

OPEN MEETING ITEM 9/18/03



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COMMISSIONERS
MARC SPITZER - Chairman
JIM IRVIN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON



MARK SENDROW
DIRECTOR

SECURITIES DIVISION
1300 West Washington, Third Floor
Phoenix, AZ 85007-2996
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ARIZONA CORPORATION COMMISSION

MEMORANDUM

TO: Marc Spitzer, Chairman
Jim Irvin
William A. Mundell
Jeff Hatch-Miller
Mike Gleason

Arizona Corporation Commission
DOCKETED

SEP 08 2003

FROM: Matthew J. Neubert *mjn*
Acting Director of Securities

DOCKETED BY *CAH*

DATE: September 2, 2003

RE: Proposed Settlement Agreement and Order re: Douglas Sanchez and Karen Sanchez, DMS Power Cash Flow, L.L.C. and Persanco, L.L.C., S-03530A-03-0000

CC: Brian C. McNeil, Executive Secretary

Attached is a proposed Consent Order for Douglas Sanchez and Karen Sanchez, DMS Power Cash Flow, L.L.C. and Persanco collectively ("Respondents"). The Order requires Respondents to cease and desist their activity, to pay restitution to all investors and to pay a penalty of \$50,000.

Respondents raised \$895,025 from 14 investors, from 1998 to present, through selling promissory notes and investment contracts. Respondents entered into promissory notes with six of the investors, promising interest from 8 to 20%. Sanchez was an associate pastor at churches in Mesa, Arizona, during the requisite time period. At least five investors were members of his congregation. Two other investors were pastors who worked with Sanchez.

Sanchez told the investors that he would be doing stock trading, purchasing deeds of trust, investing in bonds or CDs or looking for business opportunities. Sanchez told investors that he was successful trading stocks. That was false. Sanchez did not disclose to investors that prior to 1998, his only knowledge of stock trading was from a Wade Cook seminar that he attended. Respondents failed to disclose to investors that they would be trading stocks on margin and selling stocks short. They failed to disclose any of the risks of stock trading to the investors, including the risks involved in using margin and trading short.

Sanchez told some investors that he was successful in buying deeds of trust and would use their money to purchase deeds of trust. Sanchez failed to disclose to investors that he had not bought deeds of trust since the 1970s in California and never purchased any since, even after receiving investor funds.

Of the \$895,025 Respondents raised from investors, they used less than \$50 to explore business opportunities. They did not purchase any deeds of trust with the investor funds. Respondents used the money raised from investors for stock trading, to pay interest to other investors and for Sanchez to pay for personal expenditures. Respondents did not inform investors that their funds would be used to pay interest to other investors and for Sanchez to use for personal expenditures. The investors did not consent to such use of their funds.

On February 7, 2003, Sanchez represented to the Securities Division through his attorney that he would not raise any additional money from investors. Despite that representation, on February 14, 2003, Sanchez directed an investor to wire \$36,750 from the sale of her house to an account Sanchez controlled. Those funds were not used for Respondents' stock trading program.

Sanchez opened accounts in the name of DMS at Charles Schwab & Co. and Scottrade Securities, Inc. He listed other investors as the manager of DMS, even though the investors were not the manager of DMS and had not consented to be listed as the manager. Sanchez signed the investors' name to the form without the investor's permission. Despite the fact that Sanchez was not listed on the accounts as the manager, he controlled the account and conducted the trading in the account.

The Order requires Respondents to cease and desist from violations of the Securities Act. It orders them to make monetary restitution in the amount of \$895,025 and pay a penalty of \$50,000 to the State. Respondents have admitted the facts and violations they committed.

The Securities Division is continuing to analyze the financial information from financial institutions. If the evidence from that analysis warrants it, the Securities Division will refer this case to other agencies for further proceeding. The Securities Division recommends approval of the Settlement Agreement.

Originator: Mark Dinell

I.

FINDINGS OF FACT

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3 1. DOUGLAS SANCHEZ ("SANCHEZ") is an Arizona citizen, residing at 837 West
4 Kiowa, Mesa, Arizona.

5 2. KAREN SANCHEZ is at all relevant times the spouse of SANCHEZ. KAREN
6 SANCHEZ is joined in this action under A.R.S. § 44-2031(C) solely for purposes of determining the
7 liability of the marital community.

8 3. At all times relevant, SANCHEZ was acting for his own benefit, and for the benefit or
9 in furtherance of the marital community.

10 4. DMS POWER CASH FLOW, L.L.C. ("DMS"), is an Arizona limited liability
11 company, located at 1125 W. Baseline, #2-3, Mesa, Arizona 85210. SANCHEZ is the manager of
12 DMS.

