

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING) Order Number S-05-011-05-TO01
Whether there has been a violation of the)
Securities Act of Washington by:) SUMMARY ORDER TO CEASE AND
) DESIST AND NOTICE OF INTENT TO
) IMPOSE FINES AND RECOVER COSTS
Northwest Financial Solutions; Ricardo))
"Stone" Phillips,))
Respondents

THE STATE OF WASHINGTON TO: Northwest Financial Solutions
Ricardo "Stone" Phillips

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, Northwest Financial Solutions and Ricardo "Stone" Phillips, have each violated the Securities Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 against each to cease and desist from such violations. The Securities Administrator finds that delay in ordering the Respondents to cease and desist from such violations would be hazardous to investors and to the public and that a Summary Order to Cease and Desist should be entered immediately. The Securities Administrator finds as follows:

SUMMARY ORDER TO CEASE AND DESIST AND 1
NOTICE OF INTENT TO IMPOSE FINES AND
RECOVER COSTS

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 **TENTATIVE FINDINGS OF FACT**

2 Respondents

3 1. Northwest Financial Solutions, also known as Northwest Financial Solutions, Inc.,
4 (“NWFS”) is a Washington business entity with its principal place of business in Seattle. The
5 Secretary of State has no record that NWFS has incorporated in Washington or that it has
6 applied for a certificate of authority to do business in Washington as a foreign corporation.
7 NWFS provides a variety of financial planning services including presenting seminars through
8 its Stone Phillips III Foundation.

9 2. Ricardo M. “Stone” Phillips; also known as Ricardo M. Phillips, Ricardo M. Phillips
10 III, Ricardo M. Phillips 3, Richard M. Phillips III, Rilanto M. Phillips, Stone M. Phillips 3,
11 Martinas R. Phillips, Stone R. Phillips III, Stone M. Phillips III, Phillips Ricardo, Rico Gillis,
12 Stone P. Phillips III, Phillips Stone III, and Phillips Stone; (“Phillips”) is the owner of NWFS.
13 Phillips is believed to reside in Arizona. NWFS and Phillips solicit customers for financing and
14 investment transactions through advertising in church publications, through financial seminars
15 Phillips presents at churches, and through the websites stonephillips3rd.com and www.loans-
16 credit-investments.com.

17 *Description of the Offering*

18 Investors A & B

19 3. At a church function in Federal Way, a married couple residing in Grays Harbor
20 County, Washington (“Investors A & B”) picked up a brochure containing an advertisement for
21 Phillips.

22 4. Throughout the next year Investors A & B became increasing concerned about their
23 long range plan for retirement. They invested in real estate but had no other investing

1 experience. Phillips' advertisement seemed to offer the services they needed. Thus, in May
2 2003 Investors A & B called Phillips to discuss their situation.

3 5. Investors A & B's first meeting with Phillips was at Phillips' home in Federal Way
4 near the Twin Lakes Golf Course and Country Club. After Investors A & B explained their
5 financial situation, Phillips offered to refinance one of their rental homes and find a renter for it.
6 Phillips also told Investors A & B that if they invested with him, he could get them a 10% rate
7 of return on average. When Investors A & B asked Phillips how the investment worked Phillips
8 said that he could guarantee the rate of return because he would pool their investment with his
9 own money. Also, since he was pooling their money he would not charge them an investment
10 fee.

11 6. Investors A & B met with Phillips numerous times over the coming months. Phillips
12 arranged for Investors A & B to refinance their home through a bank contact he had met at a
13 church. Phillips assisted Investors A & B with the necessary paperwork. When the
14 refinancing was completed in August 2003, Investors A & B took \$60,000 of equity out of the
15 house.

16 7. Investors A & B needed a computer for their business but were not knowledgeable
17 about computers. Phillips told Investors A & B that he could purchase a computer and set it up
18 for them.

19 8. On September 12, 2003, Investors A & B gave Phillips \$41,000, \$40,000 was for him
20 to invest and \$1,000 was for a computer. Investors A & B did not receive a transaction
21 confirmation, a new account statement, a prospectus, financial information or any other
22 documentation evidencing their investment.

