

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

WADE JAMES LAWRENCE,

Defendant.

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Case No. Case No. 3:16-cv-426

COMPLAINT

Plaintiff Securities and Exchange Commission ("SEC"), for its Complaint against Defendant Wade James Lawrence ("Lawrence"), alleges:

SUMMARY

1. Between 2010 and 2013, Wade James Lawrence ("Lawrence"), age 44, formerly of Dallas, Texas, was an investment adviser associated with two companies registered with the SEC as broker-dealers and investment advisers. Lawrence defrauded and breached his fiduciary duties to at least 18 advisory clients by making numerous misrepresentations to them and by placing numerous unauthorized trades in their accounts. As a result of his unlawful trading, Lawrence's clients lost at least \$2 million. Lawrence received approximately \$28,700 in advisory fees from these clients. Lawrence also solicited at least \$480,000 from five persons by making false representations that he would trade securities for their benefit in his own brokerage account. In reality, Lawrence spent the vast majority of the \$480,000 for his personal use, while returning roughly \$50,000 in the form of Ponzi-like payments.

2. As a result of his actions, Lawrence violated Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. 77q(a)], Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder and Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 ("Advisers Act") [15 U.S.C. § 80b-6(1) and 80b-6(2)]. In the interest of protecting the public from any further violations of the federal securities laws by Lawrence, the SEC brings this action against him. The SEC seeks permanent injunctive relief, disgorgement with pre-judgment interest, civil money penalties, and all other equitable and ancillary relief deemed necessary by the Court.

JURISDICTION AND VENUE

3. The SEC brings this action under Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)], Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)] and Section 209 of the Advisers Act [15 U.S.C. § 80b-9], seeking to restrain and enjoin permanently the Defendant from engaging in the unlawful acts, practices, and courses of business alleged herein.

4. This Court has jurisdiction over this action under Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], Section 27 of the Exchange Act [15 U.S.C. § 78aa], and Section 214 of the Advisers Act [15 U.S.C. § 80b-14].

5. The Defendant, directly and indirectly, made use of the mails or of the means or instrumentalities of interstate commerce in connection with the transactions, acts, practices, or courses of business described in this Complaint.

6. Venue is proper under Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], Section 27 of the Exchange Act [15 U.S.C. § 78aa], and Section 214 of the Advisers Act [15 U.S.C. § 80b-14], because the transactions, acts, practices, and courses of business described below occurred within the jurisdiction of the Northern District of Texas.

PARTIES

7. Plaintiff SEC is an agency of the United States of America charged with enforcing the federal securities laws.

FACTS

8. Between June 2008 and July 2013, Lawrence was associated with two companies that were dually registered with the SEC as both broker-dealers and investments advisers.

9. At the time he began engaging in the conduct at issue in this Complaint, Lawrence was associated with the first of the two companies. During that time, Lawrence was managing approximately 250 advisory and brokerage accounts. Initially, he traded on a generally profitable basis in accordance with his clients' and customers' investment objectives and trade authorizations.¹

10. Lawrence's clients and customers included personal friends and relatives. Their investment objectives ranged from preservation of principal to growth and/or speculation. In general, Lawrence's customers and clients placed great personal trust in him.

11. In mid-June 2010, Lawrence began pursuing a more aggressive and risky trading strategy for his own account and a few of his advisory clients. That strategy involved trading equities and options, including purchasing options on a highly speculative security known as the iPath S&P 500 VIX Short Term Futures ETN ("VXX"). The VXX is structured in such a way that it must continually purchase short-term VIX futures, often at a price more expensive than the

¹ The term "clients" refers to Lawrence's advisory clients, while the term "customers" refers to his brokerage customers.

last.² This ongoing cost increase generally results in a negative return, which is typically exacerbated the longer the instrument is held.

12. Lawrence's clients never gave him written discretionary authority to conduct transactions in their accounts without prior authorization. In spite of this, Lawrence purchased and sold securities—including risky investments—without authorization.

13. Even with those clients with whom he had some discussion about trading more aggressively or who had speculation as a trading objective, Lawrence did not fully disclose the risks of VXX and other aggressive trading. This included failing to disclose the risk of holding VXX positions for extended periods.

14. Because Lawrence had some initial successes with his strategies, he began executing similar trades in more client accounts. He did this without providing notification or getting authorization.

15. In 2011, Lawrence's trading strategy resulted in significant losses for him and his clients. In an effort to recoup the losses, Lawrence began making additional speculative trades on a more frequent basis—resulting in more losses. Like the earlier trades, these were unauthorized.

16. Some of Lawrence's clients eventually began questioning him about the losses in their accounts. In response, Lawrence misrepresented and mischaracterized the unauthorized trades he had placed in their accounts.

17. In June 2011, one of Lawrence's clients contacted his Branch Manager. The client complained that Lawrence had executed unauthorized trades in his account and offered to

² "VIX" is the ticker symbol for the CBOE Volatility Index, which is a popular measure of the implied volatility of Standard & Poor's ("S&P") 500 index options. The VIX is calculated by the Chicago Board Options Exchange ("CBOE").

personally pay for the losses. When asked about this by his Branch Manager, Lawrence admitted to making unauthorized trades. However, he denied offering to personally reimburse the client—which he had in fact done. Lawrence also failed to reveal that he had placed similar unauthorized trades in the accounts of other clients.

18. In August 2011, Lawrence began his association with the second broker-dealer and investment adviser. As with the previous company, none of Lawrence's clients gave him written discretionary authority to trade in their accounts.

