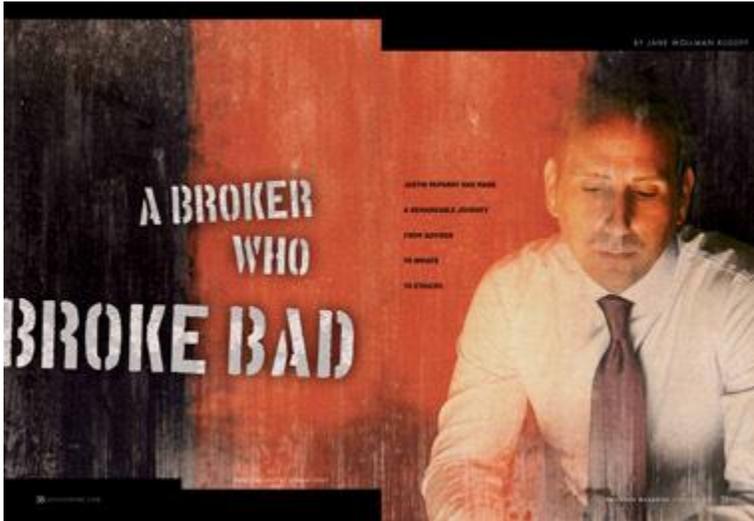


# A Broker Who Broke Bad

*Justin Paperny has made a remarkable journey from advisor to inmate to ethicist.*

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Serving nearly 400 days in federal prison wasn't what

Justin M. Paperny had in mind when he became a stockbroker fresh out of the University of Southern California, psychology degree in hand.

But a “focus on short-term rewards led to the rotting of my inner core,” Paperny writes in his book, *Ethics in Motion* (APS Publishing, 2010).

Once a top UBS Financial Services producer, the former broker, now 37, went to jail for conspiring to commit fraud with a hedge fund client.

From 2002 through 2004, Keith G. Gilabert, manager of GLT Venture Fund, swindled investors out of more than \$8 million. Convicted of aiding and abetting Gilabert's Ponzi scheme, Paperny in 2008 was sentenced to 18 months at Taft Federal Prison Camp in California.

Since his 2009 release on three years' probation, he has reinvented himself as a speaker on the advisor lecture circuit warning of the consequences of white-collar crime. A partner in the consulting firm Etika, his clients have included Morgan Stanley Smith Barney, Wells Fargo, New York University and the FBI. Further, the Studio City, Calif.-based Paperny is a consultant to white-collar defendants headed to prison, and he is executive director of The Michael G. Santos Foundation, which helps at-risk youth and adult offenders.

Reared in the upscale L.A. suburb of Encino, Paperny trained at Merrill Lynch but because of a dispute over commissions, left after only a year. Crowell, Weedon hired him. Then, at age 25 he moved to Bear Stearns before joining UBS in its Century City, L.A., office.

That's where he collected payments from Gilabert for encouraging folks to invest in the GLT fund. In 2007, Paperny pled guilty to one count of conspiracy to commit mail, wire and securities fraud.

## Here is his story of crime and redemption, as told to Research in December:

There will always be people who dismiss me as a felon, a cheat, a thief and a liar. You never get over that, and any guy out of jail who says he has is lying.

My descent was gradual. I couldn't resist temptation. It was just too easy. I decided to become a stockbroker while cold-calling at Prudential one summer when I was at USC. I liked the excitement—the thrill of soliciting business.

I was an arrogant, entitled stockbroker in my 20s, one of the youngest brokers Bear Stearns hired. I had Bear, and I thought it was a big deal.

But even though I was bringing in the lion's share of production, I was getting a much smaller percentage of commissions than my senior partner, Kenny. I got only about 25%. When I told Kenny I was entitled to a raise, he said I didn't deserve one and took credit for my work. That made me very angry.



So I took matters into my own hands. This is where my lack of judgment began. It wasn't greed—it was vengeance that led me to take advantage of my partner.

I found a glitch in the Bear accounting system that let me keep 100% of the production. I didn't think I was stealing. I convinced myself what I was taking was rightfully mine. Then fear of getting caught set in. Every time the phone rang, I thought: "Did Bear find out? Did Kenny find out?" I had to get out of Bear Stearns and start anew. Fortunately, Kenny wanted to leave too. The firm never had any idea that I was stealing from him.

In June 2001, UBS offered us a 7-figure bonus to move our book. A year into our tenure, they were pressuring us because we weren't proving worthy.

We were afraid we'd get fired since UBS had a two-tier system: Brokers who weren't living up to their bonuses were let go; brokers who were producing big numbers—regardless of how—kept their jobs.

An opportunity arose for Kenny and me to work with Keith Gilabert of the GLT Venture Fund. I didn't know he was running a Ponzi scheme. But I did know he was dishonest because at Crowell, Weedon, I worked in the cubicle next to him and heard him talking to clients. I told Kenny that we needed to be careful with this guy—he'd say anything to close a deal.

Despite knowing this, in June 2002 I accepted the \$6 million he transferred to us. I wanted his money and knew the commissions would grow. Kenny and I split the account 50/50.

Things started to go awry when, within the first year, Keith lost almost all of the \$6 million. In the interim, he generated hundreds of thousands of dollars in commissions. The following year, he raised another four or five million from investors! Kenny and I knew that nobody raises that kind of money unless they're lying to people. But we reasoned it wasn't our responsibility or our job to police clients.

Eventually, Keith began struggling to raise money and needed help from the big bank. Because we felt beholden to him for saving our partnership, Kenny and I attended some prospecting meetings with him. That gave him a great deal of credibility.

He told the prospects that his hedge fund was making 27% a year. Like a coward, unwilling to lose the account and production, I kept my damn mouth shut and said nothing. The prospects turned over their money—and Keith lost it.

I told my branch manager: "We have a client losing millions but raising new money. I fear that someday he'll sue us all. Let's protect ourselves." So we created a disclosure document stating that if an investment in GLT lost money, we couldn't be sued. UBS loved the idea, and I felt we were truly protected from any fallout.

Actually, I was doing a good job of dodging responsibility. My manager and compliance manager told me exactly what I wanted to hear—and I told them exactly what they wanted to hear. None of us would accept the truth.

A couple of months later, it all got out of control: Keith issued a press release announcing that he was speaking at an investment conference. He said his hedge fund was averaging 27% a year. The release came into the UBS email system. All of us read it, but we deleted it and acted as if we never saw it.

Two months later, everything became undone, when a client faxed a letter to my branch manager; and I learned that Keith was forging my name on UBS letterhead stating that his assets were in good standing at the firm.

The investigations began. The next day—stupidly, without a lawyer—I interviewed with UBS corporate counsel. It didn't go well. I was asked not to come in till the case was resolved.

Keith would call to apologize for bringing me into the mess. Kenny would call to give me tidbits on what was happening at UBS.

On January 11, 2005, UBS fired me for inconsistent answers that I gave in my deposition and told me to leave the building.

For the next few months, I was in a deep depression, afraid of what would happen, upset that I was being held accountable while my partner still had his desk.

Initially, I lied to my attorney. Now he was telling me that UBS believed I acted alone in facilitating the fraud, and they would not be representing me or covering my legal fees. I was stunned. I had assumed Kenny would lose his job too.

In October, I sat for an interview with the FBI. They asked if I ever saw a press release that discussed a GLT average annual return of 27%. I lied and said no.

Nothing happened for a year. I got my real estate agent license and did well. But a year-and-a-half after I was fired, Keith agreed to plead guilty. He had been cooperating with the feds, and they were listening in when he called me. When we'd meet, he was wearing a wire. Kenny was cooperating with UBS, and I believe he interviewed with the Department of Justice and the Securities and Exchange Commission. UBS covered every damn dime of his legal fees.

I told my lawyer: "Let's take it to trial, man!" I was delusional, convinced I had been wronged by my client and partner. I insisted on taking a lie detector test. I practiced for the exam, squeezing my leg, tush and chest, breathing a certain way. I failed by greater than 99.9%. My lawyer said, "You're going to prison." By then, I had spent about \$300,000 in legal fees.

Then Keith engaged in new illegal conduct and was indicted on new charges. They ripped up his plea agreement. The feds said they would give me a second chance at veracity, and I talked for many hours to the SEC and Department of Justice. I told them about UBS: the promises they made to shareholders but that in reality, it was about making money at all cost. I told them how we turned the other way and facilitated a fraud.

But previously I had lied to the FBI. You don't lie to the FBI! You can argue that Kenny got a better handout than I. But he who responds more favorably gets better treatment. If you've made a mistake and come clean, the rewards are many. My partner did that well, and he wasn't prosecuted.

In April 2008, I surrendered to prison to begin an 18-month sentence at Taft, a privately run facility with 10% to 20% white-collar inmates.

The prison term was much easier than I expected—once you became accustomed to being counted six times a day in your cubicle.

I woke up every day at about 4 a.m. and went to the Quiet Room to write my blog and first book, *Lessons from Prison*. I needed peace and quiet away from the craziness and noise of the dorm—the yelling, the burping, the whistling. I did my prison job of scrubbing pots and pans twice a day five days a week, for which I was paid about \$13 a month. I learned to keep my mouth shut and mind my own business.



One day I woke up and realized it wasn't Kenny, it wasn't Keith, it wasn't an aggressive culture at UBS that led me to cheat. It wasn't anybody but me that led to my demise. But in my career managing money, my values had changed. I was around men that I figured were unscrupulous and dishonest, and I worked my way down to their level. It was very much an end-justifies-the-means behavior.

There are thousands of ethical stockbrokers that do the right thing. They don't give in to temptation and are rewarded throughout their lives, whereas men like me who take shortcuts deserve punishment. I always knew it was wrong; yet I did it.

My degree in psychology helped me understand weaknesses and idiosyncrasies of people with whom I worked. If you're unethical, you can seize on these and take advantage. I did.

My life changed when I admitted that I alone was responsible for my troubles with the law. I began contributing to classes in mentoring my fellow prisoners. I often thought about consulting and speaking, and upon my release, pursued that aggressively.

But I was released to a world that doesn't totally embrace a convicted felon. I did a terrible thing. It lost me my career as a stockbroker and a real estate agent. Financially, everything I made legally or illegally is gone. I was ordered to pay more than \$500,000 in restitution. At sentencing, I paid \$100,000 and significantly more since I've been home. I make payments every single month.

Emotionally it's been devastating.

I want people to learn from my experience and be aware of the consequences if you cross that line. I encourage them to understand their weaknesses and evaluate their decisions: "Don't wait until something so significant happens before you reevaluate your life. Take charge now, and deal with it."

I keep myself in check: Once or twice a week, I think about recent decisions I've made. If I've done something I don't like, I try to improve. Cultivating character is no different from becoming a good golfer.

Kenny and I have rekindled our relationship and are communicating again. I prefer to withhold his last name and not talk a whole lot more about him, and how that relationship is evolving. It's still tough.

Last year, someone told me they read that Keith [filed a \$2 million defamation suit against me], but I didn't engage with them. I don't know what that's about. I haven't heard from Keith. I hope he's working hard and lawfully, as I am. I hope he's trying to make up for the bad things we did.

—As told to Jane Wollman Rusoff.