1 9. Investors A & B orally agreed that Phillips would invest their money as Phillips
2 thought appropriate.

3 10. Investors A & B did not receive any information about the funds their money was
4 invested in other than two account statements dated May 1, 2003- September 30, 2003 and
5 October 1, 2003-December 31, 2003. The statements showed that their investment was divided
6 among eight investment funds: the Investment Money Fund, the Tax Lien Short Maturity Fund,
7 the Tax Lien Longer Maturity Fund, the Foreclosure Investments Fund, the Property
8 Development Investments Fund, the Global Investment Fund, the Small Co. Investment Fund,
9 and the International Investment Fund. Until they received these statements, Investors A & B
10 had not known what their money was invested in.

11 11. In October 2003, Phillips arranged for a renter to move into the property he helped
12 refinance. Investors A & B never received a copy of the rental agreement.

13 12. The renter paid rent to Phillips in cash. Phillips subtracted a \$100 transaction fee and
14 forwarded the payment to Investors A & B each month. In July or August 2004, Phillips
15 stopped forwarding the rental payments without notice.

16 13. In late November or early December 2004 Investors A & B sent a letter to Phillips
17 requesting return of their investment. Investors A & B have not heard from Phillips nor have
18 they received any of their money back.

19 Investor C

20 14. In May 2002, a Washington resident residing in Pierce County (“Investor C”) attended
21 a financial seminar at his church in Tacoma presented by Phillips.

22 15. Investor C met with Phillips and told him that the majority of his assets were tied up in
23 a retirement account and he did not have the liquid assets required by his lender to purchase a

1 home. Phillips told Investor C that Investor C could transfer a portion of his retirement account
2 into an investment account at NWFS without penalty for early withdrawal.

3 16. Phillips told Investor C that if Investor C financed the home through him he would
4 beat the interest rate offered by the lender.

5 17. In reliance on Phillips' representations, Investor C transferred \$15,264.54 of his
6 retirement account to an account at NWFS via Phillips.

7 18. Phillips arranged for a lender to finance Investor C's home.

8 19. In early August of 2002, Investor C requested that Phillips transfer all of his funds to
9 Investor C's bank account to pay for closing costs. To Investor C's surprise, Phillips only
10 returned \$10,000, not \$15,264.54 as Investor C had expected.

11 20. The lender advised Investor C that without the additional \$5,264.54 in his bank
12 account, his loan might be declined. Investor C requested that Phillips return the rest of the
13 money. Phillips gave Investor C a cashier's check for the \$5,264.54 and had Investor C give
14 him a check for the same amount. Investor C believed Phillips would hold the money in an
15 investment account for him.

16 21. Investor C requested withdrawal of his money on at least three separate occasions.
17 Phillips told Investor C that he would not return the funds because Phillips had spent the money
18 on Investor C's behalf to get his loan approved. To date, no funds have been returned to
19 Investor C.

20 Investor D

21 22. In fall 2002, a pastor at a Seattle church announced to his congregation that Phillips
22 had offered to hold a free financial seminar at the church and to donate \$25 for each member of
23 the congregation that attended. Phillips conducted the seminar. At the seminar, Phillips made

1 several references to his Christian faith and said that his financial knowledge was a gift from
2 God.

3 23. A Washington resident residing in King County (“Investor D”) attended the seminar
4 led by Phillips. Investor D had received a lump sum settlement from her divorce and had
5 invested it in an annuity at Conseco. She had no other investment experience and was not
6 knowledgeable about investments.

7 24. After the seminar, Investor D telephoned Phillips to discuss her retirement accounts.
8 Phillips advised Investor D that Conseco was having financial difficulties and Investor D
9 needed to get her money out now before she lost it all. Phillips told Investor D that his clients
10 received as high as a 25% return. Phillips told Investor D that the investment that he was
11 offering was in real estate and was therefore a safe investment.

12 25. Phillips did not talk about the risk involved when investing in the funds but Phillips
13 did advised Investor D that real estate was a good investment because “nothing goes wrong in
14 real estate”.