13 5. PERSANCO, L.L.C. ("PERSANCO") is an Arizona limited liability company,
14 located at 1125 W. Baseline, #2-3, Mesa, Arizona 85210. SANCHEZ is the manager of
15 PERSANCO
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17 6. SANCHEZ, DMS and PERSANCO raised \$895,025 from 14 investors, from 1998 to
18 present, through selling promissory notes and investment contracts. SANCHEZ, DMS and
19 PERSANCO entered into promissory notes with six of the investors, promising interest from 8 to
20 20%.

21 7. SANCHEZ was an associate pastor at churches in Mesa, Arizona, during the
22 requisite time period. At least five investors were members of his congregation. Two other
23 investors were pastors who worked with SANCHEZ. SANCHEZ befriended the investors,
24 soliciting investments from them.
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1 8. SANCHEZ told the investors that he would be doing stock trading, purchasing
2 deeds of trust, investing in bonds or CDs or looking for business opportunities.

3 9. Most of the investors gave SANCHEZ, DMS and PERSANCO their retirement
4 funds or capital. SANCHEZ had one investor sell her house. SANCHEZ received all the equity in
5 that house.

6 10. At least two of the investors have physical handicaps and are disabled.

7 11. The husband of one of the investors has multiple sclerosis. The money SANCHEZ,
8 DMS and PERSANCO obtained from that investor was to help the investor stay at home and take
9 care of her husband, so that he did not need to be placed in a care facility.

10 12. SANCHEZ told investors that he was successful trading stocks. That was false.
11 SANCHEZ, DMS and PERSANCO began trading stocks in 1998, and lost money every year except
12 1998, when he made \$1,918. Overall, SANCHEZ, DMS and PERSANCO lost \$34,474 trading
13 stocks. SANCHEZ did not inform investors of the losses.

14 13. SANCHEZ did not disclose to investors that prior to 1998, his only knowledge of
15 stock trading was from a Wade Cook seminar that he attended.

16 14. SANCHEZ, DMS and PERSANCO failed to disclose to investors that they would be
17 trading stocks on margin and selling stocks short. They failed to disclose any of the risks of stock
18 trading to the investors, including the risks involved in using margin and trading short. They also
19 failed to disclose that they were not registered as securities dealers or salesmen.
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21 15. SANCHEZ told some investors that he was successful in buying deeds of trust and
22 would use their money to purchase deeds of trust. SANCHEZ failed to disclose to investors that he
23 had not bought deeds of trust since the 1970s in California and never purchased any since, even
24 after receiving investor funds.
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1 16. SANCHEZ, DMS and PERSANCO have not filed tax returns since 1998. They did
2 not disclose that fact to investors.

3 17. Of the \$895,025 SANCHEZ, DMS and PERSANCO raised from investors, they used
4 less than \$50 to explore business opportunities. They did not purchase any deeds of trust with the
5 investor funds. SANCHEZ, DMS and PERSANCO used the money raised from investors for stock
6 trading, to pay interest to other investors and for SANCHEZ to pay for personal expenditures.
7 SANCHEZ, DMS and PERSANCO did not inform investors that their funds would be used to pay
8 interest to other investors and for SANCHEZ to use for personal expenditures. The investors did
9 not consent to such use of their funds.

10 18. SANCHEZ provided sworn testimony to the Securities Division on February 26,
11 2003. Despite being under oath, SANCHEZ failed to disclose all investors to the Securities
12 Division in his testimony.

13 19. On February 7, 2003, SANCHEZ represented to the Securities Division through his
14 attorney that he would not raise any additional money from investors. Despite that representation,
15 on February 14, 2003, SANCHEZ directed an investor to wire \$36,750 from the sale of her house
16 to an account SANCHEZ controlled. Those funds were not used for Respondents' stock trading
17 program.

18 20. On March 9, 2001, SANCHEZ opened an account in the name of DMS at Charles
19 Schwab & Co. ("Schwab"). In the Schwab new account forms, SANCHEZ listed one of the
20 investors as the manager of DMS, even though the investor was not the manager of DMS and had
21 not consented to be listed as the manager. SANCHEZ signed the investor's name to the form
22 without the investor's permission. Despite the fact that SANCHEZ was not listed on the Schwab
23 account as the manager, he controlled the account and conducted the trading in the account.
24 SANCHEZ withdrew investor funds by signing the investor's name to checks without her
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1 permission. Some of those funds withdrawn were paid to SANCHEZ for his personal use. The
2 investor did not learn she was listed on the Schwab account until the Securities Division informed
3 her of that fact.

