UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 2556 / September 26, 2006

INVESTMENT COMPANY ACT OF 1940
Release No. 27502 / September 26, 2006

ADMINISTRATIVE PROCEEDING
File No. 3-12434

In the Matter of

JAMES A. DeMATTEO,

Respondent.

ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER PURSUANT TO SECTIONS 203(f) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, AND SECTIONS 9(b) AND 9(f) OF THE INVESTMENT COMPANY ACT OF 1940

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), and Sections 9(b) and 9(f) of the Investment Company Act of 1940 ("Investment Company Act") against James A. DeMatteo ("DeMatteo" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer"), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Sections 203(f) and 203(k) of the Investment

Advisers Act of 1940, and Sections 9(b) and 9(f) of the Investment Company Act of 1940 ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Respondent

1. DeMatteo, age 46, is a resident of Staten Island, New York. During the relevant period, DeMatteo was the president of Cornerstone Equity Advisors, Inc. ("Cornerstone") and owned 24.7% of its stock. He was listed as an executive officer and control person on Cornerstone's February 2001 Form ADV.

Other Relevant Entities and Person

2. Cornerstone, incorporated in Nevada on February 19, 1997, was registered with the Commission as an investment adviser from October 27, 1998 until March 19, 2002, when it withdrew its registration. Cornerstone was the investment adviser to the Cornerstone Funds ("the Funds") from September 1998 through February 2002. Under investment advisory agreements with the Funds, Cornerstone was responsible for managing all aspects of the Funds' operations and supervising administrative services provided to the Funds, and the Funds were required to pay Cornerstone annually between .50 and .80 percent of the assets under management.[2] On October 15, 2002, Cornerstone filed for liquidation under Chapter 7 of the United States Bankruptcy Code.

3. The Cornerstone Funds were a family of mutual funds managed by Cornerstone from September 1998 until their liquidation in February and March 2002. The Cornerstone Funds consisted of the following mutual funds: (1) the Cornerstone Funds, Inc. - New York Muni Fund series; (2) the Cornerstone California Muni Fund; and (3) the Cornerstone Fixed Income Funds. The Cornerstone Fixed Income Funds contained three series: the Cornerstone High Yield Municipal Bond Series; Cornerstone Tax-Free Money Market Series; and the Cornerstone U.S. Government Income Fund Series. The Funds' boards of directors ("the board") suspended the sale of shares on or about April 30, 2000 when the Funds' auditors refused to certify the Funds' 1999 financial statements and commenced liquidation of the Funds beginning in February 2002. During the relevant period, the Funds were investment companies registered with the Commission pursuant to Section 8(a) of the Investment Company Act.

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[1] The findings herein are made pursuant to Respondent's Offer and are not binding on any other person or entity in this or any other proceeding.

[2] The advisory agreements between Cornerstone and the Funds expired on March 11, 2001, and new agreements were never executed. Nonetheless, Cornerstone continued to provide advisory services and collect fees from the Funds until February 2002.

4. Brendan E. Murray ("Murray"), age 44, was Cornerstone's managing director during the relevant period and was listed as an executive officer and control person on Cornerstone's February 2001 Form ADV. He also was the secretary of the Funds during the relevant period.

5. Voyager Institutional Services, LLC ("Voyager") was formed in 1999 by DeMatteo and the chief executive officer of Cornerstone to provide certain website and shareholder communication services to the Funds. In December 2000, the board approved a client servicing agreement between Voyager and the Funds under which Voyager provided the services for a fee.

Background

6. In managing the Funds, Cornerstone was responsible not only for providing investment advice but also for running their day-to-day operations and administrative functions. As such, Cornerstone oversaw the payment of the Funds' bills. In particular, the firm reviewed the invoices submitted by third parties for accounting and other necessary services and then authorized an administrator to pay the invoices from the Funds' assets. The actual payments were remitted by a bank as instructed by the administrator.

7. After Cornerstone's chief executive officer was incapacitated due to illness, DeMatteo and Murray changed the procedures for paying the Funds' expenses in November 2001. Rather than allowing the administrator to pay service providers directly as had been done in the past, they instructed the administrator to pay Voyager for some vendor invoices. DeMatteo and Murray doctored these vendor invoices to request higher amounts than the service providers actually billed. In one instance, an invoice was wholly fictitious. This practice caused the administrator to pay to Voyager, from November 2001 through February 2002, $102,385 beyond that which the service providers had billed. Voyager, however, was not entitled to this money.