15 26. Phillips persuaded Investor D to refinance her house twice in nine months first in
16 January 2003 and again in August 2003. Phillips arranged the refinancing and took care of all
17 the paperwork.

18 27. In March 2003, in reliance on Phillips’ claims and her fears Conseco’s financial
19 difficulties would cause her to lose her investment, Investor D transferred her entire Conseco
20 retirement account of approximately \$112,000 into the REI Fund II at NWFS. Investor D
21 incurred a surrender penalty of \$13,529.59 for the transfer. It was Investor D’s understanding
22 that her money was placed in a real estate fund. Investor D did not receive a transaction
23 confirmation, a new account statement, prospectus, financial information or any other document

1 evidencing their investment. Phillips represented that Bank of America Acceptance would act
2 as custodian for the funds.

3 28. Investor D received monthly account statements for four months. Although Investor
4 D thought that she had invested in a real estate fund, the statements showed her investment
5 divided among an Investment Money Fund, a Tax Lien Short Maturity Fund, a Tax Lien Longer
6 Maturity Fund, a Foreclosure Investment Fund, a Property Development Investments Fund, a
7 Global Investment Fund, a Small Co. Investment Fund, and an International Investment Fund.
8 The last statement she received was in July 2004. Investor D did not have contact with Phillips
9 or NWFS for several months.

10 29. On January 6, 2005, Investor D telephoned Phillips to request withdrawal of her
11 investment. To her surprise, the telephone number was disconnected. Investor D was able to
12 locate a telephone number for an answering service for NWFS. Investor D left several
13 messages for Phillips. Phillips never returned Investor D's calls.

14 30. Investor D obtained an address for NWFS in downtown Seattle and drove there to find
15 Phillips. When she arrived she discovered that there was no record that Phillips or NWFS had
16 an office at that location.

17 31. Investor D has not been able to locate Phillips or NWFS.

18 32. No money has been returned to Investor D.

19
20 *Misrepresentations and Omissions*

21 33. Phillips' statements concerning the investments he offered, including his statements
22 about the returns of those investments and the safety of those investments, were misleading
23 because Phillips failed to provide investors material information about the investment funds

1 described above, including, but not limited to, the risk associated with the investment and the
2 financial condition of the investment funds. Phillips did not disclose where the investors' funds
3 would be invested. He did not provide financial statements for NWFS or other information
4 concerning the financial condition of NWFS.

5 34. Phillips' representation that Bank of America Acceptance would be the real estate
6 investment custodian was misleading. Bank of America was not the real estate investment
7 custodian.

8
9 *Registration Status*

10 35. Northwest Financial Solutions is not licensed to sell in the State of Washington as a
11 broker-dealer and has not previously been so registered.

12 36. Ricardo "Stone" Phillips is not licensed as a securities salesperson or broker-dealer in
13 the State of Washington and has not previously been so registered. In addition, no such
14 registration exists under the names Ricardo M. Phillips, Ricardo M. Phillips III, Ricardo M.
15 Phillips 3, Richard M. Phillips III, Rilanto M. Phillips, Stone M. Phillips 3, Martinas R. Phillips,
16 Stone R. Phillips III, Stone M. Phillips III, Phillips Ricardo, Rico Gillis, Stone P. Phillips III,
17 Phillips Stone III, and Phillips Stone.

18 37. NWFS and its funds, the REI II Fund, the Investment Money Fund, the Tax Lien Short
19 Maturity Fund, the Tax Lien Longer Maturity Fund, the Foreclosure Investments Fund, the
20 Property Development Investments Fund, the Global Investment Fund, the Small Co.
21 Investment Fund, and the International Investment Fund are not registered to sell their securities
22 in the State of Washington and have not previously been so registered.

1 Based upon the Tentative Findings of Fact, the following Conclusions of Law are made:
2
3

4 **CONCLUSIONS OF LAW**

5 38. The offer and sale of the NWFS REI Fund, the Investment Money Fund, the Tax
6 Lien Short Maturity Fund, the Tax Lien Longer Maturity Fund, the Foreclosure Investments
7 Fund, the Property Development Investments Fund, the Global Investment Fund, the Small Co.
8 Investment Fund, the International Investment Fund, and the investment accounts described
9 above constitute the offer or sale of a security as defined in RCW 21.20.005 (10) and (12).

