

IN THE UNITED STATES DISTRICT COURT
FOR THE
WESTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

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CIVIL ACTION NO. _____
BY _____

Gordon J. Quist
U.S. District Judge
1:06 CV 0705

COMMODITY FUTURES TRADING
COMMISSION,

Plaintiff,

v.

Steven G. Schroeder

Defendant.

**COMPLAINT FOR INJUNCTIVE AND OTHER EQUITABLE RELIEF AND
FOR CIVIL PENALTIES UNDER THE COMMODITY EXCHANGE ACT**

I. SUMMARY

1. Since at least September 2004 (the "relevant time"), Steven Schroeder ("Schroeder") has fraudulently solicited and defrauded existing and prospective managed futures account clients while holding himself out to the public as a commodity trading advisor ("CTA"). Among other things, Schroeder has lied about the size of his personal trading accounts, the profitability of his trading for himself and his clients, and his background. Schroeder has also distributed fictitious or altered trading statements that wildly misrepresented his trading performance. In fact, Schroeder has lost money trading for himself, as well as for nine of the ten client accounts he managed during the relevant time. Schroeder should be, but is not, registered with the Commodity Futures Trading Commission ("Commission" or "CFTC") as a commodity trading advisor ("CTA") to engage in these activities.

2. Schroeder ultimately solicited at least \$1,057,026 from at least ten clients, and lost \$184,465 of these funds managing their accounts. Schroeder also solicited an additional \$1 million from an eleventh client, but that client withdrew his funds before Schroeder could trade them. Schroeder currently is managing commodity futures accounts for at least two clients.

3. Schroeder has engaged, is engaging, or is about to engage in acts and practices that violate Sections 4b(a)(2)(i), (ii) and (iii), 4m(1), and 4o(1) of the Commodity Exchange Act, as amended (the "Act"), 7 U.S.C. §§ 6b(a)(2)(i), (ii) and (iii), 6m(1), and 6o(1) (2002) and Section 4.31 of the Commission's Regulations ("Regulations"), 17 C.F.R. § 4.31 (2006).

4. Accordingly, the Commission brings this action pursuant to Section 6c(a) of the Act, 7 U.S.C. § 13a-1 (2002), to enjoin the defendant's unlawful acts and practices and to compel their compliance with the Act. In addition, the Commission seeks disgorgement of the defendant's ill-gotten gains, restitution to clients, civil monetary penalties and such other relief as this Court may deem necessary and appropriate.

5. Unless restrained and enjoined by this Court, the defendant is likely to continue to engage in the acts and practices alleged in this Complaint and similar acts and practices, as more fully described below.

II. JURISDICTION AND VENUE

6. The Act prohibits fraud in connection with the trading of commodity futures contracts and establishes a comprehensive system for regulating the purchase and sale of such contracts. This Court has jurisdiction over this action pursuant to Section 6c(a) of the Act, 7 U.S.C. § 13a-1 (2002), which authorizes the Commission to seek injunctive relief against any person whenever it shall appear to the Commission that such person has engaged, is engaging, or

is about to engage in any act or practice constituting a violation of any provision of the Act or any rule, regulation or order thereunder.

7. Venue properly lies with this Court pursuant to Section 6c(e) of the Act, 7 U.S.C. § 13a(e) (2002), because the defendant is found in, inhabits, or transacts business, among other places, in this District, or the acts and practices in violation of the Act have occurred, are occurring, or are about to occur, among other places, within this District.

III. THE PARTIES

8. Plaintiff Commodity Futures Trading Commission (“CFTC”) is an independent federal regulatory agency that is charged with responsibility for administering and enforcing the provisions of the Act, 7 U.S.C. §§ 1 *et seq.* (2002), and the Regulations promulgated thereunder, 17 C.F.R. §§ 1 *et seq.* (2006).

9. Defendant Steven G. Schroeder, 39 years old, is a resident of Muskegon Heights, Michigan 49444. Schroeder has never been registered with the Commission in any capacity.

IV. FACTS

10. During the relevant time, Schroeder solicited approximately \$2.057 million from at least eleven members of the public, for whom he would trade commodity futures through powers of attorney. Schroeder has made use of the means and instrumentalities of interstate commerce, and the mails, in connection with the acts, practices and courses of business complained of herein.

Schroeder Lied in Soliciting Funds to Trade

11. In February 2005, Gary Schubert (“Schubert”), a resident of British Columbia, read some postings by Schroeder on an internet website entitled letstalkwinning.com. In the

ings, Schroeder claimed that he had been very successful trading commodity futures and that he had recently doubled a \$100,000 investment in one month. Both claims were false.

12. Schroeder and Schubert exchanged e-mails and telephone calls in which Schroeder repeatedly asked Schubert to open a commodity account and give Schroeder a power of attorney to place trades for the account. In February 2005, Schroeder included in e-mails to Schubert a track record going back several months displaying large profits. The trades listed in Schroeder's track record never took place and the reported profits were not real. Schroeder also promised that he could make a 30% profit per month for Schubert, and that he could use a trading strategy to minimize risk.

13. Schroeder claimed that Schubert could verify his trading success by contacting the member Introducing Broker ("IB"), Lakefront Futures & Options, L.L.C. ("Lakefront"), with whom Schroeder traded. In February or March 2005, Schubert called Lakefront and inquired whether Schroeder was doing well trading. The Lakefront employee told Schubert that Schroeder was "doing okay."

