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MONEY & INVESTING

Eighty-Five Brokers Are Charged With Allegedly Bilking Investors

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Updated June 17, 1999 12:01 a.m. ET

NEW YORK -- Eighty-five stockbrokers were indicted Wednesday on stock-manipulation charges, in one of the biggest criminal stock-fraud busts ever.

In the largest of three separate cases, prosecutors in New York's Eastern District in Brooklyn charged brokers from nine firms with bilking thousands of investors out of more than $100 million. Another case involved brokers with alleged ties to organized crime who infiltrated legitimate brokerage firms to perpetuate stock fraud.

The schemes in each of the three cases are similar: A group of brokers and others would gain control of the stock in a small company for next to nothing. They would then pay hefty kickbacks to other brokers to get outside investors to buy shares at inflated prices. The share price would crater when the brokers sold their shares and moved on to another stock.

The indictments cap a three-year investigation by a team of investigators from the FBI, Postal Inspectors, Internal Revenue Service, U.S. Securities and Exchange Commission and National Association of Securities Dealers.

The authorities coordinated early morning arrests of more than 60 defendants

Wednesday in New York, New Jersey and Florida, rousting them out of bed. By 8 a.m., federal agents were leading dozens of handcuffed stockbrokers, many wearing T-shirts, blue jeans and sneakers, to the second floor of the century-old courthouse in Brooklyn. The brokers were booked at rented tables along the courthouse atrium, before being taken in vans a block away to a magistrate's lockup to post bail.

Racketeering Statute

The defendants were indicted variously for stock fraud, money laundering, mail fraud and racketeering. The cases mark one of the first times brokers have been charged under the racketeering statute, which is often used to combat organized crime and carries a possible jail term of as long as 20 years.

Prosecutors noted that many of the defendants have been charged with stock-fraud conspiracies in the past. In the largest case, the 55 indicted brokers worked for four small broker-dealers that were offshoots of Hanover Sterling & Co., and some of those indicted face similar charges related to their activities at that penny-stock firm, which went belly up in 1995.

The second-largest case, involving 23 defendants, alleges that there was a significant involvement by organized crime in firms pushing small-company stocks that trade thinly over-the-counter. The scheme, which prosecutors allege was directed by associates of the Colombo organized-crime family and Russian organized crime, is the latest of at least a half dozen stock-fraud prosecutions of mob associates in Manhattan and Brooklyn in the past few years.

Major New York organized-crime groups for decades controlled the city's trash-hauling, concrete and construction industries. But as a result of prosecutions in the 1980s and early 1990s, the mob's influence has waned, prompting the mob to move criminal activities into the securities business, prosecutors say.

Organized-Crime Groups

"The bull market is attracting more than just the honest investor," said Lewis Schiliro, assistant director of the Federal Bureau of Investigation in New York. "We have detected increased attempts by organized-crime groups to become involved in the manipulation of stocks and securities."

Prosecutors charged that alleged Colombo associates Dominick Dionisio and Enrico Locascio, and Yakov Slavin, identified as a member of the Bor organized-crime group, placed registered and unregistered brokers in firms to push small-company stocks under their control. The three men, all of whom were indicted, couldn't be reached for comment.

The indictment alleges that the mob-related defendants reaped $10 million from investors by manipulating several stocks, including Legend Sports Inc. and City Services Inc.

The brokers worked in branch offices of Global Strategies Group Inc.; Amerivet Dynmally Securities; J.S. Securities, which later became First National Equity Corp.; and Three Arrows Capital Corp. Prosecutors say organized-crime associates would gain control of a branch at legitimate firms and operate outside the control of the firms' management.

Amerivet and Three Arrows are the only firms still in business, but branch offices through which defendants operated have been closed. None of the firms has been charged with wrongdoing. Global Strategies and J.S. Securities, which also weren't charged, are defunct.

Stunned by Wrongdoing

Ron Peterson, Three Arrows' president, said the Bethesda, Md., firm was a victim of the brokers. He said he was stunned by the wrongdoing when he learned of it and promptly reported it to authorities.

Elton Johnson, Amerivet's president, said no broker or principal at Amerivet was involved in any stock manipulation involving the companies listed in the indictment.

The Ingleside, Calif., firm had temporarily ceased doing business at the time of the alleged wrongdoing because its clearing firm had collapsed. When it reopened, the New York brokers were terminated.

In the case related to the four broker-dealer offshoots of Hanover Sterling, the indictment alleges massive manipulation of at least 17 stocks. Even before Hanover's collapse in 1995, its principals, Roy Ageloff and Robert Catoggio, had devised a scheme to secretly continue stock manipulations through several small firms under their control, according to the indictment. Both men were indicted Wednesday.

Mr. Catoggio is serving an 18-month prison sentence in an unrelated stock-fraud conviction. His lawyer, Gus Newman, didn't return a phone call. Mr. Ageloff's attorney, Benjamin Brafman, said his client has pleaded not guilty and that he will vigorously defend himself.

Hanover brokers allegedly moved en masse to the offices of related firms, including Norfolk Securities Corp. in New York; Capital Planning Associates Inc. in New Jersey; and PCM Securities Ltd., which later became Royal Palm Investments Ltd. in Florida. The firms, which employed the brokers arrested Wednesday, all closed their doors during the past few years soon after federal agents conducted searches of the premises.

In the third alleged scheme, 11 defendants are charged with manipulation for selling about $8 million of worthless stock in a New Jersey company whose main product was a new car-engine additive.

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