

ADMINISTRATIVE PROCEEDING  
BEFORE THE  
SECURITIES COMMISSIONER OF MARYLAND

|                            |                                     |
|----------------------------|-------------------------------------|
| IN THE MATTER OF:          | *                                   |
| UZO O. CHIMA               | *                                   |
| and                        | * Securities Division No. 2007-0394 |
| LUMEN ASSET MANAGEMENT LLC | *                                   |
| RESPONDENTS.               | *                                   |

\* \* \* \* \*

**ORDER TO SHOW CAUSE**

WHEREAS, the Securities Division of the Office of the Maryland Attorney General, pursuant to the authority granted in section 11-701 of the Maryland Securities Act, Title 11, Corporations and Associations Article, Annotated Code of Maryland (2007 Repl. Vol. and Supp. 2008) (the "Securities Act"), undertook an investigation into the securities-related activities of Uzo O. Chima ("Chima" or "Respondent Chima"); and

WHEREAS, on the basis of that investigation the Maryland Securities Commissioner (the "Commissioner") has found grounds to conclude that Respondent Chima has engaged in acts or practices constituting violations of the antifraud provisions of the Securities Act; and

WHEREAS, the Commissioner has determined that it is in the public interest to issue this Order to Show Cause;

NOW THEREFORE, pursuant to sections 11-412(a)(2), 11-412(a)(7), 11-415(c), and 11-701.1(a) of the Securities Act, it is hereby:

ORDERED, that Respondent Chima show cause why his registrations as a broker-dealer agent and investment adviser representative should not be revoked; why Respondent Chima should

not be barred permanently from engaging in the securities and investment advisory business in Maryland; why Lumen Asset Management LLC's application for registration as an investment adviser in Maryland should not be denied; and why a statutory penalty of up to \$5,000 per violation should not be entered against Respondent Chima.

## **I. JURISDICTION**

1. The Commissioner has jurisdiction in this proceeding pursuant to section 11-701.1 of the Securities Act.

## **II. RESPONDENTS**

2. At all times relevant to this matter, Uzo Chima has maintained a place of residence in Finksburg, MD. Chima was registered with the State of Maryland as a broker-dealer agent, and with the Financial Industry Regulatory Authority ("FINRA") as a general securities agent, for SunTrust Investment Services, Inc. ("STIS") from February 2004 until December 12, 2006, when he was terminated for cause. Chima also was registered as an investment adviser representative for STIS from July 2005 until his date of termination. Prior to his employment with STIS, Chima was registered with the State of Maryland as a broker-dealer agent, and with FINRA as a general securities agent, for Wachovia Securities, LLC from June 2001 to January 2004; Global Capital Securities Corporation from September 1999 to June 2001; and Morgan Stanley DW Inc. from July 1998 to September 1999. Chima is the subject of four customer complaints with allegations including unauthorized transactions, unsuitable transactions, and churning.

3. Lumen Asset Management ("LAM" or "Respondent LAM") is a Maryland partnership. Chima is the managing partner and sole owner of LAM. LAM has applied for registration as an investment adviser in Maryland.

### **III. STATEMENT OF FACTS**

4. In late January 2004, Chima voluntarily terminated his employment with Wachovia Securities LLC to join SunTrust Investment Services, LLC.

5. Chima was a top producer at Wachovia and was heavily recruited by STIS. As part of its offer of employment, STIS promised Chima a signing bonus of approximately \$1.29 million. Chima's compensation package also included a minimum guaranteed compensation payout of 60% for calendar year 2004, and a minimum payout of 50% for years 2005 through 2008.

6. During pre-employment discussions with STIS executives, Chima discussed his desire to grow his securities business to a level of \$4 to \$5 million in gross compensation production over a period of approximately 5 years. To achieve that level of gross production, Chima anticipated raising \$400 to \$500 million in additional client assets.

7. Chima provided STIS executives with a business plan or model that Chima intended to follow to achieve his goal of growing his assets. That business plan consisted of, in part, spending time with clients, meeting clients' friends, talking with clients about their short-term and long-term objectives and preparing financial plans for them, talking with clients on a monthly, weekly and sometimes daily basis, and generally making clients feel that they were involved in a one-on-one relationship.

8. Chima joined STIS in early February 2004. Shortly after joining STIS, he formed what he called the Chima Group. The Chima Group consisted of Chima, a handful of sales assistants, and administrative staff.

