

**ADMINISTRATIVE PROCEEDING
BEFORE THE
SECURITIES COMMISSIONER OF SOUTH CAROLINA**

IN THE MATTER OF:

Frederick “Fred” Clark Johnson (CRD
No. 1220814), Basic Wealth Advisors,
Inc. (CRD No. 163998), and Basic
Financial Services, Inc.,

Respondents.

**ORDER TO CEASE AND DESIST
Matter No. 20192678**

I. PRELIMINARY STATEMENT

Pursuant to the authority granted to the Securities Commissioner of South Carolina (the “Securities Commissioner”) under the South Carolina Uniform Securities Act of 2005, S.C. Code Ann. §35-1-101, *et seq.* (the “Act”), and delegated to the Securities Division of the Office of the Attorney General (the “Division”) by the Securities Commissioner, the Division conducted an investigation into the securities-related activities of Frederick “Fred” Clark Johnson (CRD No. 1220814) (“Johnson”) and his companies, Basic Wealth Advisors, Inc. (CRD No. 163998) (“BWA”) and Basic Financial Services, Inc. (“BFS”) (collectively, the “Respondents”), and in connection with its investigation, the Division has determined that Respondents violated the Act.

II. JURISDICTION

1. The Securities Commissioner has jurisdiction over this matter pursuant to S.C. Code Ann. § 35-1-601(a).

III. RESPONDENTS

2. Johnson was, between October of 2015 and October of 2017 (the “Relevant Period”), a resident of the State of South Carolina. Johnson has since relocated to Ponte Verde, Florida.

3. Johnson was, during the Relevant Period, registered with the Division as an investment adviser representative.

4. BWA was, during the Relevant Period, a South Carolina corporation located at 609 Arledge Road, Landrum, South Carolina 29356, and it was registered with the Division as an investment adviser. Johnson was owner, president, and registered agent of BWA.

5. BFS was, during the Relevant Period, an Indiana corporation located at 100 South Madison Avenue, Greenwood, Indiana 46142; and 609 Arledge Road, Landrum, South Carolina 29356. On October 28, 2020, the BFS corporate address was changed to 205 S. Ocean Grande Drive, 104, Ponte Vedra Beach, FL, 32082. Johnson was the owner, president, and registered agent of BFS. BFS purports to be an insurance agency.

6. Johnson, BWA, and BFS are not and have never been registered as broker-dealers or agents, respectively.

IV. FINDINGS OF FACT

7. The Woodbridge Group of Companies, LLC (“Woodbridge”) is a California-based entity, which purported to be a commercial lender that made hard money loans, secured by mortgages on commercial property.

8. To help fund these purported hard money loans, Woodbridge raised money from investors throughout the country through the offer and sale of promissory notes (the “Woodbridge Notes”).

9. In order to effect the offer and sale of the Woodbridge Notes, Woodbridge employed certain South Carolina-based agents, including the Respondents, who received transaction-based compensation in connection with the offer, recommendation, and sale of the Woodbridge Notes.

10. These agents were not registered with the Division as agents, as required by the Act.

11. The Woodbridge Notes were not registered with the Division, or exempt from such registration, as required by the Act.

12. In reality, Woodbridge operated a nationwide Ponzi scheme bolstered by slick marketing and high commissions paid to the agents who sold the Woodbridge Notes. In total, Woodbridge bilked investors of between \$1.2 billion and \$1.3 billion nationwide.

13. The Woodbridge Notes themselves were illusory and were never secured by any real property.

14. The owner and CEO of Woodbridge, Robert H. Shapiro, pleaded guilty to wire fraud and tax evasion before the U.S. District Court for the Southern District of Florida on January 28, 2019. At his plea, Shapiro admitted to embezzling between \$25 million and \$95 million from over 7,000 investors nationwide. Shapiro pleaded guilty and was sentenced to 25 years in prison for running the fraud.¹

¹ See, Securities and Exchange Commission, *Court Orders \$1 Billion Judgment Against Operators of Woodbridge Ponzi Scheme Targeting Retail Investors*, Press Release, Jan. 28, 2019, <https://www.sec.gov/news/press-release/2019-3>; Investment News, *Ex-Woodbridge Group CEO Robert Shapiro pleads guilty in \$1.3 billion Ponzi*

15. After the Ponzi scheme came to light, the Division opened investigations into the sale of Woodbridge Notes to investors in South Carolina. The investigations focused on Woodbridge itself and on the agents selling the Woodbridge Notes.

16. On August 5, 2019, the Securities Commissioner entered a Consent Order with regard to Woodbridge, wherein Woodbridge agreed to pay restitution to South Carolina investors through a liquidation trust established in a bankruptcy proceeding in the U.S. Bankruptcy Court for the District of Delaware.²

17. Additionally, the Trustee for the liquidation trust has brought an adversarial action against the Respondents in AD 19-51039-BLS, in the U.S. Bankruptcy Court for the District of Delaware.

18. During the Relevant Period, the Respondents recommended, offered, and sold at least \$8,281,152.00 worth of the Woodbridge Notes to at least twenty-one (21) different investors (the “Investors”).

19. As noted above, Woodbridge sales agents received transaction based compensation for the sale of the Woodbridge Notes. In addition, Woodbridge sales agents often received significant undisclosed compensation by retaining the difference, or spread, between what the interest rates borrowers paid on the notes and what the notes paid to the lenders.

20. Johnson disclosed that he received \$194,383.00 in direct commissions paid by Woodbridge to his company, BFS. This may only represent a portion of the compensation the

scheme, Aug. 8, 2019, <https://www.investmentnews.com/ex-woodbridge-group-ceo-robert-shapiro-pleads-guilty-in-1-3-billion-ponzi-scheme-80778>; Miami Herald, *Judge gives 25-year max to Ponzi schemer who stole millions from Florida to California*, Oct. 15, 2019, <https://www.miamiherald.com/news/local/article236215238.html>.

