

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933

Release No. 9067 / September 29, 2009

SECURITIES EXCHANGE ACT OF 1934

Release No. 60735 / September 29, 2009

INVESTMENT ADVISERS ACT OF 1940

Release No. 2930 / September 29, 2009

INVESTMENT COMPANY ACT OF 1940

Release No. 28934 / September 29, 2009

ADMINISTRATIVE PROCEEDING

File No. 3-13633

In the Matter of

**STRATUM WEALTH
MANAGEMENT, LLC AND
CHARLES B. GANZ**

Respondents.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTION 8A OF THE
SECURITIES ACT OF 1933, SECTION 21C
OF THE SECURITIES EXCHANGE ACT OF
1934, SECTIONS 203(e), 203(f), AND 203(k)
OF THE INVESTMENT ADVISERS ACT OF
1940, AND SECTION 9(b) OF THE
INVESTMENT COMPANY ACT OF 1940,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), Sections 203(e), 203(f), and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”), and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”) against Stratum Wealth Management, LLC (“Stratum”) and Charles B. Ganz (“Ganz”) (collectively, “Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Section 8A of the Securities Act of 1933, Section 21C of the Securities Exchange Act of 1934, Sections 203(e), 203(f), and 203(k) of the Investment Advisers Act of 1940, and Section 9(b) of the Investment Company Act of 1940, Making Findings¹, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondents’ Offer, the Commission finds that:

Summary

1. Stratum, a former registered investment adviser based in Boca Raton, Florida, through its sole owner and chairman, Charles Ganz, violated its fiduciary duties to its clients by, among other things, misappropriating client funds and misrepresenting and failing to disclose material information. First, beginning in November 2004, Ganz misappropriated over \$400,000 from a client account during the course of nearly a year to pay for his personal expenses. Stratum also transferred a bond investment in a bankrupt company from the account of one client (who threatened Stratum and Ganz with legal action) by effecting the purchase of the bonds for the accounts of two other Stratum clients at a price Ganz knew was significantly higher than their value. Moreover, from at least January 2006 through October 2006, Stratum sent its clients statements that overvalued their investments by improperly valuing restricted securities at current market prices of free-trading stock. Stratum and Ganz also failed to disclose material conflicts of interest and that Stratum’s financial condition was severely impaired. During this time period, Stratum also failed to maintain books and records required to be kept by an investment adviser and failed to maintain an accurate Form ADV.

Respondents

2. Stratum is a limited liability company based in Boca Raton, Florida. Stratum was registered with the Commission as an investment adviser from June 19, 2003 through January 20, 2009. On January 20, 2009, Stratum voluntarily filed a Form ADV-W to withdraw its registration as an investment adviser. Stratum provided discretionary investment advisory services to over 70 clients, with assets under management worth approximately \$54 million.

¹ The findings herein are made pursuant to Respondents’ Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

3. Ganz is 51 and a resident of Boca Raton, Florida. During the relevant period, Ganz was the chairman, sole officer, and sole owner of Stratum.

Background

4. Stratum was a registered investment adviser based in Boca Raton, Florida, operated by Ganz, its sole owner and Chairman. Stratum had discretionary authority over approximately 70 client accounts, subject to its clients' individual goals and risk tolerance. As discussed below, commencing in November 2004 through October 2006, Stratum and Ganz abused this authority by engaging in improper conduct, including, among other things, misappropriating client funds, misrepresenting to clients the value of their investments, and failing to disclose conflicts of interest and Stratum's financial condition.

Misappropriation of Client Funds

5. Ganz misappropriated approximately \$400,600 from a Stratum client over the course of a year. Beginning in November 2004 through October 2005, Ganz liquidated certain securities positions in the client's account. On eleven occasions during that time period, Ganz then forged the client's signature on wire transfer authorizations and wired funds (from the proceeds of those sales) from the client's custodial account, located at a third-party broker-dealer, to Ganz's personal account and Stratum's operating account.

6. Ganz repaid the funds to the client in October 2006, only after the client threatened Ganz with litigation after learning that Ganz had liquidated securities positions and transferred the proceeds out of his account.

Improper Transfer of Bad Investment to Other Clients' Accounts

7. In or around June 2005, Ganz moved a bond investment from one client's account, in order to avoid losses for that client, into the accounts of two other clients at the original purchase price even though Ganz knew the investment was worth significantly less than the original purchase price. Specifically, in March 2005, Stratum purchased bonds issued by Dan River, Inc. ("Dan River"), bearing a face value of \$1,050,000, for a client for the amount of \$311,535. Shortly thereafter, Ganz discovered that the investment was only worth approximately \$47,955. After the client learned the true value of the Dan River bond investment, he threatened Stratum and Ganz with litigation. As a result, Ganz transferred the bad investment from the client's account into the accounts of two different clients at the original purchase price.