10 39. As described above, Respondent, Northwest Financial Solutions, acted as a
11 broker-dealer as defined in RCW 21.20.005 (3).

12 40. As described above, Respondent, Ricardo "Stone" Phillips, acted as a securities
13 salesperson or broker-dealer as defined in RCW 21.20.005 (2) and (3).

14 41. Respondent, Ricardo "Stone" Phillips, has violated RCW 21.20.040 by offering
15 and/or selling said securities while not registered as a broker-dealer or securities salesperson in
16 the State of Washington.

17 42. Respondents, Northwest Financial Services and Ricardo "Stone" Phillips, have
18 each violated RCW 21.20.140 by offering and/or selling an unregistered security.

19 43. The offer and/or sale of said securities was made in violation of RCW 21.20.010
20 because, as set forth above, Northwest Financial Solutions and Ricardo "Stone" Phillips, in
21 connection with the offer and sale of a security, made untrue statements of material fact or
22 omitted to state material facts necessary in order to make the statements made, in light of the
23 circumstances under which they were made, not misleading.

1
2 The Securities Administrator finds that an emergency exists, that the continued violations
3 of RCW 21.20.010, RCW 21.20.040, and RCW 21.20.140, constitute a threat to the investing
4 public, and that summary orders to cease and desist from those violations is in the public interest
5 and necessary for the protection of the investing public.

6
7 **SUMMARY ORDER**

8 Based on the foregoing, NOW, THEREFORE, IT IS HEREBY SUMMARILY
9 ORDERED that Northwest Financial Solutions and Ricardo "Stone" Phillips; their agents and
10 employees each cease and desist from offering or selling securities in any manner in violation of
11 RCW 21.20.140, the section of the Securities Act of Washington requiring registration.

12 It is further SUMMARILY ORDERED that respondents, Northwest Financial Solutions
13 and Ricardo "Stone" Phillips; their agents, and employees each cease and desist from violation of
14 RCW 21.20.010, the anti-fraud section of the Securities Act.

15 It is further SUMMARILY ORDERED that Northwest Financial Solutions and Ricardo
16 "Stone" Phillips cease and desist from violation of RCW 21.20.040, the section of the Securities
17 Act that requires registration of securities salespersons and broker-dealers.

18
19 **NOTICE OF INTENT TO IMPOSE FINES AND RECOVER COSTS**

20 Based on the above Tentative Findings of Fact and Conclusions of Law, the Securities
21 Administrator, pursuant to RCW 21.20.390 and RCW 21.20.395, intends to order that
22 Respondents, Northwest Financial Solutions and Ricardo "Stone" Phillips, be jointly and
23 severally liable for and pay to the Securities Division (1) a fine of \$10,000 and (2) the costs, fees,

24 SUMMARY ORDER TO CEASE AND DESIST AND 10
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1 and other expenses incurred in the conduct of investigating this matter, in any amount not less
2 than \$1,000.

3
4 **AUTHORITY AND PROCEDURE**

5 This Order is entered pursuant to the provisions of RCW 21.20.390 and is subject to the
6 provisions of RCW 34.05. The respondents, Northwest Financial Solutions and Ricardo "Stone"
7 Phillips, may each make a written request for a hearing as set forth in the NOTICE OF
8 OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this
9 order.

10 If a respondent does not request a hearing, the Securities Administrator intends to adopt
11 the above Tentative Findings of Fact and Conclusions of Law as final and make the summary
12 order to cease and desist permanent as to that respondent.

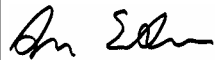
13
14 WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

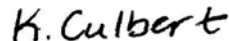
15 Dated this 2nd day of February, 2005

16
17 
18 MICHAEL E. STEVENSON
19 Securities Administrator

20 Approved by:

Presented by:

21 



22 Suzanne Sarason
23 Chief of Compliance

Kristen Culbert
Financial Legal Examiner