9. To further his business model of making clients feel as though they were involved in an one-on-one relationship, Chima used a note-taking software called Gorilla software. Chima

used the software to, among other things, keep track of dates important to clients such as birthdays, and to set client appointments. Chima also used the software to document any contact with clients, including discussions relating to financial planning, trade orders (both solicited and unsolicited), or other securities-related conversations. Chima and his sales assistants were required to take notes of all conversations or meetings with clients, whether telephonic or in-person. Those notes were then required to be entered into the Gorilla software.

10. Chima built his client base while at STIS. Some of those clients consisted of former Wachovia clients that followed Chima to STIS.

11. Chima also built up his gross compensation production. In calendar year 2004, Chima was able to bring in approximately \$1 million in gross production. That amount increased to approximately \$1.5 million in gross production for calendar year 2005. Chima built his securities practice up to a level where his quarterly gross production represented at least one quarter of the total gross production for his region.

Ms. V. B.

12. Ms. V.B. was one of the clients that followed Chima from Wachovia. In or around February 2004, Ms. V.B. transferred her Wachovia account to STIS. At the time, Ms. V.B. was 93 years old.

13. Ms. V.B. has suffered from physical ailments and has been in and out of assisted living facilities since 2004. In December 2004, shortly after Ms. V.B. fell in her home and entered an assisted living center, Ms. V.B.'s daughter and attorney-in-fact, Ms. C.M., began handling Ms. V.B.'s financial and investment affairs. In Spring 2005, Ms. C.M. sent Chima a note informing him that Ms. V.B. had been "diagnosed as 'early Alzheimers'."

14. A new account form completed for Ms. V.B. in February 2004 listed her risk tolerances as conservative and moderate and her investment time horizon as six to ten years. Her primary investment objectives, as was the case with many of Chima's clients, were listed as capital appreciation and income. Her other objectives were listed in the following order: 3. preservation of capital, 4. trading, and 5. speculation.

15. From March 2004 to March 2006, Chima engaged in excessive trading activities in connection with Ms. V.B.'s account, generating commissions in excess of \$87,000 in an account with an average balance of approximately \$580,000, and incurring significant losses.

16. During that same time, Ms. V.B.'s account regularly appeared on STIS's NFSC Active Trader Report as an account that exceeded a minimum threshold of transactions and/or commissions per month or year-to-date. In calendar year 2005 alone, Chima executed more than 110 transactions in Ms. V.B.'s account and generated commissions of approximately \$59,000.

17. Despite Ms. V.B.'s relatively conservative risk tolerance and investment objectives and her age, Chima traded her account in a manner indicative of a short-term trader. Chima purchased securities for her account only to hold them for a few months or less before selling them. Even mutual funds and unit investment trusts, securities known to have long-term holding periods, were purchased and sold shortly thereafter. In many instances, they were sold at a loss. As one of many examples, Chima purchased 1,250 units of Fording Canadian Coal Trust Unit in September 2005 and sold those units one month later at a loss of more than \$6,500.

18. Not only did Chima aggressively trade Ms. V.B.'s account, he did so without her written authorization and in violation of STIS policies. STIS prohibited its brokers from exercising discretion over client accounts. Yet Chima, who neither had the firm's permission to exercise

discretion over client accounts nor written authorization to exercise discretion over Ms. V.B.'s account, frequently bought and sold securities in Ms. V.B.'s account without her prior approval. Most of the trades, or the client conversations leading up to the trades, in Ms. V.B.'s account were not captured in the Gorilla software that Chima set up to document all client contact.

19. Despite exercising such discretion over Ms. V.B.'s account, however, Chima often marked the trades as unsolicited as though Ms. V.B. initiated the transactions.

20. Additionally, Chima purchased securities that were unsuitable for Ms. V.B.'s account given her background and risk tolerance. Despite her conservative risk tolerance, Chima invested Ms. V.B.'s account in mutual funds, unit investment trusts, and individual stocks that invested significantly in foreign and emerging markets, high-yielding bonds, and the technology sector, such as FT 1103 Emerging Markets, FT Unit 997 India Growth Portfolio, FT Unit 867 China Portfolio, and Respirationics.

21. On or about March 31, 2006, perhaps realizing that the trading in Ms. V.B.'s account did not match up with her financial background and investment objectives, Chima completed a customer update form for Ms. V.B.'s account. This form reflected a change in Ms. V.B.'s risk tolerance from conservative and moderate to moderate only, and a change in her primary investment objective from capital appreciation to trading profits. Yet, in response to a question on the form asking whether the form reflects "any changes to the customer's financial information or objectives since the last review?", Chima answered "no."

