



2/16/01

STATE OF MISSOURI
OFFICE OF SECRETARY OF STATE

IN THE MATTER OF:

MATTHEW J. TRAINER)
606 East Pearce Boulevard)
Wentzville, Missouri 63385;)
)
JASON A. TRAINER)
1827 East Riviera Drive)
Columbia, Missouri 65201;)
)
HARDCASTLE HEDGE FUND #1 L.P.)
606 East Pearce Boulevard)
Wentzville, Missouri 63385;)
)
MMI INNOVATIONS, INC.,)
606 East Pearce Boulevard)
Wentzville, Missouri 63385; and)
)
JOEL D. PUTTCAMP)
606 East Pearce Boulevard)
Wentzville, Missouri 63385,)
)
Respondents.)

ORDER TO CEASE & DESIST
Order No. CD-01-01

Matthew J. Trainer, Jason A. Trainer and Joel D. Puttcamp operated an investment fund, Hardcastle Hedge Fund #1, L.P., that took in over \$2.5 million from at least 38 investors, including 18 Missouri residents. Matt Trainer was also the president and 100% owner of MMI Innovations, Inc., the general partner for Hardcastle. Matt and Jason Trainer offered and sold some interests in Hardcastle to investors with a 5% return per month guarantee on the investment. The Trainers told some investors that each investor's account was insured against losses up to \$25 million, thereby eliminating any risks with the investments. The Trainers and Puttcamp spent investor funds on numerous vehicles, a condominium at the Lake of the Ozarks and other personal items. The Trainers and Puttcamp also used investor funds to finance several gambling trips to Las Vegas where the Trainers and Puttcamp incurred losses of at least \$750,000 of investors' funds. Respondents were not registered as investment

advisers or investment adviser representatives in the State of Missouri. The securities offered and sold by Respondents were not registered as securities in the State of Missouri. Respondents failed to disclose these facts to the investors.

The Missouri Commissioner of Securities is empowered to issue such orders as are necessary to protect the public interest. Section 409.408, RSMo 1994.

The Commissioner has received a Petition for a Cease and Desist Order and issues the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. Matthew J. Trainer ("Matt Trainer") purports to be an expert trader of investments and has a last-known address of 606 East Pearce Boulevard, Wentzville, Missouri 63385. Matt Trainer now purportedly resides in the country of Panama.
2. Jason A. Trainer ("Jason Trainer") purports to be the owner of a cleaning business and assisted Matt Trainer's trading activities. Jason Trainer has a last-known address of 1827 East Riviera Drive, Columbia, Missouri 65202.
3. Hardcastle Hedge Fund #1 L.P. purported to be a Kansas limited partnership engaged in placing investor funds into high-yield investment opportunities. Hardcastle has a last-known address of 606 East Pearce Boulevard, Wentzville, Missouri 63385.
4. MMI Innovations, Inc. was a Nevada corporation and was the general partner of Hardcastle. MMI has a last-known address of 606 East Pearce Boulevard, Wentzville, Missouri 63385. Matt Trainer is the president, vice-president, chief financial officer, secretary and 100% owner of MMI.
5. Joel D. Puttcamp is an associate of Matt Trainer and assisted in the operations of Hardcastle. Puttcamp has a last-known address of 1549 Clayton Woods Court, Ballwin, Missouri 63011.
6. As used in this Cease and Desist Order, the term "Respondents" refers to Matt Trainer, Jason Trainer, Hardcastle, MMI and Puttcamp.

UTAH INVESTOR

7. Sometime during the summer of 1999, a Utah resident ("UR") received information about Matt Trainer's purported investment skills from an acquaintance. UR's acquaintance met Matt Trainer at a Florida investment seminar.