4 21. On April 11, 2001, SANCHEZ opened an account at Scottrade Securities, Inc.
5 ("Scottrade"), in the name of DMS. In the new account forms, SANCHEZ listed one of the
6 investors as the manager of DMS, even though the investor was not the manager of DMS and had
7 not consented to be listed as the manager. SANCHEZ signed the investor's name to the forms
8 without the investor's permission. SANCHEZ attached the Articles of Incorporation of DMS filed
9 with the Commission to the Scottrade new account form. In those attached Articles, SANCHEZ
10 deleted his name as manager and listed the investor as manager, again without the investor's
11 permission and then provided that false form to Scottrade. The investor did not learn he was listed
12 on the Scottrade account until the Securities Division informed him of that fact. Despite the fact
13 that SANCHEZ was not listed on the Scottrade account as the manager, he controlled the account
14 and traded in the account, including withdrawing investor funds from the account for his own use.

15 22. Several of the investors have told SANCHEZ that they are currently experiencing
16 extreme financial problems due to the loss of their investment with SANCHEZ, DMS and
17 PERSANCO. However, once SANCHEZ stopped paying interest to investors, he avoided contact
18 with them, ignoring their telephone calls, letters and e-mails.
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21 II.

22 CONCLUSIONS OF LAW

23 1. The Commission has jurisdiction over this matter pursuant to Article XV of the
24 Arizona Constitution and the Securities Act.

25 2. SANCHEZ, DMS and PERSANCO offered or sold securities within or from
26 Arizona, within the meaning of A.R.S. §§ 44-1801(15), 44-1801(21), and 44-1801(26).

1 Arizona Attorney General shall disburse the funds on a pro rata basis to investors. If all investors
2 are paid in full, any excess funds shall revert to the state of Arizona.

3 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that SANCHEZ, DMS,
4 PERSANCO and KAREN SANCHEZ shall, jointly and severally, pay an administrative penalty in
5 the amount of \$50,000, payable to the "State of Arizona." Payment shall be made in full by
6 cashier's check or money order on the date of this Order. If SANCHEZ, DMS, PERSANCO and
7 KAREN SANCHEZ do not comply with this order for administrative penalties, any outstanding
8 balance may be deemed in default and shall be immediately due and payable. To the extent
9 SANCHEZ, DMS, PERSANCO and KAREN SANCHEZ pay any funds to the Commission prior

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1 to approval of this Order, in addition to the \$5,000 they are obligated to pay at entry of this Order,
2 their penalty shall be reduced by that amount, up to \$25,000.

3 IT IS FURTHER ORDERED that this Order shall become effective immediately.

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

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7 CHAIRMAN

COMMISSIONER

COMMISSIONER

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10 COMMISSIONER

COMMISSIONER

11 IN WITNESS WHEREOF, I, BRIAN C. MCNEIL,
12 Executive Secretary of the Arizona Corporation
13 Commission, have hereunto set my hand and caused the
14 official seal of the Commission to be affixed at the
15 Capitol, in the City of Phoenix, this _____ day of
16 _____, 2003.

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20 BRIAN C. MCNEIL
21 Executive Secretary

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23 _____
24 DISSENT

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26 _____
DISSENT

27 This document is available in alternative formats by contacting Yvonne McFarlin, Executive
28 Assistant to the Executive Secretary, voice phone number 602-542-3931, E-mail
29 ymcfarlin@cc.state.az.us.

30 (md)

CONSENT TO ENTRY OF ORDER

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2 1. RESPONDENTS DOUGLAS AND KAREN SANCHEZ, DMS POWER CASH
3 FLOW, L.L.C. and PERSANCO, L.L.C. (collectively "RESPONDENTS") admit the jurisdiction
4 of the Commission over the subject matter of this proceeding. RESPONDENTS acknowledge that
5 they have has been fully advised of their right to a hearing to present evidence and call witnesses
6 and RESPONDENTS knowingly and voluntarily waive any and all rights to a hearing before the
7 Commission and all other rights otherwise available under Article 11 of the Securities Act and
8 Title 14 of the Arizona Administrative -Code. RESPONDENTS acknowledge that this Order
9 constitutes a valid final order of the Commission.

10 2. RESPONDENTS knowingly and voluntarily waive any right they may have under
11 Article 12 of the Securities Act to judicial review by any court by way of suit, appeal, or
12 extraordinary relief resulting from the entry of this Order.

13 3. RESPONDENTS acknowledge and agree that this Order is entered into freely and
14 voluntarily and that no promise was made or coercion used to induce such entry.

15 4. RESPONDENTS acknowledge that they have been represented by counsel in this
16 matter, they have reviewed this Order with their attorney and understands all terms it contains.

17 5. RESPONDENTS admit for all purposes and proceedings except any Federal or
18 state criminal proceeding, the Findings of Fact and Conclusions of Law contained in this Order.

19 6. By consenting to the entry of this Order, RESPONDENTS agree not to take any
20 action or to make, or permit to be made, any public statement denying, directly or indirectly, any
21 Finding of Fact or Conclusion of Law in this Order or creating the impression that this Order is
22 without factual basis. RESPONDENTS will undertake steps necessary to assure that all of their
23 agents and employees understand and comply with this agreement.

