STATE OF WASHINGTON DEPARTMENT OF FINANCIAL INSTITUTIONS SECURITIES DIVISION

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FINAL ORDER

Order No. S-19-2639-20-FO01

ENTRY OF FINDINGS OF FACT AND CONCLUSIONS OF LAW AND FINAL ORDER TO CEASE AND DESIST, DENY FUTURE REGISTRATIONS, IMPOSE FINES, AND CHARGE COSTS

Respondents.

THE STATE OF WASHINGTON TO:

IN THE MATTER OF DETERMINING

Whether there has been a violation of the

Securities Act of Washington by:

Paramount Financial Advisors LLC;

Gregory Lone;

Gregory Lone
Paramount Financial Advisors LLC

On June 1, 2020, the Securities Administrator of the State of Washington issued Statement of Charges and Notice of Intent to Order Cease and Desist, Deny Future Registrations, Impose Fines, and Charge Costs, Order No. S-19-2639-20-SC01 ("Statement of Charges") against Respondents Gregory Lone and Paramount Financial Advisors LLC (collectively, "the Respondents"). The Statement of Charges, together with a Notice of Opportunity for Hearing ("Notice") and an Application for Adjudicative Hearing ("Application"), were served on the Respondents, on June 8, 2020. The Notice advised the Respondents that the Application must be received within twenty days from the date of service. The Respondents failed to request an administrative hearing within twenty days of service.

The Securities Administrator therefore adopts as final the following Findings of Fact and Conclusions of Law as set forth in the Statement of Charges and enters a final order against the Respondents to cease and desist from violations of the Securities Act, to deny any future applications for registration with the Securities Division by the Respondents, and to impose the fines and costs sought in the Statement of Charges.

FINDINGS OF FACT

1. Gregory Lone ("Lone") is a resident of East Wenatchee, Washington. Lone is a licensed insurance agent and former registered securities salesperson in Washington; his registration number with the Office of the Insurance Commissioner is 227770 and his Central Registration Depository number is 2347566. Lone worked as a registered securities salesperson for American General Securities Inc. from April 1993 through December 2002, and for Edward Jones from April 2004 to June 2006, when he was discharged for failing to meet his performance goals. Lone has not been registered in the securities industry since his discharge from Edward Jones. The Office of the Insurance Commissioner brought two actions against Lone in 2018 for (in part) false representations to a client in the sale of an insurance policy.

2. Paramount Financial Advisors LLC ("Paramount") is a Washington limited liability company formed on October 20, 2014, with its principal place of business in East Wenatchee, Washington. Lone conducted his insurance and financial business, including the scheme described further below, through Paramount, and paid for most of his expenses using Paramount's bank accounts.

Nature of the Conduct

Overview and Background

3. From December 2016 to at least May 2019, Lone, through Paramount, engaged in a scheme to defraud at least seven clients of nearly a half-million dollars. Lone falsely told these clients that their money would be spent on financial products, then used the money for personal and business expenses or to pay promised returns to other clients. Six of Lone's defrauded clients were in their eighties or nineties.

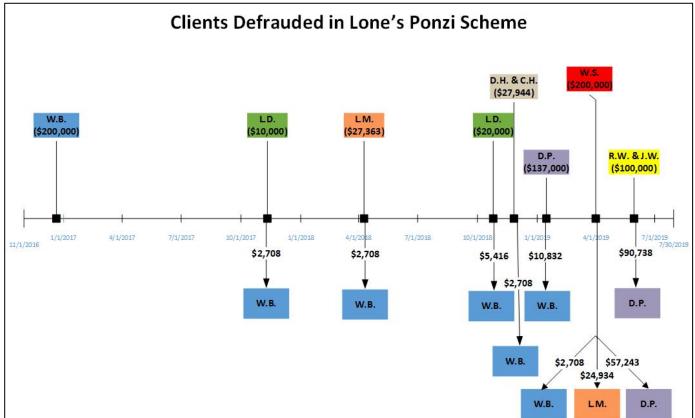
4. Lone obtained most of his clients by buying out the insurance agency of W.N., a longtime insurance agent and securities salesperson in the Wenatchee area; each of the victims described below are

FINAL ORDER

¹ Despite its name, Paramount is not a registered investment adviser in Washington or any other jurisdiction.