8. In order to effectuate the Dan River transfers, on or around June 8, 2005, Stratum provided false documents to the custodian requesting a "cancel and correct" transaction. Specifically, Stratum requested that the Dan River bond investment be moved from the first client's account into the accounts of two other Stratum clients, placing 60% of the investment in one account, and 40% in the other. The custodian informed Stratum that it could not carry out those orders until it received letters of authorization from the two clients. Ganz, therefore, forged

the letters of authorization and sent them to the custodian, who carried out the reallocation order between June 13, 2005 and June 15, 2005.

9. Because the Dan River bond investment was transferred to the two clients at the original purchase price of the Dan River bonds, the transfers created an immediate loss of over \$163,000 in one client's account and over \$100,000 in the other client's account. Moreover, Stratum and Ganz failed to inform the clients into whose accounts the Dan River bonds were transferred the true value of the bonds at the time the transfer was made.

Failure to Disclose Material Information

10. From at least mid-2005 to 2007, a promoter of microcap companies recommended to Ganz that he invest Stratum's clients' funds into various stocks he was promoting. Most of these transactions involved the sale of restricted stock. As a result, Ganz purchased approximately \$6.4 million of the stock touted by the promoter for the vast majority of his clients. Indeed, about 13% of the value of Stratum's clients' portfolios were made up of restricted shares of stock recommended by Ganz' promoter friend. However, Stratum failed to disclose to its clients that Ganz received \$150,000, purportedly a loan, from the stock promoter who made these stock recommendations.

11. Stratum also failed to disclose to its clients that its financial condition was seriously impaired in 2006. Stratum had to borrow over \$147,000 from Ganz's mother to meet its business expenses in 2006. Stratum's financial statements revealed that its only assets consisted of two bank accounts that together held approximately \$19,000 as of August 2006. Therefore, Stratum likely would not have been able to continue as a going concern through 2006 without borrowing or misappropriating funds.

Failure to Properly Value Restricted Securities in Monthly Account Statements to Clients

12. From at least January 2006 through October 2006, Stratum distributed misleading monthly account statements to its clients. Stratum's account statements purportedly disclosed the current value of securities each client owned, including any restricted securities held by the client. Stratum represented the value of restricted stock held in its clients' accounts as the market price of freely-trading stock. This was misleading because Stratum implied in its account statements that the restricted stock price reflected the "current prices as of" the reported date. Moreover, Stratum's discretionary management agreements explicitly stated that Stratum valued alternative investments in a manner determined to reflect fair market value. These representations were misleading because the current market value or fair value was less than the value identified by Stratum.

13. For example, in July 2006, Ganz created and sent a client an account statement of her securities holdings as of June 30, 2006. The statement listed 64,000 shares of Daybreak Oil & Gas, Inc. ("Day Break") stock issued on May 18, 2006 with a "current price" of \$2.50 per share (the price of Day Break's free-trading shares at that time) and reflecting a total "current value" of \$160,000. However, the client's shares were restricted and, at that time, could not be sold for the price shown on Stratum's statement. As of June 30, 2006, nine Stratum clients held a total of

480,000 shares of Day Break stock valued at a market value of \$1.2 million without any discount to reflect the restricted nature of the securities.

14. Similarly, as of June 30, 2006, nearly all of Stratum's clients also held restricted stock in Neuro Hitech Pharmaceuticals, Inc. ("Neuro Hitech") and Handheld Entertainment, Inc. ("Handheld"). Yet Stratum sent monthly statements to clients holding Neuro Hitech and Handheld restricted stock that valued their holdings at the market price of their respective free-trading shares, specifically, valuing Stratum's clients' total holdings of Neuro Hitech and Handheld shares at \$3,341,775 and \$1,882,863, respectively. These valuations were materially misleading because, despite the illiquidity of these shares, Stratum did not apply a discount in its valuations, which would have resulted in a materially lower price.

15. Ganz ultimately changed his valuation policies so that each restricted security of an issuer that also had free-trading securities would be valued at 20% less than the market value of the publicly traded security. After the OCIE examination in September 2006, Ganz also refunded the advisory fees that Stratum charged to the clients who held restricted securities on their portfolio at market value.

