

1 NICOLAS MORGAN, Cal. Bar No. 166441
DIANA K. TANI, Cal. Bar No. 136656
2 SPENCER E. BENDELL, Cal. Bar No. 181220
JANET RICH WEISSMAN, Cal. Bar No. 137023
3

4 Attorneys for Plaintiff
Securities and Exchange Commission
5 Randall R. Lee, Regional Director
Sandra J. Harris, Associate Regional Director
6 5670 Wilshire Boulevard, 11th Floor
Los Angeles, California 90036-3648
7 Telephone: (323) 965-3998
Facsimile: (323) 965-3908
8

9 **UNITED STATES DISTRICT COURT**
SOUTHERN DISTRICT OF CALIFORNIA

10
11 **SECURITIES AND EXCHANGE**
COMMISSION,

12
13 Plaintiff,

14 v.

15 **GLOBAL MONEY MANAGEMENT,**
L.P., LF GLOBAL INVESTMENTS,
16 **LLC, and MARVIN I. FRIEDMAN,**

17 Defendants.
18

'04 CV 00521 BTM (WMC)

Case No.

COMPLAINT FOR VIOLATIONS OF THE
FEDERAL SECURITIES LAWS

19 Plaintiff Securities and Exchange Commission ("Commission") alleges as
20 follows:

21 **JURISDICTION AND VENUE**

22 1. This Court has jurisdiction over this action pursuant to Sections
23 20(b), 20(d)(1) and 22(a) of the Securities Act of 1933 ("Securities Act"), 15
24 U.S.C. §§ 77t(b), 77t(d)(1) & 77v(a), Sections 21(d)(1), 21(d)(3)(A), 21(e) and 27
25 of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §§
26 78(u)(d)(1), 78u(d)(3)(A), 78u(e) & 78aa, and Sections 209(e)(1) and 214 of the
27 Investment Advisers Act of 1940 ("Advisers Act"), 15 U.S.C. §§ 80b-9(e)(1) &
28 80b-14. Defendants have, directly or indirectly, made use of the means or

1 U.S.C. §§ 80b-6(1) & 80b-6(2).

2 **THE DEFENDANTS**

3 6. Global Money Management, L.P. ("GMM"), is a California limited
4 partnership located in San Diego, California, holding itself out as a private hedge
5 fund. GMM is not registered with the Commission in any capacity.

6 7. L.F. Global Investments, LLC ("LF Global"), is a California limited
7 liability company located in San Diego, California. It is the general partner and
8 investment adviser of GMM. LF Global is not registered with the Commission in
9 any capacity.

10 8. Marvin I. Friedman, age 65, resides in San Diego, California.
11 Friedman is the Managing Director of LF Global. He controls both GMM and LF
12 Global, makes all investment decisions for GMM, and is the sole contact person
13 for investors in GMM. The NASD has censured and fined Friedman and barred
14 him from association with any NASD member in any capacity. He is not
15 registered with the Commission in any capacity.

16 **THE FRAUDULENT SCHEME**

17 **The Investment**

18 9. Since 1993, LF Global and Friedman have operated GMM, raising
19 millions of dollars from investors nationwide. Friedman controls both GMM and
20 LF Global, makes all investment decisions for GMM, and is the contact person for
21 investors in GMM.

22 10. Friedman, through LF Global and GMM, offered and sold securities
23 in the form of limited partnership interests in GMM, a private hedge fund, whose
24 assets have purportedly topped \$100 million. Investor funds were pooled and then
25 purportedly invested in stock, stock options, and a money market account.
26 Investors learned of the hedge fund through word-of-mouth from other investors
27 who were satisfied with the apparent returns being generated in their GMM
28 accounts.

1 11. Investors received several documents. A performance history sheet
2 given to investors showed performance of the hedge fund from December 1993 to
3 the present, including a chart showing the growth of a \$100,000 investment, a
4 spreadsheet showing the annual percentage returns, and a spreadsheet comparing
5 the total percentage returns of the hedge fund as compared to the S&P 500 and
6 other indices.

7 12. A Private Information Statement ("PIS") given to investors stated that
8 GMM's general partner, LF Global, was entitled to an annual "incentive" fee of
9 20% of the return generated by the hedge fund, or more, if the hedge fund's return
10 exceeded 20%. The PIS contained minimal summary information regarding the
11 investment, and included a limited partnership agreement as an exhibit. The
12 partnership agreement constituted the bulk of the offering materials and dealt with
13 the formalities of the structure and operation of GMM.