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former clients of W.N. Although Lone's methods differed somewhat from client to client, he most commonly was approached by former W.N. clients who had recently received five-figure or six-figure sums of money and needed assistance determining how to use the money. Lone then convinced the client to write a check to Paramount for some form of investment, and subsequently used the money largely for personal expenses or (in the later stages of the Ponzi scheme) to repay other defrauded clients. The below timeline illustrates how Lone used funds from one client to repay other clients—commonly known as a Ponzi scheme.²



Defrauded Clients: W.B.

5. W.B. is a 96-year-old resident of East Wenatchee, Washington. W.B. sold her home in late 2016, and wanted to invest the proceeds of \$200,000 in an annuity with a return of approximately \$2,700 per

² The upper portion of the timeline shows the client's initials and the amount of their investment in parentheses, with the line corresponding to the date Lone deposited their check into Paramount's bank account. The bottom portion of the chart shows the portion of the proceeds, if any, which Lone used to repay other victims of his Ponzi scheme.

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month.³ Lone researched available annuities and found that there were no annuities offering anywhere near W.B.'s desired rate. Rather than tell W.B. that her goals were not feasible, Lone took W.B.'s \$200,000 and used it to open a business checking account for Paramount; the account was funded entirely with W.B.'s money. Lone told W.B. that she would receive a "guaranteed lifetime income" of \$2,700 per month, direct deposited into her checking account once per month, creating the false impression that she owned an annuity from a legitimate insurance company.

6. Over the next five months, Lone used the substantial majority of W.B.'s funds for a variety of business and personal expenditures, with some of the funds going to pay back W.B. herself. Lone began sending checks to W.B. from Paramount's checking account in December 2016, repaying her with her own money, but almost immediately fell behind on payments. When W.B. contacted him to ask about the delayed payments, Lone blamed the nonexistent insurance company and told W.B. that he would contact them. Until being contacted by the Securities Division, W.B. was not aware that she did not own a legitimate annuity, or that Lone was repaying her with her own money.

L.D.

7. L.D. is a resident of Wenatchee, Washington. In November 2017, Lone approached L.D. to solicit him to invest \$10,000 in what Lone claimed was a Bitcoin-related fund. In reality, this fund did not exist. As with W.B.'s investments, Lone used the \$10,000 for various business and personal expenses. Lone further solicited L.D. in October 2018 to invest an additional \$20,000 in what L.D. understood to be an aggressive stock fund. This stock fund similarly did not exist, and Lone similarly used the money for various business and personal expenses, including a \$5,500 cash withdrawal and \$3,000 in spending on his

³ Some of the clients described in this Statement of Charges believed they were investing in insurance products over which the Office of the Insurance Commissioner (rather than DFI) has jurisdiction, such as fixed annuities. However, because Lone's Ponzi scheme intermingled his would-be insurance clients' money with his would-be securities clients' money, it is necessary to set forth the scheme as to each affected client.

automobile. When L.D. asked Lone to return his money in late 2019 to early 2020, Lone wrote him a check which was returned for insufficient funds.

L.M.

8. L.M. is a resident of Wenatchee, Washington. In approximately April 2018, Lone solicited L.M. to invest \$27,563 in what she believed was a variable annuity which would be added onto an existing annuity. At the time Lone deposited L.M.'s check, Paramount's account was overdrawn by \$1796.64. As with W.B., Lone did not invest L.M.'s funds, but used them on a variety of business and personal expenses, including the settlement of an action against him by the Office of the Insurance Commissioner and a purported annuity payment to W.B. Lone did not disclose this unauthorized use of funds to L.M. L.M. requested her money back in approximately late 2018 to make a down payment on a home. As described further below, several months after L.M. requested the withdrawal, Lone used another investor's money to repay her. Lone did not tell L.M. that the repayment was being made with money from another client.

D.H. and C.H.

9. D.H. and C.H. are a married couple residing in East Wenatchee, Washington; they are respectively 90 and 78 years old. In approximately November 2018, D.H. and C.H. were having issues with a life insurance policy which they had purchased from W.N., and contacted Lone to assist them. Because they were upset with W.N.'s handling of the policy, D.H. and C.H. told Lone that they wanted to transfer or sell all of the investments which W.N. had sold them, including a securities account held at Putnam Investments. On Lone's instructions, D.H. and C.H. wrote a check to Paramount for \$27,944.30; C.H. was under the impression that this was part of the process for rolling over the funds. Lone did not invest D.H. and C.H.'s money, but used it for business and personal expenses, including a purported annuity payment of \$2,708 to W.B., and a \$3,000 payment to an attorney who had represented him in the above-mentioned actions by the Office of the Insurance Commissioner.

