

STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF: DAVID F. BROCHU

FILE NO. 0900079

NOTICE OF HEARING

TO THE RESPONDENT : David F. Brochu (CRD#: 2630201)
75 Bailey Boulevard
East Greenwich, Rhode Island 02818

David F. Brochu (CRD#: 2630201)
C/o Strategic Point Investment Advisors, LLC
220 West Exchange Street
Providence, Rhode Island 02903-1004

You are hereby notified that pursuant to Section 11.F of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act") and 14 Ill. Adm. Code 130, Subpart K, a public hearing will be held at 69 West Washington Street, Suite 1220, Chicago, Illinois 60602, on the 24th day of June, 2009 at the hour of 10:00 a.m. or as soon as possible thereafter, before George Berbas Esq., or such other duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order shall be entered revoking David F. Brochu's (the "Respondent") registration as a salesperson in the State of Illinois and/or granting such other relief as may be authorized under the Act including but not limited to the imposition of a monetary fine in the maximum amount pursuant to Section 11.E(4) of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for such proposed action are as follows:

1. That at all relevant times, the Respondent was registered with the Secretary of State as a salesperson in the State of Illinois pursuant to Section 8 of the Act.
2. That on January 23, 2009 FINRA entered a Letter Of Acceptance, Waiver And Consent (AWC) submitted by the Respondent regarding File No. 2006005242501 Which sanctioned the Respondent as follows:

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- a. 15 business day suspension from association with any FINRA member firm in any capacity; and
 - b. \$20,000 fine.
3. That the AWC listed the following background information: a. Strategic Point Securities, LLC (“SPS”) has been a FINRA member since May 28, 2003. The firm's main office is located in Providence, RI. SPS has typically employed fewer than ten registered personnel. Although SPS is a full service broker dealer, it derives most of its revenue from executing mutual fund trades on behalf of its affiliated investment adviser. From the firm's inception until January 1, 2006, SPS was owned by Progressive Financial Strategies, LLC (“PFS”), which is based in Rhode Island.
- c. In February 1991, the Respondent first became registered with FINRA as a General Securities Representative. He has been registered through SPS since the firm became a FINRA member. Throughout the relevant period herein, he was SPS' President, Chief Financial Officer and a Director, and was registered as a General Securities Representative, General Securities Principal and Financial and Operations Principal. He is currently registered in those same capacities through SPS.
4. That the AWC found:

OVERVIEW

From on or about September 30, 2004 through December 31, 2004, The Respondent sold shares of a private placement offering pursuant to a private placement memorandum containing inaccurate financial projections in addition, SPS, acting through the Respondent, failed to establish and maintain a reasonably designed supervisory system and written supervisory procedures with respect to private securities transactions by its registered representatives. The Respondent's conduct violated NASD Conduct Rules 3010 and 2110.

FACTS AND VIOLATIVE CONDUCT

- A. Inaccurate financial projections in private placement memorandum
 - (i). The PFS Private Placement

During 2004, The Respondent was the President of PFS, which was a holding company that owned SPS and other financial institutions. Early that year, PFS management, including the Respondent decided to conduct a private placement of the company's securities in order to provide capital to buy out a bank investor, provide general

operating expenses and expand the business. The planned offering contemplated the sale of a maximum of 180 and a minimum of 90 Class B Units priced at \$50,000 each. According to the private placement memorandum, the units would only be offered to accredited investors. PFS' management also had the discretion to accept individual investments under \$50,000.

The Respondent an individual worked on the PFS private placement memorandum. The Respondent supervised the group working on the memorandum's financial projections while another individual worked primarily on the text of the document.

From March through December 2004, the Respondent and another individual sold PFS' Class B units pursuant to the private placement memorandum. They sold a total of 149 Class B Units, primarily to customers of SPS, and raised \$7,450,000 for PFS.

(ii). Inaccuracies in the PFS Financial Projections

On or about September 18, 2004, the Respondent discovered an inaccuracy in the financial projections contained in the PFS private placement memorandum. Specifically, over a five-year period, approximately \$12 million, or 33% cumulatively overstated the year-end cash balance for 2008, over the accurately calculated number. Upon learning of this inaccuracy, the Respondent notified other senior managers of PFS and SPS and informed them of the problem with the financial projections.

In the week following the discovery of the cash balance overstatement, the Respondent and members of his staff conducted a review of the remaining financial projections. The Respondent and his staff determined that, in addition to an overstatement in the cumulative cash balance, there were several overstatements in projected expenses over the same five-year period amounting to approximately \$11.5 million, which reduced the net overstatement of the 2008 cash balance to about \$500,000.

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The Respondent, however, wrongly determined that the net overstatement was not material and decided not to disclose the inaccuracies in the financial projections to the unit holders. Further, the Respondent and another individual continued to use the private placement memorandum containing the inaccurate financial projections, selling an additional 10.5 Class B Units to 12 customers for a total of \$525,000.

By failing to disclose the inaccuracies to unit holders, and then continuing to sell units using the inaccurate private placement memorandum, the Respondent violated NASD Conduct Rule 2110.

B. Supervisory deficiencies

Throughout 2004, SPS, acting through the Respondent, failed to establish, maintain and enforce a reasonably designed supervisory system and written procedures with respect to private securities transactions by its registered representatives. The firm's written supervisory procedures in that area failed to provide accurate and clear guidance to firm management and supervisors. As President of SPS, the Respondent was ultimately responsible for ensuring that the firm establish and maintain reasonable procedures.

By failing to establish and maintain a reasonably designed supervisory system and written procedures, SPS and the Respondent violated NASD Conduct Rules 3010 and 2110.

5. That Section 8.E (1)(j) of the Act provides, inter alia, that the registration of a salesperson may be revoked if the Secretary of State finds that such Salesperson has been suspended by any self-regulatory organization Registered under the Federal 1934 Act or the Federal 1974 Act arising from Any fraudulent or deceptive act or a practice in violation of any rule, regulation or standard duly promulgated by the self-regulatory Organization.
6. That FINRA is a self-regulatory organization as specified in Section 8.E(1)(j) of the Act.

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7. That by virtue of the foregoing, the Respondent's registration as a Salesperson in the State of Illinois is subject to revocation pursuant to Section 8.E (1)(j) of the Act.

You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 ILL. Adm. Code 130)(the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

A copy of the Rules, promulgated under the Act and pertaining to hearings held by the Office of the Secretary of State, Securities Department, is included with this Notice.

Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

Dated: This 29th day of April 2009.



JESSE WHITE
Secretary of State
State of Illinois

Attorney for the Secretary of State:
Daniel A. Tunick
Office of the Secretary of State
Illinois Securities Department
69 West Washington Street, Suite 1220
Chicago, Illinois 60602
Telephone: (312) 793-3384

Hearing Officer
George Berbas:
180 N. LaSalle suite 2105
Chicago, Illinois 60601