14 **The False Information Provided To Investors**

15 13. For at least the last year, GMM, LF Global and Friedman have misled
16 investors about the size of the hedge fund by providing them with account
17 statements containing phantom account values. GMM mailed quarterly account
18 statements to all of its investors.

19 14. Since at least December 2002, the aggregate value of assets reported
20 in GMM's account statements sent to GMM's clients greatly exceeded the true
21 aggregate value of GMM's assets. Until recently, the account statements were
22 generated by an independent accountant based on information provided by
23 Friedman. The accountant also performed a year-end reconciliation of the assets
24 of GMM. As of December 31, 2002, the purported total market value of GMM
25 assets in that reconciliation was over \$116 million. However, \$94 million of those
26 assets did not and do not exist. Representations in the GMM account statements
27 regarding account balances were false, and defendants knew they were false at the
28 time they were made.

1 15. Friedman has continued to represent falsely inflated hedge fund
2 values to investors to continue to lure new investments. In September 2003,
3 Friedman told an investor contemplating placing more money into the hedge fund
4 that the fund had over \$100 million invested in securities. However, in September
5 2003, GMM held securities worth only approximately \$440,000. Friedman's
6 representation was false, and he knew it was false when he made it.

7 **GMM, LF Global And Friedman's Continuing Fraudulent Conduct**

8 16. GMM, LF Global and Friedman have continued to misrepresent the
9 value of the hedge fund to investors in January and February of 2004. During the
10 first two months of 2004, Friedman caused GMM to mail account statements to
11 GMM investors for the period ended December 31, 2003. The cumulative total
12 account values of those statements is \$111,930,057. According to the limited
13 partnership agreement contained in the PIS, the account value contained on the
14 account statements should represent each investor's proportionate share of the net
15 asset value of the hedge fund. However, the total value of the securities in GMM's
16 accounts as of December 31, 2003 was only \$211,000, and in January of 2004, the
17 total value dropped to approximately \$20,000.

18 17. Moreover, in an attempt to stave off the imminent collapse of the
19 GMM hedge fund, Friedman has lulled and stalled investors attempting to
20 withdraw their funds. In late 2003, several investors decided to withdraw their
21 investments from the hedge fund. Friedman told investors the location of the
22 hedge fund's brokerage accounts and assured them that the hedge fund had
23 sufficient liquidity to honor their requests. He delayed making payments to
24 investors and only made incomplete payments to some investors. As investors
25 have continued to press Friedman over the last several weeks for information
26 about the status of the hedge fund, he has told them that the hedge fund value was
27 approximately \$70 million.

28 //

1 **GMM, LF Global, And Friedman Concealed**

2 **Important Information About Friedman's Background**

3 18. GMM, LF Global, and Friedman touted Friedman as critical to the
4 hedge fund's success. The PIS specifically identified Friedman as the person who
5 would make the investment and other management decisions for the hedge fund,
6 touted his "substantial investment experience," but did not disclose his NASD bar
7 order. Furthermore, Friedman told investors about his lengthy experience in the
8 securities markets without disclosing his bar order.

9 **FIRST CLAIM FOR RELIEF**

10 **FRAUD IN THE OFFER OR SALE OF SECURITIES**

11 **Violations of Section 17(a) of the Securities Act**

12 19. The Commission realleges and incorporates by reference ¶¶ 1 through
13 18 above.

14 20. Defendants GMM, LF Global, and Friedman, and each of them, by
15 engaging in the conduct described above, directly or indirectly, in the offer or sale
16 of securities by the use of means or instruments of transportation or
17 communication in interstate commerce or by use of the mails:

- 18 a. with scienter, employed devices, schemes, or artifices to
19 defraud;
- 20 b. obtained money or property by means of untrue statements of a
21 material fact or by omitting to state a material fact necessary in
22 order to make the statements made, in light of the
23 circumstances under which they were made, not misleading; or
- 24 c. engaged in transactions, practices, or courses of business which
25 operated or would operate as a fraud or deceit upon the
26 purchaser.