² In the matter of Woodbridge Group of Companies, LLC – Consent Order (8/5/19), <http://www.scag.gov/2019-notices-and-orders#ixzz6NYdt80Iq>

Respondents received for the sale of the Woodbridge Notes because of the retention of the interest rate spread.

21. The Respondents acted as unregistered broker-dealers or unregistered agents in sixty-one (61) separate sales of an unregistered security.

22. The Respondents marketed the Woodbridge scheme to at least some Investors that Johnson met at church functions.

23. The Respondents failed to perform reasonable due diligence to determine whether the Woodbridge Notes were legitimate investment vehicles.

24. In connection with the offer and sale of the Woodbridge Notes, the Respondents received transaction-based compensation from Woodbridge.

25. During the Relevant Period, the Respondents were not registered with the Division as brokers-dealers or agents or exempt from such registration.

26. Johnson, due to his experience and the fact that he was registered with the Division as an investment advisor representative, either knew or should have known that it was not lawful to sell unregistered non-exempt securities in South Carolina.

27. Johnson, due to his experience and the fact that he was registered with the Division as an investment advisor representative, either knew or should have known that it was not lawful to sell securities, registered or otherwise, for transaction based compensation in South Carolina without being registered as an agent.

V. CONCLUSIONS OF LAW

28. The Woodbridge Notes constitute securities, pursuant to S.C. Code Ann. § 35-1-102(29).

29. The Woodbridge Notes were not registered with the Division or exempt from registration requirements.

30. The Respondents offered and sold securities, which were not registered with the Division, or exempt from such registration, in violation of S.C. Code Ann. § 35-1-301.

31. The Respondents acted as broker-dealers or agents in connection with the offer and sale of securities in South Carolina, as defined by S.C. Code Ann. § 35-1-102(2).

32. The Respondents were not registered as broker-dealers or agents with the Division, and they were not exempt from such registration in violation of S.C. Code Ann. §§ 35-1-401(a) and 35-1-402(a).

33. Acting as a broker-dealer or an agent in connection with the offer and sale of securities, without being registered with the Division as such or exempt from registration, constitutes a willful failure to comply with the Act, pursuant to S.C. Code Ann. § 35-1-412(d)(2).

34. Respondents' actions constitute at least one hundred and twenty-two (122) distinct violations of the Act.

35. The Respondents' violation of S.C. Code Ann. § 35-1-412(d)(2) provides the basis for this order, pursuant to S.C. Code Ann § 35-1-412(c).

36. This Order is appropriate and in the public interest, pursuant to the Act.

VI. ORDER

NOW THEREFORE, pursuant to S.C. Code Ann. § 35-1-604(a)(1), it is hereby **ORDERED** that:

- a. Each Respondent and every successor, affiliate, control person, agent, servant, and employee of each of the Respondents, and every entity owned, operated, or indirectly or directly controlled by or on behalf of each of the Respondents shall

CEASE AND DESIST from transacting business in this State in violation of the Act; and

- b. The Respondents shall jointly and severally pay a civil penalty in the amount of two hundred and fifty thousand (\$200,000.00) if this Order becomes effective by operation of law, or, if a Respondent seeks a hearing and any legal authority resolves this matter, pay a civil penalty in an amount not to exceed \$10,000.00 for each violation of the Act by the Respondent(s) and the actual cost of the investigation or proceeding.

IT IS FURTHER ORDERED that, pursuant to S.C. Code Ann. § 35-1-604(a)(2) and (3), any exemption from registration with the Division that the Respondents may claim to rely upon under S.C. Code Ann. §§ 35-1-201(3)(C), (7) or (8); 35-1-202; 35-1-401(b)(1)(D) or (F); or 35-1-403(b)(1)(C), has been and is **PERMANENTLY REVOKED**.

VII. NOTICE OF OPPORTUNITY FOR HEARING

Each of the Respondents are hereby notified that they have the right to a formal hearing on the matters contained herein. To schedule a hearing, the Respondent(s) must file with the Division within thirty (30) days after the date of service of this Order, a written Answer specifically requesting a hearing. If any Respondent requests a hearing, the Division, within fifteen (15) days after receipt of a written request, will schedule the hearing for that Respondent. The written request shall be delivered to the Office of the Attorney General, 1000 Assembly Street, Columbia, SC 29201, or mailed to the Office of the Attorney General, Attention: Securities Division, P.O. Box 11549, Columbia, South Carolina, 29211-1549.


In the written Answer, the Respondent(s), in addition to requesting a hearing, shall admit or deny each factual allegation in this Order, shall set forth specific facts on which the Respondent(s) relies, and shall set forth concisely the matters of law and affirmative defenses upon which the Respondent(s) relies. If the Respondent(s) is without knowledge or information sufficient to form a belief as to the truth of an allegation, Respondent(s) shall so state.

Failure by a Respondent to file a written request for a hearing in this matter within the thirty-day (30) period stated above shall be deemed a waiver by that Respondent of the right to such a hearing. Failure by a Respondent to file an Answer, including a request for a hearing, shall result in this Order's becoming final by operation of law. The regulations governing the hearing process can be found at S.C. Code of Regulations §13-604.

This Order does not prevent the Division or any law enforcement agency from seeking additional civil or criminal remedies as are available under the Act, including remedies related to the offers and sales of securities by the Respondents set forth above.

ENTERED, this the 25 day of October, 2021.

ALAN WILSON
SECURITIES COMMISSIONER

By: 
Jonathan B. Williams
Assistant Deputy Attorney General