22. Further, Chima indicated on the customer update form that the change was approved by Ms. C.M. by telephone in late February 2006. However, no such approval was given by Ms. C.M. In fact, on May 8, 2006, just over two months after Ms. C.M. purportedly agreed to the more

aggressive position with respect to her mother's account (and forty-five days after Chima submitted the update form), she sent a letter directing Chima to "immediately cease any and all transactions on my mother's account."

Mrs. V. M.

23. Mr. and Mrs. E.M. also transferred their account from Wachovia to STIS in February 2004. Chima was their broker. When Mr. M. passed away in the Spring of 2005, their account was transferred to an individual account in Mrs. V.M.'s name only.

24. Mrs. V.M. was in her early 90s and was suffering from chronic physical ailments.

25. Mrs. V.M.'s risk tolerance and time horizon were listed as moderate and long-term, respectively, and, like Ms. V.B., her investment objectives were listed as follows: 1. capital appreciation, 2. income, 3. trading profits, 4. speculation, and 5. preservation of capital.

26. Chima engaged in excessive trading in Mrs. V.M.'s accounts. From March 2004 to February 2006, Mrs. V.M.'s account turned over nearly 6 times, an average of 2.9 times per year. In 2005 alone, her account turned over 3.4 times. Chima's trading generated commissions of approximately \$166,724 on an account with an average balance of \$1,000,000. Chima also traded Mrs. V.M.'s accounts on margin, generating interest expense of more than \$26,000. Losses in Mrs. V.M.'s accounts were substantial.

27. Mrs. V.M.'s account also regularly appeared on STIS's NFSC Active Trader Report. In calendar year 2005 alone, Chima executed more than 150 transactions in Mrs. V.M.'s account and generated commissions in excess of \$95,000.

28. As in the case with Ms. V.B., Chima traded Mrs. V.M.'s accounts in a manner indicative of a short-term trader; buying securities, including unit investment trusts, and selling

within a short period of time.

29. Many of the securities purchased for Mrs. V.M.'s accounts were the same as those purchased for Ms. V.B.'s account, and were purchased and/or sold on or around the same days as the securities purchased for Ms. V.B.'s account. As an example, as was the case with Ms. V.B., Chima purchased 2,000 units of Fording Canadian Coal Trust Unit for Mrs. V.M.'s account in September 2005. Chima sold those units in October 2005 for a loss of approximately \$10,000.

30. Like Ms. V.B., Mrs. V.M.'s accounts were invested in unsuitable securities including mutual funds and unit investment trusts holding investments in foreign and emerging markets, and technology stocks.

Mr. and Mrs. J.T.

31. Mr. and Mrs. J.T. opened an account with STIS in February 2004. Mr. and Mrs. J.T. were in their early to mid seventies at the time.

32. The new account form completed for Mr. and Mrs. J.T. in February 2004 listed their investment objectives as: 1. capital appreciation, 2. income, 3. trading profits, 4. speculation, and 5. preservation of capital. They were identical to those of Ms. V.B. and Mrs. V.M.

33. In March 2006, however, as was the case with Ms. V.B., Chima completed a customer update form for Mr. and Mrs. J.T. Despite the fact that Mr. and Mrs. J.T. were now in their mid to late 70s, that form reflected a change in their primary investment objectives from capital appreciation and income to trading profits and speculation; this reflected the trading that had already taken place in their account.

34. The trading in Mr. and Mrs. J.T.'s account followed the same unsuitable pattern as that of Ms. V.B. and Mrs. V.M. Chima engaged in short-term trading, buying mutual funds and

UITs and selling them a short time later. Mr. and Mrs. J.T.'s account frequently appeared on SunTrust's NFSC Active Trader.

35. Chima bought for Mr. and Mrs. J.T.'s account many of the same securities purchased for the accounts of Ms. V.B. and Mrs. V.M. including, but not limited to, Respironics, Inc., Blackrock Global, FT Unit 886 Income Opportunity Portfolio, Nuveen Equity Premium Advantage Closed Fund, Lazard World Dividend & Income Fund, Inc., Qualcomm, Eaton Vance, and Chesapeake Energy. Many of the securities were purchased at or about the same time they were purchased for the accounts of Ms. V.B. and Mrs. V.M.

36. Most, if not all, of the trades were placed on a discretionary basis and without the approval of Mr. and Mrs. J.T. In fact, Mr. J.T. questioned Chima as to why he was moving in and out of so many different investments. Chima was not authorized to trade Mr. and Mrs. J.T.'s account on discretion.

