred Breeders and Chefs International.

From Kimmes' statements and other evidence, it begins to appear that organized crime is in the stock scam business. Quinn and Kimmes are both well known in mob circles. A 1978 California Crime Commission report linked Kimmes to organized crime. And Quinn has been linked to New York's Genovese crime family.

In Spain, France, Switzerland, Ireland, Great Britain and Germany, boiler shops linked directly and indirectly to Kimmes and Quinn have already been raided and shuttered by the police. But in the U.S., justice moves slowly: By conservative estimate, more than 100 boiler rooms are operating in the U.S. alone as 1989 begins. But SEC Chairman David Ruder now says that closing boiler rooms will be a top priority. A hopeful sign: The Justice Department and the IRS are now getting interested in doing something about this naked plundering of the American people.

Stocks frauds will never be entirely eliminated, but there is no reason the public should be subject to epidemics like the present one.

Forbes, May 13, 1991 v147 n10 p56(2)

Bucket brigade; why the penny stock hustle is far from dead: meet J.W. Gant's fast-talking Frank Palumbo. (J.W. Gant Financial Inc.) *Seth Lubove.*

Full Text:

Bucket brigade FRANK PALUMBO is a perpetual motion machine. One minute the 34-year-old chief executive of J.W. Gant Financial, Inc. is barking out orders over one of the three phones on his cluttered desk to sales managers at the o-t-c stock firm's 15 offices. The next minute he's working out on the treadmill in his office at the company's Boca Raton headquarters.

Next thing you know, he's bumming a cigarette and chastising a pair of idle brokers with exhortations to hit the phones and sell, sell, sell. All this in the course of carrying on a seven-hour conversation with a visiting reporter.

Expansively, Palumbo talks of turning his little (fiscal 1990 revenues, $38.5 million) 450-broker firm into a "mini Merrill Lynch." If he succeeds, it will be the ultimate case of sow's ear to silk purse.

Palumbo is well schooled in the ins and outs of penny stock dealing. After graduating in 1980 from Longwood College in Virginia, he spent five months as a broker at the now bankrupt Blinder, Robinson (FORBES, Apr. 20, 1987). After Blind 'em and Rob 'em, Palumbo got a little polishing at OTC Net, an early bucket shop run by huckster turned fugitive Juan Carlos Schidlowski (Jan. 4, 1982), did some time at Prudetial-Bache Securities and had a stint with Stuart-James (Aug. 20, 1990).

By 1987 Palumbo was president and sales manager at Michelin & Co., a small Boca Raton brokerage that Florida securities regulators wanted to shut down. "The state of Florida came in and lived with me," Palumbo says. "They found out I am not a scumbag." More to the point, state-imposed restrictions expired in 1989.

In 1987 Palumbo merged Michelin into Gant, a four-year-old bucket shop founded by a Schidlowski trader, Salvatore Venezia, and Venezia's wife. At the merger, Palumbo became overlord of Gant's national sales force and president in 1989.

Even by penny stock brokerage standards, Gant smelled. Under Venezia and while Palumbo was running sales, Gant was hit with several lawsuits alleging misrepresentations in a prospectus and bogus promises made by brokers. The National Association of Securities Dealers also fined the firm for excessive markups.

In this state of affairs lay a nice opportunity for Palumbo. In February 1990 he sold 17.5% of Gant to the public for $5.7 million--$6.25 a unit, consisting of one share of common and one preferred share. Palumbo had wanted to sell $10 million worth of share, but no one could sell that much. He became so enraged at the lackluster pre-issue sales, former brokers say, that he got on Gant's system-wide squawk box and cursed brokers for not pushing it hard enough.

Palumbo used the money he did raise to buy a controlling stake from Venezia and partners. (Venezia, who, along with his wife, still collects $30,000 a month, is reportedly starting up a new operation to lure European investors. He refused to talk to FORBES.)

Palumbo insists everything is now legit. His shareholders may find the assurance lacking in substance. Listed separately on the Boston Stock Exchange, Gant common recently traded at 12.5 cents bid, the preferred at 50 cents bid.

Palumbo's brokers flog the usual assortment of high-concept story stocks. Look, for example, at the Gant offering of Tofruzen, Inc. This Englewood, Colo. company made a chocolate-covered banana ice cream concoction called the BarNana and a nondairy frozen dessert.

At the time Venezia still controlled Gant, but Palumbo was running sales. A former broker from Gant's Orlando office (like all ex-Gant employees FORBES spoke with, the broker asked not to be identified) says that following exhortations from Palumbo and his sales managers, the broker foisted hundreds of thousands of Tofruzen shares upon hapless customers. Then the broker read the stock had been delisted from Nasdaq within a month of a proposed secondary offering, subsequently withdrawn. When the broker later called Tofruzen's offices, the phones were disconnected and Tofruzen was history.

Last July the NASD hit Gant with a $30,000 fine for excessive markups on Tofruzen stock and warrants--markups ranged as high as 184% over the firm's costs--and ordered Gant to refund $195,800 to customers. Co-founder Venezia and current head trader James Gad each got 15-day suspensions.

Palumbo says the Tofruzen fiasco was a product of the Venezia days, before Palumbo took over. "I was a salesman," says Palumbo, plaintively. "If it looked decent, I sold it." He adds that he fired the Gant corporate finance people, replacing them with two of his top brokers.

Former brokers describe working conditions at Gant as a cross between a prison camp and Animal House. Swaggering brokers in their 20s are driven to sell, and sell hard. Some brokers are told to log as many as 360 calls a day. In some branches, if a broker is, say, caught away from the phone, he or she gets tossed into the "penalty box," a separate desk on the selling floor. There is no leaving until the offender brings in an order. Palumbo denies the practice. Apparently the compensation makes all this bearable. Some young salespeople are pulling down $30,000 a month. Palumbo earned $846,000 last year. The firm itself lost $1.4 million.

Glenna Osborn of Big Spring, Tex. knows Gant's standard sales pitch all too well. Hounded over the phone for weeks by a Dallas broker (who has since left the firm), she finally relented in June 1990. Says Osborn: "He said, 'I guarantee you, I promise you, that as your broker I'm going to protect you and at the first sign of trouble I'll bail you out.'"

The broker convinced Osborn to send him $9,580 for 25,000 shares of something called Sentex Sensing Technology, Inc. and 7,000 shares of Action Staffing, Inc. A few weeks later she got a statement from Gant showing her portfolio's value had slipped to $7,600. Osborn says she immediately ordered the broker to liquidate her holdings. He didn't. In September she got a statement that said her portfolio was worth $4,530. When she finally wrangled her money loose in January, five months after Palumbo had officially taken over Gant, she got back $3,348.

"Of course, there are people who lose money. We have happy campers, too," says Palumbo, who contends customers can sell any time they want.

It's hardly suprising that Osborn had trouble selling her stocks. Former Gant brokers say many stocks were practically illiquid. They say it was virtually impossible to sell a stock without first setting up a new buyer; this is a trusty bucket shop practice known as "no-net selling." A former broker in Gant's Orland office recalls bringing a sell ticket to his manager, unaccompanied by the necessary buy order. The manager dipped the ticket halfway into the paper shredder, handed the mangled remains back to the broker and sent him back to his desk. Palumbo denies the practice ever occurs.

With sincerity, Palumbo swears that Gant's soiled past went out the door with Venezia. "I don't need to do all these tricks," he says. "We're just a bunch of brokers trying to do the right thing." Yes, but for whom?