8. Sometime in October 1999, UR's acquaintance introduced UR to Matt Trainer.
9. During a telephone conversation with Matt Trainer in October of 1999, Matt Trainer told UR, among other things, the following:
 - a. The minimum investment in the Hardcastle fund was \$10,000.
 - b. Several retired individuals were invested in Hardcastle and received monthly checks from Matt Trainer.
 - c. Matt Trainer's investments had earned returns of 150% the previous year.
10. After the October 1999 telephone conversation, UR received materials through the mail from Matt Trainer relating to Hardcastle. These materials stated, among other things, the following:
 - a. Hardcastle traded in Standard & Poor's ("S&P") futures contracts through "pure trading (not a manipulated market)."
 - b. "We focus investing on one thing and get to know it well."
 - c. Hardcastle had made a profit during nine of the eleven months listed and the monthly average return was 14.27%.
11. UR received from Matt Trainer a Hardcastle subscription agreement, confidential purchaser questionnaire and power of attorney form.
12. Between October and December of 1999, UR made a total of three investments with Matt Trainer and Hardcastle equaling \$77,000. When making these investments, UR told Matt Trainer that this money represented UR's life savings and included all of the funds saved for UR's retirement.
13. In late January or early February of 2000, UR received a letter through the mail dated January 27, 2000 and written on Hardcastle letterhead. The letter indicated that it had been sent by Jason Trainer, New Accounts Manager for Hardcastle. The letter stated, among other things, the following:
 - a. "How would you like your account to be UP 50% by this time next year, GUARANTEED?"
 - b. "... we invest for safe and consistent returns through various conservative trading techniques."

- c. "The overall investment strategy allows us to secure steady returns with the least possible risk (no risk to you). In the unlikely event we achieve less than the 50% return (approximately 3 1/2% per month) through trading, we will make up the difference out of *our own pockets* (because we are legally bound to do so)."
 - d. "To further guarantee against loss, the entire portfolio is **insured for up to 25 million** per account. A RISK FREE investment with returns like this? *Yes, this IS for real!*"
 - e. There were two programs available, a 50% annual compounded return with a minimum \$10,000 investment and a 79% annual compounded return with a minimum \$100,000 investment.
 - f. "This is *the investment of the future: **Risk-free investing in the stock market!*** We are serious enough about making people money to put our money where our mouth is." (Emphasis in original.)
14. On at least one occasion during the time that UR's funds were invested with Hardcastle, Matt Trainer told UR that Matt Trainer was down to just three traders: Matt Trainer, Jason Trainer, and Joel Puttcamp.
 15. From October 1999 to May 2000, UR received four payments from Hardcastle for \$5,000 each. To date, UR has not received any additional funds from Matt Trainer or Hardcastle.
 16. On May 18, 2000 UR received an electronic mail message, purportedly from Matt Trainer, indicating that the Hardcastle fund was insolvent.

MISSOURI INVESTOR

17. Matt Trainer met with a Missouri resident ("MR") at a luncheon meeting in 1998. The members of this luncheon group were investors who had met at an investment seminar.
18. Sometime in May 1999, MR received an electronic mail message from Matt Trainer promoting an investment in Hardcastle. MR did not invest at this time, but other members of the luncheon group did.
19. MR subsequently learned through the luncheon meetings and various electronic mail messages that Matt Trainer was trading stock options and S&P futures with the Hardcastle funds.
20. In October 1999, MR received an electronic mail message from Matt Trainer touting the "5% Guaranteed Plan." This investment plan was described as follows:

- a. Matt Trainer would have a minimum of 1% of Matt Trainer's own money in the guaranteed fund.
 - b. If Matt Trainer made over 5% profit for a month's trading, Matt Trainer would keep the excess over 5%.
 - c. If Matt Trainer made less than 5% for the month, Matt Trainer would make up the difference in the fund up to 5% with Matt Trainer's own funds.
21. Sometime in November 1999, MR decided to invest in Matt Trainer's fund, but opted for a non-guaranteed plan that promised bigger profits. MR went to the Hardcastle office in Wentzville and invested \$50,800.
 22. After MR's investment, MR received periodic electronic mail messages from Matt Trainer that explained what Matt Trainer had been doing in the stock market on a particular day with the Hardcastle funds.
 23. Sometime in January or February of 2000, MR noticed problems with Hardcastle when the account balances went down and Matt Trainer began to hire additional traders. Matt Trainer told MR that the fund had too much money invested for Matt Trainer to do all of the trading himself.
 24. After Matt Trainer hired the additional traders, MR's account statements indicated that the fund had taken a 20% loss.
 25. During this time, Matt Trainer told MR, among other things, the following:
 - a. Hardcastle had about \$3 million in capital.
 - b. Matt Trainer was making "conservative" trades for the guaranteed plan.
 - c. Matt Trainer would be able to personally cover up to four months of 20% monthly losses with Matt Trainer's own capital.
 - d. An insurance program was available that would guarantee the investors' principal against losses of up to \$25 million per account.
 26. MR transferred \$112,115.03 from MR's retirement account into Hardcastle on March 21, 2000, and invested \$114,708.71 from MR's pension plan into Hardcastle on April 30, 2000.
 27. On or about May 18, 2000, MR and the other Hardcastle investors received an electronic mail message from Matt Trainer stating that Hardcastle and Matt Trainer were insolvent and that a bankruptcy attorney would soon be contacting the investors.

28. To date, MR has not been contacted by any attorney on behalf of Hardcastle or Matt Trainer.
29. MR subsequently received a second electronic mail message from Matt Trainer that stated, in part, that Matt Trainer was not a crook and an attorney would be getting insurance information to the investors.
30. To date, MR has not received a return on MR's investments with Matt Trainer. MR, however, did receive two \$5,000 "consulting fee" payments that were made to MR at or near the time of each of MR's investments.

INVESTIGATION BY THE SECURITIES DIVISION

31. On or about May 23, 2000, the Missouri Securities Division received information that indicated that Respondents may have sold unregistered securities and engaged in unregistered investment advisory activities in the State of Missouri.
32. A check of the records maintained by the Missouri Commissioner of Securities confirmed no registration or granted exemption for the securities as sold by Respondents in the State of Missouri.
33. A check of the records maintained by the Commissioner confirmed no registration for Respondents to engage in investment advisory activities in the State of Missouri.
34. A check of the records maintained by the Commissioner confirmed no registration for Respondents to sell securities in the State of Missouri.
35. On May 23, 2000, representatives of the Securities Division met with 17 Hardcastle investors at a hotel in St. Louis, Missouri. During this meeting, the investors stated, among other things, the following:
 - a. Matt and Jason Trainer had told investors that each investor account was insured against loss for \$25 million.
 - b. Matt and Jason Trainer were responsible for the operation of Hardcastle.
 - c. Matt Trainer met many of the investors while attending investment seminars and workshops in St. Louis, Missouri and Chicago, Illinois.
 - d. Matt Trainer claimed to be able to conduct trades through an investment system that would far exceed the profits claimed by other systems.
 - e. Matt Trainer claimed that this investment system involved little to no market risk.

- f. Matt Trainer made \$100,000 per day through this trading method and claimed to be able to do the same for the investors.
 - g. Matt Trainer owned several vehicles including a Corvette, an AM General Hummer and a Lamborghini Diablo.
 - h. Jason Trainer also owned a luxury vehicle.
 - i. Matt Trainer owned a condominium at the Lake of the Ozarks.
 - j. Matt and Jason Trainer had told investors that the Trainers put personal assets under corporate names to isolate the assets.
 - k. Hardcastle operated a bank account at Bank of America.
 - l. Hardcastle and Matt Trainer operated brokerage accounts at Peregrine Financial Group, E*Trade, and All-Tech Direct brokerage firms.
36. The Hardcastle investors had received an electronic mail message from Matt Trainer on or about May 18, 2000. This message stated, among other things, the following:
- a. "This is the hardest email I've ever had to compose. As of Wed. the 17th. [sic] Hardcastle Hedge Fund and MMI Innovations, Inc. are both completely insolvent and both have filed for bankruptcy protection."
 - b. "Due to some bad management on my part some very bad investment decisions were made by traders in my employ."
 - c. "I have filed a lawsuit against one trader who actually misallocated trades and caused me to have to pay the largest margin call in the brokers [sic] history."
 - d. "I covered the margin call (almost \$2 Million) out of my own pocket even though it was due by Hardcastle. I also had to cover several losing months out of my own pocket which made me insolvent."
 - e. ". . . two of my traders were losing tons of money and were telling me that they were making money."
 - f. "If it takes me the rest of my life you all will get your money back."
 - g. "In the mean time, I will be unreachable."