37. From March 2004 to December 2005, Mr. and Mrs. J.T.'s account incurred commissions of more than \$72,000.

#### Pattern of Excessive Trading and Unauthorized Discretion

38. Chima's pattern of frequent in and out trading was repeated in a number of client accounts.

39. That frequent trading often was initiated by Chima without any input from Chima's clients. In fact, one of Chima's clients, Mr. R.B., repeatedly asked Chima to stop making trades in his account without his authorization.

40. As with Mr. and Mrs. J.T., Mrs. V.M., and Ms. V.B., despite purchasing or selling the same securities for a number of clients' accounts at or around the same time, Chima frequently marked those trades as unsolicited. For example, Chima purchased Respironics for the accounts of

Mrs. V.M., Mr. and Mrs. J.T., Ms. V.B. and a number of other clients at or around the same time yet marked the trades as unsolicited. It is not likely that the many clients who purchased or sold Respirationics, or the other securities purchased for multiple clients at or around the same time, did all at once contact Chima to solicit the trades.

41. In April 2006, Chima was placed on heightened supervision by STIS as a result of STIS's concerns relating to the number of switching transactions that had occurred in the accounts of Chima's clients. As part of the heightened supervision, Chima was required to obtain management approval prior to engaging in any switch transactions. Any request by Chima to engage in a switch transaction had to be accompanied by a written explanation for the purpose for the transaction. The terms of the heightened supervision also required STIS management to review the "Active Account Report" for the frequency and appropriateness of activity in Chima's client accounts.

**COUNT I**  
**(Fraud in Connection with the Purchase or Sale of Securities - Section 11-301)**

WHEREAS, section 11-301 of the Securities Act prohibits any person, in connection with the offer, sale or purchase of any security, directly or indirectly to: (1) employ any device, scheme or artifice to defraud; (2) make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading; or (3) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit on any person; and

WHEREAS, NASD Rule 2120 (Use of Manipulative, Deceptive or Other Fraudulent Devices) prohibits a member from effecting a transaction in, or inducing the purchase or sale of, any

security by means of any manipulative, deceptive or other fraudulent device or contrivance; and

WHEREAS, NASD Rule 2310 (Recommendations to Customers (Suitability)) provides that “in recommending to a customer the purchase, sale or exchange of any security, a member shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs”; and

WHEREAS, IM-2310-2 (Fair Dealing with Customers) under NASD Rule 2310 provides that a registered representative has a responsibility of fair dealing with his/her customers, and further provides that the following actions clearly violate that responsibility:

1. Engaging in excessive trading in a customer’s account.
2. Trading in mutual fund shares, particularly on a short-term basis.
3. Exercising discretion in an account without actual authority from the customer.
4. Executing transactions in an account without authorization from the customer; and

WHEREAS, STIS’s compliance manual prohibits its registered representatives from engaging in the following activities:

1. Effecting any transaction in, or inducing the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.
2. Executing unauthorized transactions.
3. Exercising discretion in a customer’s account.
4. Engaging in transactions that are excessive in size or frequency.
5. Recommending to a customer the purchase, sale or exchange of a security that is unsuitable for the customer given the customer’s financial background and needs; and

WHEREAS, Respondent Chima violated NASD Rule 2120, STIS's compliance policies, and section 11-301 of the Securities Act by purchasing securities that were unsuitable for customers based upon their financial background and age, and by trading customer accounts in a manner that was unsuitable given their investment objectives and age; and

WHEREAS, Respondent Chima violated NASD Rule 2310, STIS's compliance policies, and section 11-301 of the Securities Act by, among other things:

1. engaging in excessive trading in client accounts,
2. exercising unauthorized discretion in client accounts,
3. executing unauthorized transactions in client accounts,
4. actively trading mutual fund shares in client accounts,
5. falsifying client investment objectives on client update forms,
6. marking solicited trades as unsolicited;

IT IS **ORDERED** that Respondent Chima show cause why his registrations with the State of Maryland as a broker-dealer agent and investment adviser representative should not be revoked; why he should not be permanently barred from the investment advisory and securities business in Maryland, and why a statutory penalty of up to \$5,000 per violation should not be entered against him.