D.P.

10. D.P. is an 89-year-old resident of Cashmere, Washington. D.P. is legally blind and substantially relies on a friend for assistance in her everyday life. In late 2018 to early 2019, D.P. wanted to withdraw \$35,000 from her investment accounts to pay for renovations to her home. D.P. contacted Lone, who had previously helped her with an insurance matter after taking over W.N.'s agency. At the time, D.P. had substantial holdings in Microsoft stock inherited from her son, who predeceased her. Lone convinced D.P. to withdraw \$137,000 of Microsoft stock and give it to him to invest. After withdrawing the money, D.P. became concerned about the amount, and instructed Lone to put \$80,000 back into Microsoft stock and the remaining \$57,000 in a mix of other stocks. Lone did neither, and provided D.P. with falsified account statements and trade confirmations to deceive her into thinking he had purchased the Microsoft stock.

11. At the time Lone deposited D.P.'s check into Paramount's checking account, the checking account balance was under \$500. On the day he deposited the check and the following day (January 15 and 16, 2019, Lone spent or transferred \$32,958.53 to various sources, including \$5,416 for two months of purported annuity payments to W.B. and \$7,000 to his personal account at another financial institution. Lone spent essentially all of D.P.'s \$137,000 between mid-January 2019 and early April 2019, and had a total of only \$3979.64 in deposits into the Paramount account during that time, meaning that he was living almost entirely from her stolen funds.

W.S.

12. W.S. is a 95-year-old resident of East Wenatchee, Washington. In February 2019, W.S. received \$200,000 as the beneficiary of a life insurance policy from a deceased relative. W.S. and her son

⁴ Lone also contacted D.P.'s broker-dealer during this process and represented himself as her financial advisor. Although Lone is not licensed to provide advice on securities, D.P.'s account representative at the broker-dealer searched for Lone and found that he was associated with "Paramount Financial Advisors," which the account representative believed meant that he was appropriately licensed.

FINAL ORDER

T.S., who assists her with financial affairs, contacted Lone after finding W.N.'s name on the insurance paperwork and subsequently learning that Lone had taken over his business. Lone suggested putting the funds into a money market account with Paramount while he developed a plan for the use of the funds, along with additional money from the deceased relative's investment accounts which she had left to W.S., but which W.S. had not received at that point.

13. In late March 2019, W.S. provided Lone with a \$200,000 check made out to Paramount, which Lone deposited into a newly-opened savings account in Paramount's name several days later. Over the next two months, Lone spent approximately three-quarters of W.S.'s money on various business and personal expenses, including \$57,000 to pay back D.P. for the portion of her funds which was supposed to be invested in stock other than Microsoft (Lone falsely told D.P. that he had left her funds in savings rather than spending them, and did not tell her that the money to pay her back was coming from another client). Lone's expenditures during this time also included \$16,750 in cash, \$17,160 on retail and services, and \$7,500 to a debt collection company. Lone did not tell W.S. about how her funds were being used, instead repeatedly telling her and T.S. that the funds were safe in a money market account. T.S. eventually confronted Lone about the funds, and Lone admitted that he had used the money to repay other clients and agreed to repay W.S. As of the date of this Statement of Charges, Lone has not made any repayments to W.S.

R.W. and J.W.

14. R.W. and J.W. are a married couple residing in East Wenatchee, Washington; they are respectively 83 and 82 years old. In approximately April 2019, R.W. and J.W. sold their home and wanted to invest \$200,000 of the proceeds. Lone suggested that they should invest half of that amount in an annuity and half in a "stock fund" through Paramount. Lone told R.W. and J.W. that the Paramount "stock fund" was safe and liquid, but did not provide him with any written disclosure materials or contracts. R.W. and J.W. invested \$100,000 in the "stock fund" via a check written to Paramount.

