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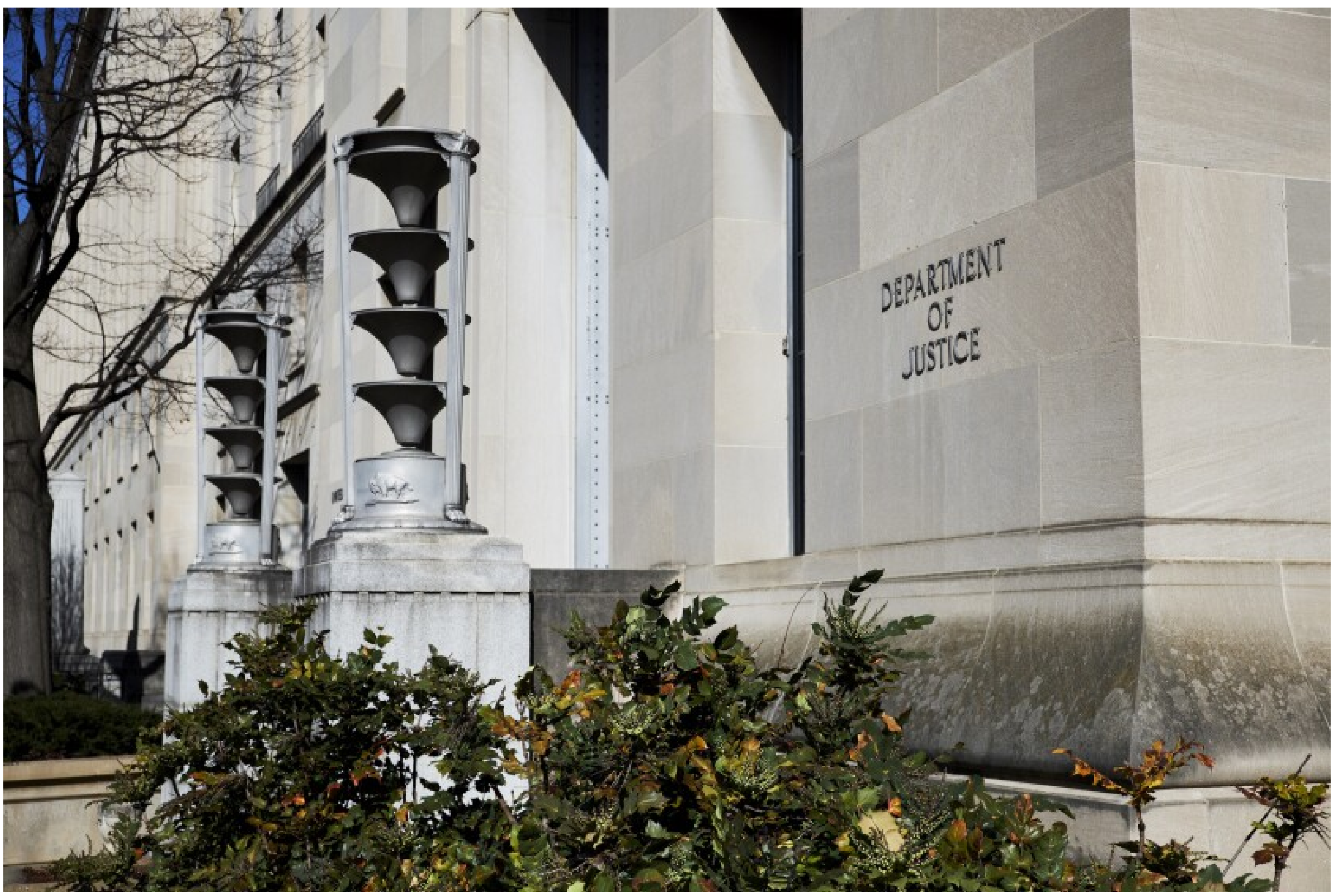
INDUSTRY NEWS

Former Ohio advisor pleads guilty in $9.3M Ponzi scheme

By Justin L. Mack January 10, 2022, 6:35 p.m. EST 3 Min Read



T.J. Kirkpatrick/Bloomberg

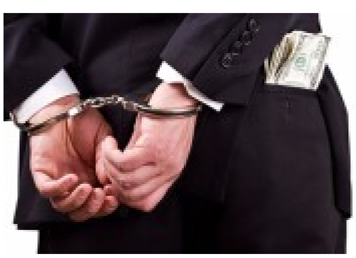
May 5 in the U.S. District Court for the Northern District of Ohio.

According to court documents, Brunst was working with co-defendants Raymond A. Erker and Kevin Krantz at Sageguard Wealth Management in Westlake, Ohio, as they carried out a deception that ran from January 2013 through January 2018.

Brunst joined Sageguard in 2015 after being fired from PNC Investments. According to the SEC Investment Advisor Public Disclosure database, Brunst was terminated from PNC on allegations that she fabricated a letter at a client's request to make it look like PNC Bank was threatening to close the client's accounts.

She also failed to inform her manager about the letter and was dishonest during the investigation, according to the SEC database.

Federal investigators said Brunst acted as a recruiter in the Sageguard scheme, attracting targets as she and her co-conspirators sold investments to clients that they misrepresented as annuities and senior secured notes with no risk of loss and a guaranteed rate of return.



LITIGATION

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In reality, investor funds were diverted to personal bank accounts and high-risk business entities controlled by the defendants without consent. To keep up with promised rates of return, Brunst and the other advisors used new investor funds to keep their original investors happy and unaware.

websites and account statements that purported to show investor account balances.

Attempts to reach Brunst and her attorney for comment were unsuccessful.

Erker and Krantz, who have both pleaded not guilty in the case, are slated to go to trial in early March. Erker is also facing additional charges of money laundering and making false statements under oath.

Former SEC attorney David Chase said one of the most dangerous aspects of Ponzi schemes and why they tend to last longer than other types of fraud is because, for a time, investors are getting “exactly what they were promised” in the form of misrepresented interest payments.

“The source of those funds are new investors, unbeknownst to them. But they're happy as clams because every month or every quarter or every year, the advisor’s promise of the company paying out interest is, in fact, realized,” Chase said. “It creates a sense of comfort and security and furthers trust in the advisor. However, the game of duck, duck, goose comes to a horrible end when there's no principle to repay at the end of the day, and the Ponzi scheme collapses.”

Chase also noted the depth of the scheme, saying it would be difficult for even the most skeptical investor to sniff out any wrongdoing.

“They took some pretty sophisticated steps to further their fraud. It wasn't just ‘here's an investment’ and then they took the money and bought Cadillacs and Lexuses,” he said. “They actually went to some elaborate lengths to further the fraud.”

Chase said the case illustrates one of the unfortunate downsides of the more tech-savvy financial services industry. While tech can be used to help investors stay on top of the game, it can also be used brokerage houses, by providing alternative addresses. Drop boxes so the client would never see it.

"So this is just another step in terms of the levels of conniving that these guys will go to."

Justin L. Mack Reporter, Financial Planning