**COUNT II**  
**(Fraud in Connection with the Offer and Sale of Investment Advice - Section 11-302)**

WHEREAS, section 11-302(a) of the Securities Act makes it unlawful for any person who receives, directly or indirectly, any consideration from another person for advising the other person as to the value of securities or their purchase or sale, or for acting as an investment adviser or

representative under §11-101(h) and (i) of this title, whether through the issuance of analyses, reports, or otherwise, to employ any device, scheme, or artifice to defraud the other person; or to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit on the other person; and

WHEREAS, Respondent Chima was registered as an investment advise representative for STIS; and

WHEREAS, Respondent Chima provided his clients with an overall financial plan and advice relating to the purchase and/or sale of securities; and

WHEREAS, Respondent Chima violated section 11-302(a) of the Securities Act by, among other things:

1. engaging in excessive trading in client accounts,
2. exercising unauthorized discretion in client accounts,
3. executing unauthorized transactions in client accounts,
4. actively trading mutual fund shares in client accounts,
5. falsifying client investment objectives on client update forms,
6. marking solicited trades as unsolicited;

IT IS **ORDERED** that Respondent Chima show cause why his registrations with the State of Maryland as a broker-dealer agent and investment adviser representative should not be revoked; why he should not be permanently barred from the investment advisory and securities business in Maryland, and why a statutory penalty of up to \$5,000 per violation should not be entered against him.

**COUNT III**  
**(Revocation of Registrations - Section 11-412)**

WHEREAS, section 11-415(c) of the Securities Act provides that although withdrawal from registration as a broker-dealer, agent, investment adviser, or investment adviser representative becomes effective 90 days after receipt of an application to withdraw, the Commissioner may institute a proceeding to revoke or suspend under section 11-412(a)(2) within two years after withdrawal became effective and enter a revocation as of the last date on which the registration was effective; and

WHEREAS, section 11-412(a)(2) of the Securities Act provides that the Commissioner by order may deny, suspend, or revoke any registration if the Commissioner finds that the order is in the public interest and that the applicant or registrant or, in the case of a broker-dealer or investment adviser, any partner, officer, or director, any person occupying a similar status or performing similar functions, or any person directly or indirectly controlling the broker-dealer or investment adviser, has willfully violated or willfully failed to comply with any provisions of this title, a predecessor act, or any rule or order under this title or a predecessor act; and

WHEREAS, section 11-412(a)(7) of the Securities Act provides that the Commissioner by order may deny, suspend, or revoke any registration if the Commissioner finds that the order is in the public interest and that the applicant or registrant or, in the case of a broker-dealer or investment adviser, any partner, officer, or director, any person occupying a similar status or performing similar functions, or any person directly or indirectly controlling the broker-dealer or investment adviser, has engaged in dishonest or unethical practices in the securities or investment advisory business; and

WHEREAS, Respondent Chima was last registered as a broker-dealer agent and as an investment adviser representative in Maryland on December 12, 2006; and

WHEREAS, Respondent LAM has submitted an application for registration as an investment adviser in Maryland; and

WHEREAS, Respondent Chima is Respondent LAM's managing member and sole owner; and

WHEREAS, Respondent Chima violated sections 11-301 and 11-302 of the Securities Act, as detailed in this Order; and

NOW, THEREFORE, IT IS HEREBY ORDERED that Respondent Chima show cause why his registrations with the State of Maryland as a broker-dealer agent and as an investment adviser representative should not be revoked, and Respondent LAM show cause why its application for registration as an investment adviser in Maryland should not be denied.

**REQUIREMENT OF ANSWER AND  
NOTICE OF OPPORTUNITY FOR HEARING**

\_\_\_\_\_ IT IS FURTHER **ORDERED**, pursuant to section 11-701.1 of the Securities Act and the Code of Maryland Regulations, COMAR 02.02.06.06, that Respondent shall file with the Securities Commissioner a written Answer to this Order within fifteen days of service of the Order. The Answer shall admit or deny each factual allegation in the Order and shall set forth affirmative defenses, if any. A Respondent without knowledge or information sufficient to form a belief as to the truth of an allegation shall so state.

The Answer also shall indicate whether the Respondent requests a hearing. A hearing will be scheduled in this matter if one is requested in writing. Failure by any Respondent to file a written request for a hearing in this matter shall be deemed a waiver by that Respondent of the right to such a hearing.

Failure of a Respondent to file an Answer or a request for a hearing shall result in entry of a final order directing that Respondent permanently to cease and desist from violation of the Securities Act, and imposing the sanctions sought in this Order.

SO ORDERED:

**Commissioner's Signature is  
on File with Original Document**

December 8, 2008

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MELANIE SENTER LUBIN  
SECURITIES COMMISSIONER