
News from Attorney General Robert Abrams

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FOR IMMEDIATE RELEASE: WEDNESDAY, NOVEMBER 5, 1986

LARGEST FINANCIAL PLANNING SCAM IN NATION CHARGED

Attorney General Robert Abrams today (Wednesday) sued an Albany-based financial planner, his firm and five associates, charging that approximately 950 investors from New York, New Hampshire, Connecticut and Massachusetts were fraudulently induced to invest over \$55 million. The case represents the largest financial planning fraud case to be filed in the country.

The Attorney General obtained a court order this morning against the First Meridian Planning Corporation, 421 New Karner Road in Albany and Roger V. Sala, its president, temporarily barring them from doing business and transferring any assets.

The Attorney General charged that the business operated for the sole purpose of generating high sales commissions instead of giving investors objective financial advice. First Meridian would claim to tailor an individual investment plan with a "balanced" portfolio, including stocks and bonds, which was tailored to the needs of the investor. In fact, the Attorney General charged, the recommended portfolios were not "balanced" at all but invariably recommended the purchase of numismatic coins, condominiums and art.

These investments were chosen because they generated high commissions for First Meridian, the Attorney General charged.

Attorney General Abrams stated:

"During the initial sales pitch, prospects were promised individual attention and objective advice, but he alleges that the firm existed primarily as a front to sell products in which they had a vested interest. Also, investors were never told that, above and beyond the fees they paid First Meridian, the firm earned commissions on every investment vehicle it sold.

"Moreover, the firm claimed that only investors with a certain net worth would be accepted. In fact, if the investor had access to cash,

there was as much chance of being turned down by First Meridian as of being rejected by the Book of the Month Club."

In his court papers, the Attorney General said that First Meridian had at least 18 "financial planners" on staff who served as sales representatives, often visiting people in their homes to sign them up as clients.

Mr. Abrams said First Meridian urged its sales reps to push certain investments, which they called "power products," because they generated high commissions for the firms.

Among these "power products" were Florida condominiums, which were sold as "conservative, low-risk" investments supposedly yielding 11 to 16% return, plus tax advantages. In fact, he charged, the Florida condo market has been saturated since 1982, and First Meridian clients could only sell their condos at a loss. First Meridian made a 9% commission on these sales.

Another "power product" were numismatic coins that investors were told could easily be sold at high profits. In fact, Mr. Abrams alleged, the coins were rare but not particularly scarce, and First Meridian's clients paid such a high price for them that it would "take a decade" for the market to catch up and allow the investors to break even, let alone make a profit. First Meridian made commissions of 15%.

Mr. Abrams said that the final "power product" was artwork, much of it by Capital District artists. He charged that the art, like the coins, was sold on an installment plan at a 16% interest. Profits of up to 38% per year for five years were promised. Moreover, the investors were told in ten years they could give the art to museums and receive a tax benefit. In fact, one investor obtained an appraisal artworks for which he had paid \$12,000, and it turned out they were worth only \$1,200.

The suit also charges that in 1984, 1985 and 1986, Roger V. Sala filed false documents with the Attorney General that did not disclose his conviction in Massachusetts for the felony crime of conspiracy to violate the federal gambling statutes in 1978. In addition, Mr. Sala is accused of falsely portraying himself as a financial expert, when in fact, his personal history shows him to be a high school graduate, a supervisor at a Massachusetts Thruway toll station and a real estate and insurance salesman.

The lawsuit seeks a permanent injunction forcing the firm and the six defendants out of the financial planning business and requiring them to make restitution to the defrauded investors.

The other defendants are John W. Donovan, sales director; Russell Gioia, vice president of marketing; Martin Hayden, treasurer; Roger C. Sala, executive vice president; and Bruce Haeussler, a salesman. Roger C. Sala is the son of the firm's president.

The Attorney General said that the First Meridian case is the largest case yet filed against a financial planner and he said, "First Meridian will be exhibit one when we make our case with federal and state authorities for regulation of financial planners. For years, the investment community, State Attorneys General and other securities regulators have called for regulation of this fast growing phenomenon. With this case, the need for new legislation has become demonstrably urgent."

The matter is being handled for the Attorney General by Assistant Attorneys General Rebecca Mullane and Anne Feigus, under the supervision of Assistant Attorney General Grestes J. Mihaly, Chief of the Investor Protection and Securities Bureau.