37. Between May 24 and August 25, 2000, the Division received information from several banks for accounts held under the names of Matt Trainer, Jason Trainer, Hardcastle and MMI.
38. Between May 24 and December 18, 2000, the Division requested and received information from several securities and commodities brokerage firms for accounts under the names of Matt Trainer, Jason Trainer, Hardcastle and MMI.
39. The Division's review of the above-mentioned bank and brokerage accounts indicated the following expenditures, among others, of investor funds:
 - a. Gambling losses of more than \$750,000.
 - b. Purchase of at least six vehicles with a total retail value of more than \$364,000, including a Lamborghini Diablo, AM General Hummer, Corvette, Lexus ES-300 and Acura NSX.
 - c. Purchase of a condominium at the Lake of the Ozarks for \$60,000.
 - d. Purchase of music equipment for Puttcamp's personal use for \$5,400.
 - e. A down payment of \$4,500 for braces for Matt Trainer.
 - f. Commissions and "consulting fees" to MMI of more than \$241,000, even as losses were incurred in the trading accounts.
 - g. Commissions of more than \$50,000 to Jason Trainer.
 - h. Commissions and salary of more than \$46,000 to Joel Puttcamp.
40. The Division's review of the various brokerage accounts used by Matt Trainer and Hardcastle revealed that Matt Trainer's trading activities resulted in losses totaling approximately \$917,000 from July 1997 through June 2000.
41. After Matt Trainer's electronic mail message to investors on May 18, 2000 indicating that the investors' funds had been lost, Trainer liquidated the following assets:
 - a. On May 26, 2000, the condominium at the Lake of the Ozarks was sold for \$35,000.
 - b. On June 16, 2000, the Lamborghini was sold for \$50,000.
42. Matt Trainer deposited the proceeds from the Lamborghini sale into the MMI bank account, then wrote two checks totaling \$100,200 to Panaclear, S.A., a Panamanian business entity.

43. On June 8, 2000, Matt Trainer purchased a passport through the New Orleans passport office and then fled the United States, setting up residency in Panama City, Panama.
44. On June 9, 2000, Jason Trainer sold the Lexus for \$20,000 in cash.
45. On July 13, 2000, Puttcamp sold the Acura for \$28,000 in cash.
46. On July 27, 2000, representatives of the Division and others interviewed Jason Trainer. During this interview, Jason Trainer stated, among other things, the following:
 - a. No insurance policy ever existed covering the Hardcastle investors' funds.
 - b. The monthly statements sent to investors indicated that account balances were increasing, even though the Trainers and Puttcamp were losing money on the trades and spending investor funds for personal expenses.
 - c. Jason Trainer purchased a pickup truck with the proceeds from the sale of the Lexus and used the remaining \$14,100 for living expenses.
47. On August 4, 2000 the Division sent a letter of inquiry to Hardcastle. This letter requested information about the above-addressed offer and sale of interests in Hardcastle and requested that Respondents file a claim of exemption from registration or exception from the definition for the securities offered by Respondents in and from the State of Missouri.
48. On September 1, 2000, the letter of inquiry was returned to the Division unclaimed.
49. On August 7, 2000, the Division obtained a copy of a message that Matt Trainer sent to a Hardcastle investor. This message stated, among other things, the following:
 - a. "As you know, several people wanted me to trade their money. At first it was great. They had their own accounts and I was given authority to trade for them."
 - b. "They made lots of money and I did too."
 - c. "They had friends that heard about how well I was doing and they wanted to invest. Then more and more until I had to make a choice. Either create some kind of fund or turn people down. With the huge potential, I decided to start the fund."

- d. "Well, even the fund went OK for a little bit. The main problem with the fund was that I had control over all the money."
 - e. "I had no accountability. Especially when I started doing the accounting myself. No accountability whatsoever, except my own moral compass. As you know now, that was very skewed."
 - f. "The problems began about three months after the fund started. I started losing money. Now, I knew that I knew what I was doing and I just KNEW I could make it back."
 - g. "So, you guessed it, I started lying on the statements. All I had to do was turn it around and no one would have known any different."
 - h. "Well, I never really turned it around at all. I involved more people. I thought that if I got Jason and Joel involved then I could train them to trade and maybe I could make the money back faster with three people trading."
 - i. "It just kept snowballing and eventually I started looking for quicker ways to make it back. I looked into all kinds of risky stuff. That's where the gambling came in."
 - j. "I thought that I could make it back at the casino and we would just end the fund after that. It worked great the first time we went. We made back most of the money in just a few days. I could see the light at the end of the tunnel. But, you know the rest. We lost it all. . . ."
 - k. "I figured that if I was trying to make up for all these losses then what difference would it make if I spent some of the money. 'Hey, you only live once right?' If I was making mistakes already, at least I could enjoy myself."
 - l. "I will end with this. I am working very hard on getting all of these people's money back. I have spent many a sleepless night developing a great trading system and the results are turning out well. I really believe that I can make all of the money back in a year or so."
50. The Division's investigation revealed that at least 38 persons invested over \$2.5 million with Matt Trainer through either Hardcastle or MMI. At least 18 of the investors were Missouri residents.
51. In connection with the sale of securities in and from the State of Missouri, Respondents engaged in an act, practice, or course of business which operated or would operate as a fraud or deceit upon any person by:

- a. Diverting investors' funds to Respondents' personal use.
 - b. Issuing fictitious monthly statements showing gains in investors' accounts even though Respondents' trading activities were incurring losses and Respondents were using investors' funds for Respondents' personal use.
 - c. Misrepresenting that there was insurance coverage of \$25 million for each investor's account.
 - d. Guaranteeing large returns on investments with little or no risk.
 - e. Failing to disclose that Respondents were not registered to engage in investment advisory activities in the state of Missouri.
 - f. Failing to disclose that the interests in Hardcastle were not registered as securities in the state of Missouri.
52. This Order is in the public interest.

CONCLUSIONS OF LAW

1. A security is defined as “. . . any note; stock; treasury stock; bond; debenture; evidence of indebtedness; certificate of interest or participation in any profit-sharing agreement; collateral-trust certificate; preorganization certificate or subscription; transferable share; investment contract; **limited partnership interest**; voting-trust certificate; certificate of deposit for a security; [or] certificate of interest or participation in an oil, gas, or mining title or lease or in payments out of production under such a title or lease[.]” (Emphasis added.) Section 409.401, RSMo Cumulative Supp. 1999.

The limited partnership interests offered and sold by Respondents constitute securities.

2. It is unlawful for any person to transact business in this state as an investment adviser unless he is registered as an investment adviser under Sections 409.101 to 409.419. Section 409.201(c), RSMo Cumulative Supp. 1999.

MMI Innovations, Inc.'s conduct as described in the Section entitled “Findings of Fact” constitutes a violation of Section 409.201(c), RSMo Cumulative Supp. 1999.

3. It is unlawful for any person to transact business in this state as an investment adviser representative unless he is registered as an investment adviser representative under Sections 409.101 to 409.419. Section 409.201(d), RSMo Cumulative Supp. 1999.

Matt Trainer, Jason Trainer and Joel Puttcamp's conduct as described in the Section entitled "Findings of Fact" constitutes a violation of Section 409.201(d), RSMo Cumulative Supp. 1999.

4. "It is unlawful for any person to offer or sell any security in this state unless (1) it is registered under this act; (2) the security or transaction is exempted under section 409.402; or (3) it is a federal covered security." Section 409.301, RSMo Cumulative Supp. 1999.

Respondents' sales of unregistered securities, as described in the above "Findings of Fact," constitute violations of Section 409.301, RSMo Cumulative Supp. 1999.

5. "It is unlawful for any person, in connection with the offer, sale or purchase of any security, directly or indirectly

- (1) to employ any devise, scheme, or artifice to defraud,
- (2) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, or
- (3) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person." Section 409.101, RSMo 1994.

Respondents' acts, practices or courses of business in connection with the sale of securities, as described in the above "Findings of Fact," constitute violations of Section 409.101, RSMo 1994.

6. The Commissioner may, if he believes from the evidence satisfactory to him that a person is engaged or about to engage in any fraudulent or illegal practice or transaction, issue an order prohibiting such person from engaging in or continuing such fraudulent or illegal practice. Section 409.408(b), RSMo 1994.

Transacting business as an unregistered investment adviser constitutes an illegal practice under the statute.

Transacting business as an unregistered investment adviser representative constitutes an illegal practice under the statute.

Selling unregistered securities constitutes an illegal practice under the statute.

Engaging in an act, practice, or course of business which operates or would operate as a fraud or deceit upon any person constitutes an illegal practice under the statute.

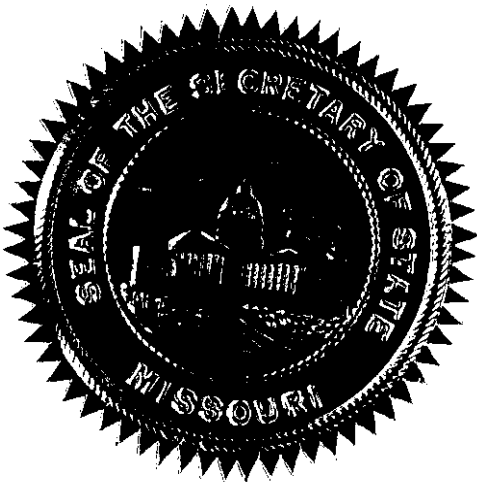
7. Sufficient evidence exists to conclude that Respondents have engaged in willful violations of Sections 409.101, RSMo 1994, and 409.201 and 409.301, RSMo Cumulative Supp. 1999.
8. Sufficient evidence exists to conclude that Respondents will continue such fraudulent and illegal practices.

NOW, THEREFORE, the Commissioner of Securities Orders that Matthew J. Trainer; Jason A. Trainer; Hardcastle Hedge Fund #1, L.P.; MMI Innovations, Inc. and Joel D. Puttcamp, their agents, employees and servants CEASE AND DESIST from the offer or sale of securities in violation of Sections 409.101, RSMo 1994 and 409.301, RSMo Cumulative Supp. 1999, and from engaging in investment advisory activities in violation of Section 409.201, RSMo Cumulative Supp. 1999.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY, MISSOURI THIS 27th DAY OF January, 2001.

REBECCA MCDOWELL COOK
SECRETARY OF STATE



A handwritten signature in black ink, appearing to read "Douglas F. Wilburn", written over a horizontal line.

DOUGLAS F. WILBURN
COMMISSIONER OF SECURITIES

NOTICE:

Respondents and any unnamed representatives aggrieved by this Order may request a hearing in this matter. Any request for a hearing should be sent, in writing to Douglas F. Wilburn, Commissioner of Securities, Office of the Secretary of State, Missouri State Information Center, Room 229, 600 West Main Street, Jefferson City, Missouri, 65102, within thirty (30) days of the receipt of this Order. Section 409.412(a), RSMo 1994 and MO 15 CSR 30-55.020.