Failure to Maintain Required Books and Records

16. From at least January 1, 2006 to August 31, 2006, Stratum failed to maintain required journals of receipts and disbursement records, ledgers reflecting assets, liabilities, capital, income, and expenses, trial balances, financial statements, and internal audit working papers. Indeed, Ganz and his staff did not begin to prepare balance sheets, income statements, and a general ledger until the OCIE examination, in September 2006. The balance sheets, income statements, and the general ledger were inaccurate because they could not be reconciled with bank statements and cash disbursements. Moreover, Stratum's financial statements for the years ended December 2005 and December 2006 did not include any of the settlements that Stratum paid to former clients in 2005 and 2006, which totaled \$930,000.

Inaccurate Form ADV

17. Stratum, as an investment adviser that managed assets in excess of \$25 million, filed reports with the Commission on Form ADV (Item 9 of Part 1A). The Forms ADV signed and filed by Ganz on behalf of Stratum, dated September 15, 2005 and March 31, 2006, were inaccurate because Ganz represented that Stratum did not have custody of clients' assets when, in fact, Stratum did have custody of its clients' funds.

Violations

18. As a result of the conduct described above, Respondents willfully violated Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase or sale of securities.

19. As a result of the conduct described above, Respondents willfully violated Sections 206(1) and 206(2) of the Advisers Act, which prohibit fraudulent conduct by an investment adviser.

20. As a result of the conduct described above, Stratum willfully violated, and Ganz willfully aided and abetted and caused Stratum's violations of, Section 206(4) of the Advisers Act and Rule 206(4)-4(a)(1), promulgated thereunder, which requires that an investment adviser which has custody over clients' funds disclose all material facts with respect to the financial condition of the adviser that are reasonably likely to impair the ability of the adviser to meet contractual commitments to clients.

21. As a result of the conduct described above, Stratum willfully violated, and Ganz willfully aided and abetted and caused Stratum's violations of, Section 204 of the Advisers Act, and Rules 204-2(a)(1), 204-2(a)(2) and 204-2(a)(6), promulgated thereunder, which require that investment advisers registered with the Commission maintain and preserve certain books and records. Rule 204-2(a)(1) requires that registered investment advisers "make and keep true, accurate and current . . . a journal or journals, including cash receipts and disbursements records, and any other records of original entry forming the basis of entries in any ledger." Rule 204-2(a)(2) requires that registered investment advisers "make and keep true, accurate and current . . . general and auxiliary ledgers (or other comparable records) reflecting asset, liability, reserve, capital, income and expense accounts." Rule 204-2(a)(6) requires that registered investment advisers "make and keep true, accurate and current . . . all trial balances, financial statements, and internal audit working papers relating to the business of such investment adviser."

22. As a result of the conduct described above, Respondents willfully violated Section 207 of the Advisers Act, which prohibits any person from willfully making "any untrue statement of a material fact in any registration application or report filed with the Commission under section 203 or 204, or willfully to omit to state in any such application or report any material fact which is required to be stated therein."

IV.

In view of the foregoing, the Commission deems it appropriate, in the public interest, to impose the sanctions agreed to in Respondents' Offer.

Accordingly, pursuant to Section 8A of the Securities Act, Section 21C of the Exchange Act, Sections 203(e), 203(f), and 203(k) of the Advisers Act, and Section 9(b) of the Investment Company Act, is hereby ORDERED that:

A. Respondents Stratum and Ganz cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 204, 206(1), 206(2), 206(4), and 207 of the Advisers Act and Rules 204-2 and 206(4)-4 promulgated thereunder;

B. Respondent Ganz be, and hereby is, barred from association with any investment adviser, and is prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter; and

Any reapplication for association by the Respondent Ganz will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

C. Stratum is hereby censured.

D. Respondent Ganz shall pay a civil money penalty in the amount of \$90,000 to the United States Treasury, in five installments, commencing with the first \$25,000 within ten days after the entry of this Order, and continuing with four subsequent monthly payments of \$16,250 within 90, 180, 270, and 360 days after the date of this Order. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Respondent agrees that if the full amount of any payment described above is not made within ten (10) days following the date the payment is required by this Order, the entire amount of the civil penalty, \$90,000, plus post judgment interest minus payments made, if any, is due and payable immediately without further application. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Charles Ganz as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Teresa J. Verges, Assistant Regional Director, Division of Enforcement, Securities and Exchange Commission, 801 Brickell Avenue, Suite 1800, Miami, Florida 33131.

By the Commission.

Elizabeth M. Murphy
Secretary