

**ADMINISTRATIVE PROCEEDING
FILE NO. 3-7613**

**UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION**

In the Matter of)
)
ERNEST E. MICHAUD AND)
BRANDON SECURITIES &)
INVESTMENTS, INC.)

INITIAL DECISION

**July 20, 1992
Washington, D.C.**

**Brenda P. Murray
Administrative Law Judge**

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APPEARANCES: Stephen C. Schuyler, Dennis R. Surprenant, and Catherine S. Croisant
of the Securities and Exchange Commission's Boston Regional Office
for the Division of Enforcement

Ernest E. Michaud, pro se

BEFORE: Brenda P. Murray, Administrative Law Judge

Background

The Commission instituted this proceeding on November 20, 1991, pursuant to Section 15(b) of the Securities Exchange Act of 1934 (Exchange Act) and Sections 203(e) and 203(f) of the Investment Advisers Act of 1940. The issue is whether various allegations of the Commission's Division of Enforcement (Division) are correct. And, if these allegations are true, what, if any, remedial action is appropriate in the public interest.

I held a hearing on January 15, 1992, at the Allenwood Federal Prison Camp in Montgomery, PA. The Division did not call any witnesses but introduced nine exhibits. Respondent Ernest E. Michaud (Mr. Michaud) represented himself at the hearing. He did not call any witnesses or introduce any exhibits.

The Division filed Proposed Findings of Fact, Conclusions of Law and Posthearing Brief on February 14, 1992. Mr. Michaud did not file a reply.

My findings and conclusions are based on the preponderance of the evidence and from my observation of Mr. Michaud, the sole witness at the hearing.

Respondent

Mr. Michaud, a University of Rhode Island graduate with a degree in business administration, was about 40 years of age in June 1986 through April 1990, when he owned, controlled, and operated three securities firms in North Providence, Rhode Island. These firms were Brandon Securities & Investments, Inc. (BSI), the other Respondent, and Brandon Securities, Inc. and Brandon Associates.

BSI was registered with the Securities and Exchange Commission as an investment adviser and a broker-dealer. BSI was a wholly owned subsidiary of Brandon Securities, Inc., a commodities broker registered with the National Futures Association.

Brandon Associates was a sole proprietorship.

Findings

Mr. Michaud pled guilty and was convicted in the United States District Court for the District of Rhode Island on December 3, 1990, of one count of securities fraud. United States District Court Judge Ernest C. Torres imposed the maximum sentence permissible under the Federal Sentencing Guidelines - 37 months in prison, three years supervised release, and ordered Mr. Michaud to pay investors restitution of \$1,496,427.43. United States v. Ernest E. Michaud, No. CR-90-110T (D.R.I. February 15, 1991). As a condition of his supervised release, Mr. Michaud consented to a Commission bar from associating in any capacity with any broker, dealer, investment company, investment adviser or municipal securities dealer, and to revocation of the broker-dealer and investment advisor registrations of BSI (Division Exhibit 9, 48).

Mr. Michaud's guilty plea was in response to government charges, which he agreed were true, that he engaged in a scheme to defraud individuals relative to the purchase and sale of securities; that he induced approximately 44 individuals to invest approximately \$1.4 million by promising a rate of return higher than what was generally available to the public and he represented that he was able to do this by pooling investor funds and investing large amounts; that he told investors that their funds would be invested in fully insured investments such as certificates of deposit, government bonds, and money market accounts; that he did not pool investor funds and did not invest these funds as he represented he would; and that he mailed investors fictitious statements allegedly showing interest earned on their accounts.

On July 20, 1990, the National Association of Securities Dealers (NASD) censured and expelled BSI from membership. The NASD also censured Mr. Michaud, fined him \$1.5 million, and barred him from association with any NASD member in any capacity (Division Exhibit 2). On June 20, 1991, the National Futures Association revoked Brandon Securities Inc.'s registration as an independent introducing broker (Division Exhibit 3). On July 10, 1991, the Commission cancelled BSI's broker-dealer registration.

Public Interest

Measuring Mr. Michaud's conduct against the established standards for determining an appropriate sanction in the public interest - the egregiousness of respondent's actions, the need to deter others from similar conduct, the degree of scienter involved, the sincerity of assurances against future violations, and the likelihood of future violations - indicates that a severe sanction is required. Steadman v. S.E.C., 603 F.2d 1126, 1140 (5th Cir. 1979), affd Steadman v. S.E.C., 450 U.S. 91 (1981); S.E.C. v. Blatt, 583 F.2d 1325, 1334 n.29 (5th Cir. 1978).

For almost four years, Mr. Michaud obtained substantial sums from close family members and long-time friends by fraudulent means. His actions were willful. He deliberately told customers he would invest these funds when he did not intend doing so; to hide his actions he sent customers fictitious statements allegedly representing interest earned on their investments.

There are no mitigating circumstances. Mr. Michaud is wrong that he is less culpable because he allegedly spent the money to keep the ruse going and to speculate in futures and options amounts and not for his "personal gain." Finally, the fact that Mr.

Michaud told people what he had done when he could no longer hide the truth does not lessen the egregiousness of his actions.

For all these reasons, and to prevent a reoccurrence of these illegal activities, I find it necessary in the public interest to bar Mr. Michaud from association with any broker, dealer, or investment adviser and to revoke the broker-dealer and investment adviser registrations of BSI.

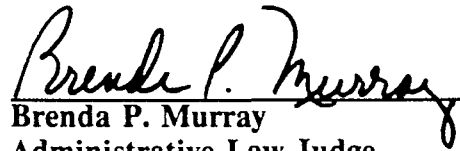
I have considered and rejected those proposed findings, arguments, and conclusions that are inconsistent with this decision.

Order

Based on these findings and conclusions, and pursuant to Section 15(b) of the Exchange Act, I ORDER Ernest E. Michaud barred from being associated with any broker, dealer, or investment adviser, and I revoke the broker-dealer and investment adviser registrations of BSI.

This order shall become effective in accordance with and subject to the provisions of Rule 17(f) of the Commission's Rules of Practice (17 C.F.R. 201.17(f)). Pursuant to that rule, this initial decision shall become the final decision of the Commission as to each party who has not filed a petition for review pursuant to Rule 17(b) within 15 days after service of the initial decision upon him, unless the Commission, pursuant to Rule 17(c), determines on its own initiative to review this initial decision as to a party. If a party

timely files a petition for review, or the Commission acts to review as to a party, the initial decision shall not become final as to that party.


Brenda P. Murray
Administrative Law Judge

Washington, D.C.
July 20, 1992