8. When the payments from the administrator reached the Voyager bank account, DeMatteo paid the service providers the actual amounts that they had invoiced the Funds. DeMatteo, who controlled the Voyager bank account, signed each and every check to the service providers. The excess payment, representing the difference between the inflated or fictitious invoices and the amount the vendor actually received, was retained in the Voyager bank account. DeMatteo used these funds to pay his and Murray's salaries, which were increased during the three-month period, and other expenses including office rent, health insurance, car service, meals and credit cards. Checks for these expenses were also drawn on the Voyager bank account and signed or authorized by DeMatteo.

9. Some of the invoices submitted to the Funds' administrator were not only inflated but also were expenses of Cornerstone rather than the Funds. After the chief executive officer of Cornerstone became ill, DeMatteo retained two individuals to provide investment advice for the Funds. DeMatteo and Murray, however, did not seek board approval to enter contracts for

advisory services or to make payments for such services from the Funds' assets. During this time, the Funds continued to pay Cornerstone for investment advice under the advisory agreements. Murray and DeMatteo not only inflated these two individuals' invoices in the total amount of $19,856, but also caused the Funds to pay them $4,500 for services that Cornerstone was contractually obligated to perform.

10. DeMatteo and Murray thereby caused Cornerstone to misappropriate a total of $126,741 from the Funds.

11. The Funds' administrator became suspicious of certain payment requests, and brought the matter to the attention of the Funds' counsel. As a result, the misappropriation was uncovered and ceased. After a suit against Voyager and others, the Funds were reimbursed fully.

12. As a result of the conduct described above, DeMatteo willfully aided and abetted and caused Cornerstone to violate Sections 206(1) and 206(2) of the Advisers Act, which prohibit fraudulent conduct by an investment adviser.

13. As a result of the conduct described above, DeMatteo willfully violated Section 37 of the Investment Company Act by unlawfully and willfully converting to his own use or to the use of another the moneys, funds, securities, credits, property and assets of registered investment companies, as more particularly described in paragraphs 7-10, above.

Disgorgement and Civil Penalties

14. Respondent has submitted a sworn Statement of Financial Condition dated May 31, 2005 and supplemented as of December 30, 2005 and other evidence and has asserted his inability to pay disgorgement plus prejudgment interest and a civil penalty.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent DeMatteo's Offer.

Accordingly, pursuant to Sections 203(f) and 203(k) of the Advisers Act, and Sections 9(b) and 9(f) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent DeMatteo cease and desist from committing or causing any violations and any future violations of Sections 206(1) and 206(2) of the Advisers Act, and Section 37 of the Investment Company Act.

B. Respondent DeMatteo be, and hereby is, barred from association with any investment adviser, and is prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a

registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter.

C. Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission Order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission Order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission Order.

D. Respondent shall pay disgorgement of $111,741[3] plus prejudgment interest, but payment of such amount is waived and a penalty is not being imposed against Respondent by the Commission based upon Respondent's sworn representations in his Statement of Financial Condition dated May 31, 2005 and supplemented as of December 30, 2005 and other documents submitted to the Commission.

E. The Division of Enforcement may, at any time following the entry of this Order, petition the Commission to: (1) reopen this matter to consider whether Respondent provided accurate and complete financial information at the time such representations were made; and (2) seek an order directing payment of disgorgement and prejudgment interest and the maximum civil penalty allowable under the law. No other issue shall be considered in connection with this petition other than whether the financial information provided by Respondent was fraudulent, misleading, inaccurate, or incomplete in any material respect. Respondent may not, by way of defense to any such petition: (1) contest the findings in this Order; (2) assert that payment of disgorgement and interest and a penalty should not be ordered; (3) contest the amount of disgorgement and interest to be ordered or the imposition of the maximum penalty allowable under the law; or (4) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Nancy M. Morris
Secretary

[3] The disgorgement amount ordered equals the misappropriated amount of $126,741 less $15,000 due to a payment made to the Funds in conjunction with the civil litigation referenced in paragraph 11 above.