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15. As with the previously-described investments, this "stock fund" did not exist. Lone used nearly all of R.W. and J.W.'s funds—over \$90,000—to make the second part of his repayment to D.P. for the portion of her funds which he had purportedly invested in Microsoft.⁵ Lone did not tell R.W. and J.W. that their funds were being used to repay another defrauded client, or tell D.P. that her repayment was coming from another client rather than from the actual sale of stock.

Registration Status

- 16. Lone is not currently registered as a securities salesperson or investment adviser representative in the State of Washington.
- 17. Paramount is not and has never been registered to sell securities in the State of Washington, nor has it filed a claim of exemption from registration.
- 18. Paramount is not and has never been registered as an investment adviser or broker-dealer in the State of Washington.

Based upon the above Findings of Fact, the following Conclusions of Law are made:

CONCLUSIONS OF LAW

- 1. The offer and/or sale of investments to L.D, L.M., D.P, and R.W. & J.W. described above constituted the offer and/or sale of a security as defined in RCW 21.20.005(14) and (17).
- 2. Respondents Gregory Lone and Paramount Financial Advisors LLC violated RCW 21.20.140, because, as set forth in the Tentative Findings of Fact, it offered and/or sold securities for which no registration is on file with the Securities Administrator.
- 3. Respondent Gregory Lone has violated RCW 21.20.040 by offering and/or selling said securities while not being registered as a securities salesperson or broker-dealer in the state of Washington.

⁵ D.P. received slightly over \$90,000 rather than the \$80,000 she had directed Lone to re-invest in Microsoft, because Lone told D.P. that her investment had increased in value during that time.

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- 4. Respondents Gregory Lone and Paramount Financial Advisors LLC have violated RCW 21.20.010(2), because, as set forth in the Tentative Findings of Fact, Respondents made untrue statements of material fact or omitted to state material facts necessary to make the statements made, in light of the circumstances in which they were made, not misleading.
- 5. Respondents Gregory Lone and Paramount Financial Advisors LLC have violated RCW 21.20.010(3) because, as set forth in the Tentative Findings of Fact, they engaged in an act, practice, or course of business which operated as a fraud or deceit upon the above-described clients.

Based upon the foregoing and finding it in the public interest:

FINAL ORDER

IT IS HEREBY ORDERED that Respondents Gregory Lone and Paramount Financial Advisors LLC, and their agents and employees, shall each cease and desist from offering and/or selling securities in any manner in violation of RCW 21.20.140, the securities registration section of the Securities Act of Washington.

IT IS FURTHER ORDERED that Respondent Gregory Lone, and his agents and employees, shall each cease and desist from offering and/or selling securities in any manner in violation of RCW 21.20.040, the registration section of the Securities Act of Washington.

IT IS FURTHER ORDERED that Respondents Gregory Lone and Paramount Financial Advisors LLC, and their agents and employees, shall each cease and desist from violating RCW 21.20.010, the antifraud section of the Securities Act of Washington.

IT IS FURTHER ORDERED that any application for registration as an investment adviser, investment adviser representative, broker-dealer, or securities salesperson by Respondents Gregory Lone or Paramount Financial Advisors LLC, or any other entity under Respondent Gregory Lone's actual or effective control, shall be denied.

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IT IS FURTHER ORDERED that Respondents Gregory Lone and Paramount Financial Advisors LLC shall be jointly and severally liable for and pay a fine in the amount of \$70,000.

IT IS FURTHER ORDERED that Respondents Gregory Lone and Paramount Financial Advisors LLC shall be liable for and pay costs in the amount of \$10,000.

AUTHORITY AND PROCEDURE

This FINAL ORDER is entered pursuant to the provisions of RCW 21.20.390 and RCW 21.20.110, and is subject to the provisions of RCW 21.20.440 and Chapter 34.05 RCW. Respondents have the right to petition the superior court for judicial review of this agency action under the provisions of Chapter 34.05 RCW. For the requirements for judicial review, see RCW 34.05.510 and sections following. Pursuant to RCW 21.20.395, a certified copy of this Order may be filed in Superior Court. If so filed, the clerk shall treat the Order in the same manner as a Superior Court judgment as to the fine, and the fine may be recorded, enforced, or satisfied in like manner.

WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

SIGNED and ENTERED this 5th day of August, 2020.

William M. Beatty

Securities Administrator

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Presented by:

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Financial Legal Examiner