27 21. By engaging in the conduct described above, each of the defendants
28 violated, and unless restrained and enjoined will continue to violate, Section 17(a)

1 of the Securities Act, 15 U.S.C. § 77q(a).

2 **SECOND CLAIM FOR RELIEF**

3 **FRAUD IN CONNECTION WITH THE**
4 **PURCHASE OR SALE OF SECURITIES**

5 **Violations of Section 10(b) of the Exchange Act**
6 **and Rule 10b-5 thereunder**

7 22. The Commission realleges and incorporates by reference ¶¶ 1 through
8 18 above.

9 23. Defendants GMM, LF Global, and Friedman, and each of them, by
10 engaging in the conduct described above, directly or indirectly, in connection with
11 the purchase or sale of a security, by the use of means or instrumentalities of
12 interstate commerce, of the mails, or of the facilities of a national securities
13 exchange, with scienter:

- 14 a. employed devices, schemes, or artifices to defraud;
- 15 b. made untrue statements of a material fact or omitted to state a
16 material fact necessary in order to make the statements made, in
17 the light of the circumstances under which they were made, not
18 misleading; or
- 19 c. engaged in acts, practices, or courses of business which
20 operated or would operate as a fraud or deceit upon other
21 persons.

22 24. By engaging in the conduct described above, each of the defendants
23 violated, and unless restrained and enjoined will continue to violate, Section 10(b)
24 of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R.
25 § 240.10b-5.

26 //

27 //

28 //

THIRD CLAIM FOR RELIEF

FRAUD BY AN INVESTMENT ADVISER

Violations of and Aiding and Abetting Violations of

Section 206(1) and 206(2) of the Advisers Act

(Against LF Global and Friedman)

25. The Commission realleges and incorporates by reference ¶¶ 1 through 18 above.

26. Defendant LF Global, by engaging in the conduct described above, directly or indirectly, by use of the mails or means or instrumentalities of interstate commerce:

- a. with scienter, employed devices, schemes, or artifices to defraud clients or prospective clients;
- b. engaged in transactions, practices, or courses of business which operated as a fraud or deceit upon clients or prospective clients.

27. By engaging in the conduct described above, defendant LF Global violated, and unless restrained and enjoined will continue to violate, Sections 206(1) and 206(2) of the Advisers Act, 15 U.S.C. §§ 80b-6(1) & 80b-6(2).

28. Defendant Friedman, by engaging in the conduct described above, knowingly and substantially assisted LF Global's violations of Sections 206(1) and 206(2) of the Advisers Act.

29. By reason of the foregoing, defendant Friedman aided and abetted LF Global's violations of, and unless restrained and enjoined will continue to aid and abet LF Global's violations of Sections 206(1) and 206(2) of the Advisers Act.

//
//
//
//
//

1 **PRAYER FOR RELIEF**

2 WHEREFORE, the Commission respectfully requests that the Court:

3 **I.**

4 Issue findings of fact and conclusions of law that the defendants committed
5 the alleged violations.

6 **II.**

7 Issue judgments, in a form consistent with Fed. R. Civ. P. 65(d),
8 temporarily, preliminarily, and permanently enjoining each defendant and its
9 officers, agents, servants, employees and attorneys, and those persons in active
10 concert or participation with any of them, who receive actual notice of the order by
11 personal service or otherwise, and each of them, from violating Section 17(a) of
12 the Securities Act, Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder,
13 and, as to defendants LF Global and Friedman, Sections 206(1) and (2) of the
14 Advisers Act.

15 **III.**

16 Issue in a form consistent with Fed. R. Civ. P. 65, a temporary restraining
17 order and a preliminary injunction freezing the assets of each of the defendants
18 and prohibiting each of the defendants from destroying documents; appointing a
19 receiver over defendants GMM and LF Global; and ordering accountings.

20 **IV.**

21 Order defendants to disgorge all ill-gotten gains from their illegal conduct,
22 together with prejudgment interest thereon.

23 **V.**

24 Order defendants to pay civil penalties under Section 20(d) of the Securities
25 Act, 15 U.S.C. § 77t(d), Section 21(d)(3) of the Exchange Act, 15 U.S.C. §
26 78u(d)(3), and Section 209(e) of the Advisers Act, 15 U.S.C. § 80b-9(e)(1).

27 //

28 //