

**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.

**CONSENT ORDER
Matter Nos. 20164517 and 20192678**

I. PRELIMINARY STATEMENT

This Consent Order is entered into between the Securities Division of the Office of the Attorney General of South Carolina (the "Division") and 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") in order to resolve the allegations against the Respondents set forth in the October 25, 2021, Administrative Order issued in Division Matter Number 20164517 (the "Administrative Order"),¹ and the October 25, 2021, Order to Cease and Desist issued in Division Matter Number 20192678 (the "Order to Cease and Desist") (collectively, the "Division Orders"), which alleged that certain conduct of the Respondents violated certain provisions of the South Carolina Uniform Securities Act of 2005, S.C. Code Ann. §35-1-101, *et seq.*, and the regulations and rules promulgated thereunder (collectively, the "Act").

¹ BFS was not named as a Respondent in the Administrative Order.

Without admitting or denying the findings of fact and conclusions of law set forth below, except as to the jurisdiction of the Securities Commissioner over the Respondents and the subject matter of this proceeding, which are admitted, the Respondents, having been advised of their right to counsel, expressly consent to the entry of this Consent Order, which resolves the allegations against them set forth herein. The Respondents elect to waive permanently any right to a hearing and appeal under S.C. Code Ann. § 35-1-609, with respect to this Consent Order.

II. JURISDICTION

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

III. RESPONDENTS

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

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

4. During the Relevant Period, BWA was a South Carolina corporation located in Landrum, South Carolina and was registered with the Division as an investment adviser. Johnson was owner, president, and registered agent of BWA.

5. During the Relevant Period, BFS was 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. During the Relevant Period, 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 findings of fact and conclusions of law set forth in the Division Orders are incorporated by reference herein and are made a part hereof.

The Administrative Order

8. In the Administrative Order, which is incorporated herein, the Division found, among other things, that the Respondents failed to disclose certain outside business activities of Johnson when he was registered as an investment adviser representative.

The Order to Cease and Desist

9. 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.

10. 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").

11. 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.

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

7ch

13. Johnson represents that Woodbridge provided him opinion letters from a Connecticut law firm, an Ohio law firm, and Louisiana law firm indicating that the Woodbridge Notes were not securities.

14. It is undisputed that the Woodbridge Notes were not registered with the Division, or exempt from such registration, as required by the Act.

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

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

17. 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.²

18. 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.

² 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 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>.

7/4

19. The investigation has not revealed that Johnson personally knew or spoke with Shapiro or that Johnson was aware that the Woodbridge Notes were not being secured by real property, as represented by Woodbridge.

20. 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.³

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

22. 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").

23. Johnson voluntarily provided his records and disclosed that he received \$194,383.00 in direct commissions paid by Woodbridge to his company, BFS.

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

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

26. The Respondents settled the adversarial action with the Trustee by agreeing to pay a total of \$41,000 into the liquidation trust—paying \$2,000 down and an additional 39 separate

³ In the matter of Woodbridge Group of Companies, LLC – Consent Order (8/5/19), <http://www.scag.gov/2019-notices-and-orders#ixzz6NYdt80Iq>

monthly installments of \$1,000 each. The Respondents' first installment payment was due on January 24, 2022, and the final payment will be due on February 1, 2025.

27. As of the date of this Consent Order, the Respondents have made all required installment payments to the liquidating trust.

V. CONCLUSIONS OF LAW

28. BWA's failure to file a timely update regarding outside business activities conducted by Johnson, a person under its supervision and control, when Johnson was registered as an investment adviser, violated S.C. Code Regs. § 13-403.

29. Johnson's failure to update his Form U-4 to disclose his outside business activities while registered as an investment adviser violated S.C. Code Regs. § 13-403.

30. BWA's failure to ensure that Johnson timely updated his Form U-4 when Johnson was registered as an investment adviser, violated S.C. Code Ann. § 35-1-412(d)(9).

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

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

33. 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.

34. 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).

35. 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).

36. 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).

37. Respondents' actions constitute at least sixty-one (61) distinct violations of the Act.

38. 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).

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;
- b. Within 60 days of execution of this Consent Order, the Respondents shall pay a civil penalty in the amount of ten thousand dollars (\$10,000.00) paid upon execution of this Consent Order to the Trustee for the benefit of the liquidation trust. This penalty is in addition to the amount Johnson previously agreed to pay to the liquidation trust.

- c. Johnson expressly consents and agrees that he will not renew his registration with the Division and will not in any way participate in any aspect of the securities industry in or from the State of South Carolina;
- d. Johnson, in his capacity as BWA's sole manager and control person, expressly consents and agrees that BWA will not renew his registration with the Division and will not in any way participate in any aspect of the securities industry in or from the State of South Carolina; and
- e. Johnson, in his capacity as BFS's sole manager and control person, expressly consents and agrees that BFS will not in any way participate in any aspect of the securities industry in or from the State of South Carolina.

Upon execution by the Securities Commissioner and contingent upon the Respondents' compliance with the terms of this Consent Order, this Consent Order resolves Matter Number 20164517 and Matter Number 20192678, as to the Respondents. The Division has the right to initiate a new investigation should additional information or facts come to light that would warrant further activity by the Division.

As part of this Consent Order, the Respondents agree that they: (i) will not take any action or make or permit to be made any public statement denying, directly or indirectly, any allegation in this Consent Order or creating the impression that this Consent Order is without factual basis; and (ii) will not make or permit to be made any public statement to the effect that the Respondents do not admit the allegations of this Consent Order, or that this Consent Order contains no admission of the allegations, without also stating that the Respondents do not deny the allegations. If any of the Respondents breach the terms of this Consent Order, the Securities Commissioner may vacate this Consent

Order, and the Respondents agree that the Division Orders and the civil penalties set forth therein will be immediately due, and the Division Orders will be final orders by operation of law. Nothing in this paragraph affects the Respondents': (i) testimonial obligations or (ii) right to take differing legal or factual positions in litigation or other legal proceedings.

This Consent Order should not be interpreted to waive any (i) criminal cause of action, (ii) private cause of action that may have accrued to investors as a result of the activities detailed in the Division Orders, or (iii) other causes of action that may result from activities of the Respondents not detailed in the Division Orders.

ENTERED, this the 9th day of August, 2023.

By: Alan Wilson
ALAN WILSON
Securities Commissioner
State of South Carolina

Respondent:

Fred Johnson
Fred Johnson

Date: 8/9/23

Respondent Basic Wealth Advisors, Inc.:

By: Fred Johnson
Fred Johnson

Date: 8/9/23

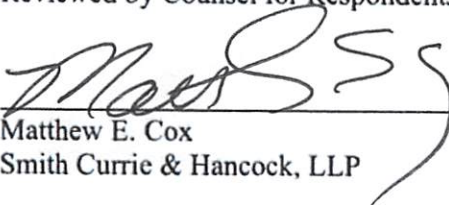
79

Respondent Basic Financial Services, Inc.:

By: 
Fred Johnson


Date: 8/9/23

Reviewed by Counsel for Respondents:


Matthew E. Cox
Smith Currie & Hancock, LLP

Date: 8/9/23

The Securities Division of the Office of the South Carolina Attorney General consents to the above Consent Order:

By: 
Jonathan B. Williams
Assistant Deputy Attorney General

Date: 8/9/2023