19. Lawrence quickly resumed his aggressive and unauthorized trading. For his first two months at the new firm, Lawrence's clients experienced gains as a result of his trading. In November 2011, however, both Lawrence and his clients began suffering significant losses from his unauthorized trading—including in the VXX, options, and other securities.

20. As at the prior company, Lawrence tried to recoup the losses. He again made unauthorized speculative trades on a more frequent basis. This resulted in additional losses.

21. Through his unlawful activities at both firms, Lawrence breached fiduciary duties to his clients. This resulted in Lawrence receiving advisory fees of roughly \$28,700.

22. In January 2012, Lawrence needed more funds to cover his own and his clients' investment losses and to pay off various debts. Consequently, he raised at least \$480,000 from at least five people. He accepted money both directly and via personal checks or wire transfers to his personal checking account. The funds were supposedly for investment and trading for their behalf in his personal brokerage account. Lawrence falsely claimed that by not opening personal accounts for them, they would benefit because he could purchase securities at prices lower than those for the general public. He also falsely claimed he could make trades that the general public could not make.

23. Rather than invest and trade the funds as promised, Lawrence first used the funds—as well as other loan proceeds—to pay personal expenses and debts and to make Ponzi-like payments to the investors. The approximate amount of these payments was \$50,000. When investors asked Lawrence about the status of their investments, he claimed they were performing well—even going so far as to send fake account balances to investors by text message.

24. In November 2013, Lawrence voluntarily ended his association with the second firm. He subsequently entered a plea of guilty to charges that he criminally violated Section 17(a) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c), and 77q(a)]. *See* Case No. 3:15-cr-374-M: *United States of America v. Wade Lawrence* (N.D. Tex.). Lawrence was sentenced to a three year prison term, ordered to pay restitution of \$1,454,384.48, and to forfeit \$126,074.10 from the sale of real property he had acquired through his fraud.

CLAIMS FOR RELIEF

First Claim Violations of Section 17(a) of the Securities Act

25. The SEC re-alleges and incorporates paragraphs 1-25 by reference as if set forth fully herein.

26. Defendant Lawrence, directly or indirectly, singly or in concert with others, in the offer or sale of securities, by use of any means or instruments of transportation or communication in interstate commerce or by use of the mails: (a) employed devices, schemes, or artifices to defraud; or (b) obtained money or property by means of untrue statements of a material fact or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in transactions, practices, or courses of business which operate or would operate as a fraud or deceit upon the purchasers.

27. With respect to violations of Sections 17(a)(2) and (3) of the Securities Act, Lawrence acted at least negligently. With respect to violations of Section 17(a)(1) of the Securities Act, Lawrence acted knowingly or with severe recklessness.

28. Consequently, Lawrence has violated and, unless enjoined, will continue to violate Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

Second Claim
Violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder

29. The SEC re-alleges and incorporates paragraphs 1-25 by reference as if set forth fully herein.

30. Defendant Lawrence, directly or indirectly, singly or in concert with others, in connection with the purchase or sale of securities, by the use of any means or instrumentality of interstate commerce or of the mails, knowingly or with reckless disregard for the truth: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of a material fact or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices, or courses of business which operate or would operate as a fraud or deceit upon purchasers of securities, or upon other persons.

31. Lawrence engaged in these actions knowingly or with severe recklessness.

32. Consequently, Lawrence violated and, unless enjoined, will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

Third Claim
Violation of Sections 206(1) and 206(2) of the Advisers Act

33. The SEC re-alleges and incorporates paragraphs 1-25 by reference as if set forth fully herein.

34. Defendant Lawrence, as an investment adviser, directly or indirectly, by the use of the mails or any means or instrumentality of interstate commerce or of the mails, employed devices, schemes, and artifices to defraud his clients, and has engaged in transactions, acts, practices, and courses of business which operated as a fraud and deceit upon his clients.

35. With respect to violations of Section 206(1) of the Advisers Act, Lawrence acted knowingly or with severe recklessness. With respect to violations of Section 206(2) of the Advisers Act, Lawrence acted at least negligently.

36. Consequently, Defendant violated and, unless enjoined, will continue to violate Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. § 80b-6(1) and 80b-6(2)].

RELIEF REQUESTED

The SEC respectfully requests that this Court enter a judgment:

A. Permanently enjoining Defendant Lawrence from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. §§ 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder, and Sections 206(1)-(2) of the Advisers Act [15 U.S.C. § 80b-6(1) and 80b-6(2)].

B. Ordering the Defendant to disgorge \$458,700.00, an amount equal to the funds and benefits he obtained illegally, or to which he is otherwise not entitled, as a result of the violations alleged, plus prejudgment interest of \$31,101.13, for a total of \$489,801.13; but deems

payment of these amounts satisfied by the criminal order to pay restitution of \$1,454,384.48 and the forfeiture order of \$126,074.10.³

C. Declining to impose civil penalties upon Defendant, pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], or Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)], because of his criminal conviction and three year prison sentence.⁴

D. Ordering such other relief as this Court may deem just and proper.

Dated: February 16, 2016

Respectfully Submitted,

/s/ Chris Davis

Chris Davis

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³ See Unopposed Motion to Enter Agreed Final Judgment, Proposed Final Judgment, and Consent of Defendant Wade James Lawrence—which are being filed in conjunction with the Complaint.

⁴ See Unopposed Motion to Enter Agreed Final Judgment, Proposed Final Judgment, and Consent of Defendant Wade James Lawrence—which are being filed in conjunction with the Complaint.