



Notice of Disciplinary Action Against David N. Rades, Former Associated Person of Echotrade, LLC, a Former Member Organization

To: Members, Member Organizations, Participants and Participant Organizations

From: John C. Pickford, Enforcement Counsel, NASDAQ OMX PHLXSM

DATE: April 24, 2012

FINRA Matter No. 20100219901 Enforcement No. 2011-10

On April 24, 2012, the Business Conduct Committee (the "Committee") issued a disciplinary decision against David N. Rades ("Rades"), a former registered representative and off-floor trader associated with Echotrade, LLC ("Echotrade"), a former member organization of the NASDAQ OMX PHLX, LLC ("PHLX" or the "Exchange"). In response to a Statement of Charges issued in this action, Rades submitted an Offer of Settlement, Stipulation of Facts and Consent to Sanctions ("Offer"). Solely to settle this proceeding, and without admitting or denying the charges, Rades consented to findings that during the period between March 18, 2008 and December 2009 ("Relevant Period"), he committed violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Rule 10b-5 promulgated under the Exchange Act, and Exchange Rules 707 and 793 by engaging in a fraudulent scheme whereby, through the use of materially false or misleading statements and omissions, he solicited no fewer than three investors and obtained approximately \$224,000 from investors, including approximately \$15,000 from the investors' life insurance policies, purportedly for the purpose of establishing trading partnerships with the investors to share the profits generated from the purchase and sale of securities.

The Committee found that during the Relevant Period, Rades approached acquaintances with the idea of providing funding for "leveraged trading partnership[s]" between them and Rades that would trade securities and share the profits generated from using unspecified but purportedly profitable trading strategies developed and employed by successful traders known to Rades. The Committee found that Rades made numerous materially false and misleading statements to, and withheld material information from, investors in order to initiate, conceal and prolong his fraudulent scheme. Among other things, the Committee found that Rades told investors that he would utilize trading strategies that had been successfully employed by others known to Rades to make money in the stock market, and that these individuals had personally invested in, and would utilize their respective trading strategies to trade on behalf of the trading partnerships Rades had formed with investors. In reality, none of these individuals had invested in or traded on behalf of the trading partnerships. Although Echotrade's policies specifically prohibited Rades from soliciting funds from third parties or depositing third-party funds into his Echotrade account, Rades told investors that he would deposit their funds into a separate account at Echotrade and provide monthly account statements to reflect the partnerships' trading activities at Echotrade. In reality, Rades did not deposit investors' funds directly into his trading account or provide the

promised monthly account statements, but, instead, circumvented Echotrade's prohibition against third-party funding by first depositing investors' funds into his personal bank accounts and then moving a portion of the funds into his Echotrade trading account. He then systematically converted investors' funds to support his personal expenditures. Rades did not disclose to investors that: (i) Echotrade restricted third-party account funding and profit sharing; (ii) he would deposit and had deposited investor funds into his personal account to evade Echotrade's third-party funding prohibitions; and (iii) he had misappropriated investor funds for his personal use and had sustained significant losses in the Echotrade trading account.

The Committee also found that in furtherance of his fraudulent scheme Rades secured copies of two Metropolitan Life Insurance ("MetLife") Policy Loan Request forms that were previously executed by two investors, "whited out" the loan amount and date fields on the documents, inserted new loan amounts of \$7,500 each and new dates, and submitted the altered forms to MetLife to obtain \$15,000 in loan proceeds against the investors' life insurance policies. Rades also engaged in outside business affiliations with the trading partnerships he had created with investors without notifying, or obtaining approval from, Echotrade or the Exchange.

The Committee found that Rades had violated Section 10(b) of the Exchange Act, Rule 10b-5 promulgated thereunder, and Exchange Rule 707 and 793, and ordered the imposition of the following sanctions against Rades: a bar in all capacities from associating with a member or member organization of the Exchange.

For more information, contact:

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