24 7. While this Order settles this administrative matter between RESPONDENTS and
25 the Commission, RESPONDENTS understand that this Order does not preclude the Commission
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1 from instituting other administrative proceedings based on violations that are not addressed by this
2 Order.

3 8. RESPONDENTS understand that this Order does not preclude the Commission
4 from referring this matter to any governmental agency for administrative, civil, or criminal
5 proceedings that may be related to the matters addressed by this Order.

6 9. RESPONDENTS understand that this Order does not preclude any other agency or
7 officer of the state of Arizona or its subdivisions from instituting administrative, civil or criminal
8 proceedings that may be related to matters addressed by this Order.

9 10. RESPONDENT DOUGLAS SANCHEZ agrees that he will not apply to the state of
10 Arizona for registration as a securities dealer or salesman or for licensure as an investment adviser
11 or investment adviser representative at any time in the future.

12 11. RESPONDENT DOUGLAS SANCHEZ agrees that he will not exercise any
13 control over any entity that offers or sells securities or provides investment advisory services,
14 within or from Arizona.

15 12. RESPONDENTS agree that until restitution and penalties are paid in full,
16 RESPONDENTS will notify the Director of the Securities Division within 30 days of any change
17 in home address or any change in RESPONDENTS' ability to pay amounts due under this Order.

18 13. RESPONDENTS understand that default shall render them liable to the
19 Commission for its costs of collection and interest at the maximum legal rate.

20 14. RESPONDENTS agree that they will continue to cooperate with the Securities
21 Division including, but not limited to, providing complete and accurate testimony at any hearing in
22 this matter and cooperating with the state of Arizona in any related investigation or any other
23 matters arising from the activities described in this Order.

24 15. RESPONDENT DOUGLAS SANCHEZ and RESPONDENT KAREN SANCHEZ
25 acknowledge that any restitution or penalties imposed by this Order are obligations of the
26

1 RESPONDENT DOUGLAS SANCHEZ as well as the marital community of DOUGLAS and
2 KAREN SANCHEZ.

3 16. RESPONDENTS consent to the entry of this Order and agree to be fully bound by
4 its terms and conditions. If RESPONDENTS breach any provision of this Order, the Commission
5 may vacate this Order and restore this case to its active docket.

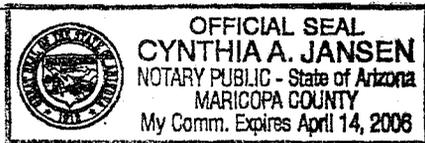
6 17. DOUGLAS SANCHEZ affirms that he has authority to sign this agreement on
7 behalf of RESPONDENTS DMS POWER CASH FLOW, L.L.C. and PERSANCO, L.L.C.

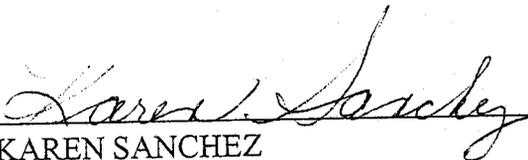
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10 DOUGLAS SANCHEZ

11 SUBSCRIBED AND SWORN TO BEFORE me this 11 day of August, 2003.

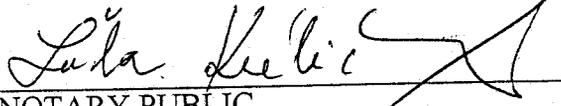
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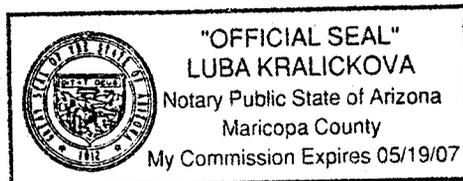
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19 KAREN SANCHEZ

20 SUBSCRIBED AND SWORN TO BEFORE me this 12th day of August, 2003.

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24 My Commission Expires:

25 05/19/2007



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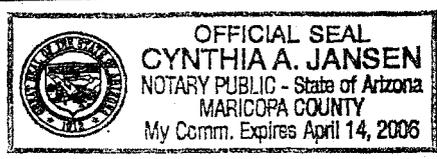
DMS POWER CASH FLOW, L.L.C.

Douglas Sanchez
By: Douglas Sanchez
Its Manager

SUBSCRIBED AND SWORN TO BEFORE me this 11 day of August, 2003.

Cynthia A. Jansen
NOTARY PUBLIC

My Commission Expires:



PERSANCO, L.L.C.

Douglas Sanchez
By: Douglas Sanchez
Its Manager

SUBSCRIBED AND SWORN TO BEFORE me this 11 day of August, 2003.

Cynthia A. Jansen
NOTARY PUBLIC

My Commission Expires:

