In The News

The final chapter of a $50 million Ponzi scheme that caught many high-profile coaches

7/19/19

Houston Chronicle

Eight years after David Salinas shot himself to death at his Friendswood home as regulators were probing what was revealed to be a $50 million Ponzi scheme, final restitution checks have been written and the case is about to be closed.

A court-appointed receiver recovered $21.9 million — 43 cents on the dollar, well above the average return in Ponzi cases — for Salinas' victims, including a University of Houston-related foundation, a church, a facility for the developmentally disabled and some of the nation's best-known college coaches.

The outcome, attorneys and investors agree, is a familiar cautionary tale: the danger of mixing friendship with business.

"David had been my friend since 1990," said Ray Giacoletti, who was head basketball coach at four colleges before retiring in 2017. "It's one thing to get duped by somebody who is supposed to be doing a service for you. It's another thing that it was a friend and somebody I trusted. That probably was harder than losing the money."

Salinas, 60, a prominent Amateur Athletic Union basketball coach and longtime UH and Rice University athletics booster, was found dead July 17, 2011, as Securities and Exchange Commission investigators sought to question him concerning irregularities with Select Asset Management, an investment company he created in 2006.

Among his clients, according to published reports, were current or former coaches Bill Yeoman (Houston), Art Briles (Houston, Baylor), Lute Olsen (Arizona), Scott Drew (Baylor), Mark Few (Gonzaga), Willis Wilson (Rice, Texas A&M-Corpus Christi), Scott Thompson (Rice), Grey Giovanine (Augustana), Billy Gillispie (Texas A&M, Kentucky, Ranger Junior College) and Giacoletti (Utah, Drake).

The scope of Salinas' fraud fell well short of Bernie Madoff's $64.8 billion Ponzi scheme or, in Houston, the $7 billion collapse of Allen Stanford's Stanford Financial Group.

Still, the damage was substantial. Of 271 claims filed against the Salinas estate, six were in excess of $1 million and 111 topped $100,000. The relatively high recovery rate stemmed from Salinas' purchase of $17.8 million in life insurance policies, which pay off, even in case of suicide, if they have been in force for at least two years.

"I guess you could say that (Salinas) was a crook with a conscience," said Houston business executive Mike Holley, a former UH football player and former president of the Houston Athletic Foundation.

Salinas' scheme is best described as an affinity fraud, trading on the goodwill of friends to attract other investors, said Michael Aguirre, an attorney in San Diego who represented Olsen.

"These things generally don't start off as Ponzi schemes," Aguirre said. "(Organizers) think they can manage the money efficiently and profitably, but something happens where they have to rob Peter to pay Paul, or they take money to pay for personal expenses, thinking they will pay it back."

Deep sports connections

Although scores of Salinas clients lost money, the most high-profile victims were the basketball coaches he met through AAU basketball and his support of Rice and UH athletics.

"People want to be part of what high-end athletes and celebrities put their money into," said Houston attorney Sameer Karim of the law firm Munsch, Hardt, Kopf & Harr, the court-appointed receiver.

"They feel these people can't lose, and that is the situation we had here. We had coaches who put money in, and because they did, other investors did as well."

Karim estimated that one-third to half of the 271 individuals and entities that filed claims had a sports connection.

Salinas' initial entrée with coaches came through friendships in the late 1980s with Rice's coaching staff, which included Thompson and his eventual successor, Wilson, plus Giovanine.

He later created the AAU Houston Select team, whose alumni include former UH player Louis Truscott, former University of Texas player Dexter Pittman and former Kansas State and NBA player Cartier Martin.

As college coaches recruited his AAU players, Salinas forged friendships with them, throwing an annual party at the NCAA Final Four and entertaining coaches at his Galveston beach house.

Virtually all of the coaches named publicly as Salinas clients, including Thompson, Giovanine, Drew, Few, Gillispie and Wilson, declined comment or did not return messages seeking comment.

One who did respond was William Yeoman, a former Harris County justice of the peace and the son of the longtime UH football coach, 91, who was victimized for $1.2 million after believing for years that he had invested wisely with Salinas.

"Dad figured that this guy was a friend of UH and he was a friend of dad's, so he trusted him," William Yeoman said.

"The problem with being one of the first people in a Ponzi scheme is that you get money back — or, actually, you get somebody else's money — and you get this warm, fuzzy feeling that everything is OK. But then it always goes bad."

Giacoletti, who was a head coach at North Dakota State, Eastern Washington, Utah and Drake and an assistant at Gonzaga, said he met Salinas through his friendship with Giovanine.

"He was a good guy who came to games and supported us," Giacoletti said. "He never pressed you to invest. We never made crazy money with him. It was just consistent throughout the years."

Giacoletti said he was reassured by the presence of Select Asset Management executive Brian Bjork, a former student manager and later basketball operations director at Rice.

"I always believed Brian Bjork would never screw Scott Thompson or Grey Giovanine," Giacoletti said. "Brian was like a son to Scott, and he probably was the one who helped me trust the whole situation even more."

While their friendship continued, Giacoletti noticed changes in the year leading up to Salinas' suicide.

"At the end, that was the only time I saw him actively pursue friends, including myself, to go out and get other people involved," he said. "I never saw that in the first 20 years."

Giacoletti, 57, said the emotional impact of Salinas' betrayal may have been more trying than the lost funds.

"I always thought of myself as being a pretty good judge of people, but obviously I was mistaken with David," he said. "I still don't know how much with him was genuine and how much was made up.

"I met with five financial advisers (after Salinas' death) because I didn't want to make the same mistakes again. Trusting people, I have a hard time with that."

Unraveling the Select Asset Management case fell to the Dallas law firm of Munsch, Hardt, Kopf & Harr, with attorneys Steven Harr in Dallas and Karim in Houston handling most of the work. Harr said the Salinas case was typical of the 20 fraud receiverships he has conducted.

"It always surprises me that people are willing to believe that there's something for nothing," he said. "People want to believe, and they don't ask enough questions."

'Writing was on the wall'

The receiver's report listed payouts of more than $1 million to six individuals or entitles, including sums of $5.1 million and $2.2 million, and four others of at least $400,000, from the recovered assets. No names of Salinas clients are named in the report.

Harr said most Ponzi returns are in the 5 percent to 10 percent range. Salinas, though, was unique in that while he spent money on himself, he had an exit strategy.

"He began these insurance purchases as early as 2006, so he knew the writing was on the wall," Harr said. "This was his way out.

"That's what is unusual about this one, that the bad guy, if you will, had a plan to ease some of the pain."

Salinas was selective in his largesse, designating friends, including Bill Yeoman, and relatives as policy beneficiaries. However, the receivers ensured that proceeds benefited all victims and also clawed back funds from some investors who were net winners.

In addition to his investment company, Salinas owned real estate, an office in Friendswood and a pawn shop. He did not, Harr said, indulge in luxury items, and there is no indication of hidden offshore accounts.

"He spent the money on himself and on paying false returns," Harr said. "When somebody needed to liquidate, he had to find money to keep the story alive, so that is where a lot of the money went prior to the fall."

As the receivership closes, victims can recoup additional losses through a tax deduction passed by Congress in 2009 in the wake of the Madoff scandal.

"There are factual thresholds that you have to meet, but you can assume that any Ponzi scheme will meet it," said attorney Roger Aksamit with the Houston office of Thompson & Knight. "You can't be related (to the person committing the fraud), and you have to have had no knowledge it was a Ponzi scheme."

Taxpayers have options in determining the proper filing year for the loss or whether it was treated as an income loss or a capital loss. In either case, the tax provision ensures that the eventual recovery rate for Salinas clients will be about 62 cents on the dollar, Aksamit said.

While most Ponzi schemes prey on the elderly, Harr said most of Salinas' clients were in their 40s and 50s and were able to recoup some of their losses through subsequent earnings.

There were, however, exceptions. One, Karim said, involved an elderly woman who trusted Salinas with life insurance money she received after her husband's death.

"David knew what he was taking," the attorney said. "He literally ruined her livelihood. Each time we spoke, she was very emotional and scared. My heart broke for her."

Bjork does prison time

The only person who served prison time in the Select Asset Management case was Bjork, who pleaded guilty in February 2013 to one count of wire fraud and was sentenced to 52 months in federal prison.

Bjork, according to the plea agreement, siphoned off money from investors that allegedly was to be used for investment in Salinas' corporate bonds, which were never purchased, or pawn shops, but it actually was for Bjork's own use.

Bjork also abused his position as treasurer of the Houston Athletics Foundation, an independently administered booster fund for UH athletics. Bjork deposited about $550,000 of HAF funds into his own account, according to prosecutors.

The government termed Bjork's scheme a "scam within a scam."

After Salinas died, Bjork went to work for HR&P, a Houston company that provides human resources and payroll services. Upon his release from a halfway house following his prison term, Holley, the company's founder and CEO, rehired him.

On May 16, 2018, Bjork wrote U.S. District Judge Gray Miller asking to be released from probation. He spoke of his church and community efforts, of his success at HR&P and added, "I have learned much during this time and have become a better son, brother, companion, friend and citizen."

However, less than a month after writing the letter, Bjork became ill at work and died June 7, 2018, of what Holley described as complications of a blood clot in his brain.

Thirteen days later, apparently unaware of the death, Miller granted Bjork's request to be released from probation.

Holley was victimized by Salinas as an investor and through his role with the Houston Athletic Foundation, which lost about $1.2 million. But he said hiring Bjork, who he views as a fall guy for Salinas, helped him get over the shock and disappointment.

"I tried to help some of the people who were hurt so badly, and I looked at Brian as much as a victim as many of the rest of us," Holley said.

"Seeing him get back on his feet was healing, and dying the way he did was an incredible tragedy. He had been through so much, and everything was coming back around for him. It was a bitter ending."

The largest institutional losers — the Houston Athletic Foundation, Living Stones Church in Alvin and Hope Village in Friendswood — all survived the Salinas scam.

The Houston Athletic Foundation, now known as the Houston Cougars Foundation, had about $5 million in assets as of its 2016 tax form and devotes its efforts to facility upgrades at UH.

Hope Village continues as a residential home and training program for about 60 special needs adults. It also has a day program for about 45 clients, and board members say its efforts were not impaired by the Salinas swindle.

Living Stones Church in Alvin, which was reported in 2012 by ESPN to have lost about $6 million, remains in operation under the name LS Church. It is now pastored by Stephanie Pitkin, the daughter of church founder Al Jandl, who did not return calls seeking comment.

For those entities, and for the individuals who did business with David Salinas, life goes on.

As Holley said of the receiver's efforts, "Fifty percent of something is better than 100 percent of nothing."

The full article can also be viewed by clicking here.

Primary Contacts

Steven Harr
Dallas
214.855.7534
sharr@munsch.com

Sameer Karim
Houston
713.222.4050
skarim@munsch.com

Related Practices

Bankruptcy, Restructuring & Insolvency
Fraud & Asset Recovery
Litigation
Receiverships