14. In late March 2005, Schubert opened an account at Man Financial, Inc. ("Man"), a member futures commission merchant ("FCM"), introduced by Lakefront, and invested \$100,000. Schubert expected to pay a percentage of any trading profits in the account to Schroeder. Schroeder traded Schubert's account for less than a month and lost \$4,700. Schroeder told Schubert that the losses happened because he had not invested enough money. Schroeder suggested that Schubert send in more funds. Instead, Schubert withdrew his remaining \$5,300.

20. Lembeck told a Lakefront employee that he had met Schroeder over the internet and that he was considering allowing Schroeder to trade for him, with Schroeder's compensation being a percentage of the profits. Lembeck also told the Lakefront employee that he had seen Schroeder's statements and asked him if he was trading for others at Lakefront. The Lakefront employee responded that Schroeder was trading for others, that he had a personal account there in the past and that he was "legit."

21. Subsequently, on July 23, 2005, Lembeck opened an account at Man through Lakefront. On July 27, 2005, before depositing any funds in his account, Lembeck received an e-mail from Schroeder wherein Schroeder discussed his background and claimed that he had received his "doctorate in finance from the University of Michigan" approximately 20 years ago. Schroeder's claim of a degree from the University of Michigan was false. Subsequently, in August 2005, Lembeck deposited an initial \$24,600 in IRA funds.

22. Schroeder continued to solicit more funds from Lembeck and others in September 2005 as "capital partners," falsely claiming in e-mails that the accounts he managed had earned profits of more than \$1 million and 1,000% returns since February 1st.

23. Schroeder traded Lembeck's account until October 18, 2005, and lost approximately \$8,000. Lembeck asked Schroeder to repay these losses, claiming Schroeder had not traded as they had agreed. On information and belief, Schroeder agreed to repay Lembeck, but has not yet done so.

Schroeder Falsified a Statement Showing an Account Equity of More Than \$1 Million

24. In mid-2005, David Rycott ("Rycott"), representing a corporation called FX Strategies Limited, located in Hong Kong and organized in the Bahamas, was approached by Schroeder on the internet. Schroeder told Rycott that he was a successful trader and inquired

whether Rycott would be interested in having Schroeder trade for his company's account in exchange for a percentage of the profits.

25. Rycott told Schroeder that he would consider the proposal and asked Schroeder to send him statements from his account as he wanted assurance that Schroeder's account had a balance of \$1 million. Schroeder sent to Rycott his purported statements from Man showing a \$1 million balance and Rycott eventually decided to open an account.

26. On October 12, 2005, Rycott opened up an account for FX Strategies at Man through Lakefront, funded the account with \$1 million, and gave Schroeder authority to trade the account.

27. Rycott wanted to prevent Schroeder from having the opportunity to allocate losing trades to his account. Thus, immediately after funding the account, and in an attempt to confirm that Schroeder's account balance was of a similar magnitude as the FX Strategies account, Rycott contacted Lakefront and sent them a copy of a September 15, 2005 Man statement that was sent to him by Schroeder showing total equity of more than \$1 million. He also sought assurance from Lakefront that they would only accept orders for his account that were identical to those that Schroeder was placing for his own account.

28. Upon receipt of the statement from Rycott, Lakefront contacted Rycott and told him that the statement showing total equity of more than \$1 million was not that of Schroeder's account and indicated that the statement sent to them appeared to have been "doctored." In fact, the statement was a total fabrication as Schroeder's personal accounts at Man had a zero balance at that time and never had an account balance close to that magnitude.

29. When confronted with the apparently false statement for his account, Schroeder then sent Rycott a purported statement showing account equity on October 12, 2005 of more than

\$759,000 for what he explained was his current account at Rosenthal. The Rosenthal statement was also a fabrication as Schroeder did not have an open account at Rosenthal at that time and never had an account balance close to that magnitude. After receiving at least two e-mails from Schroeder in failed attempts to explain these irregularities, Rycott withdrew the \$1 million from his account at Man and sustained no loss.

Schroeder Falsified a Statement to Another Prospective Client

30. In February 2005, an individual named Michael Esposito, a resident of Neshanic Station, New Jersey, saw the same posts by Schroeder on the website letstalkwinning.com that Schubert had seen. In the postings, Schroeder claimed that he had been very successful trading commodity futures and that he had recently doubled a \$100,000 investment in one month. Both claims were false.

31. Subsequently, and through an exchange of e-mails and phone calls, Schroeder solicited Esposito to open a commodity trading account and to give him a power of attorney to place trades for his account. Schroeder sent Esposito e-mails highlighting a track record of accounts that Schroeder claimed to manage that allegedly had earned tremendous profits over the past several months. Although Schroeder told Esposito that he had been very profitable day-trading commodity futures, Schroeder advised Esposito that a few small clients of his were "down a little."

32. To buttress his claims, Schroeder sent Esposito copies of purported FCM account statements showing a starting balance of \$100,000 in January 2005 that had earned a profit of \$400,000 in less than a year. These statements were false in that Schroeder never reaped profits of that magnitude for himself or any of his clients.

33. Schroeder assured Esposito that he would trade conservatively in order to minimize the risk of loss and that he would only receive compensation at the rate of 30% of the profits earned in the account after the first month. Schroeder requested that Esposito deposit \$25,000 into a commodity futures account at an FCM called Goldenberg, Hehmeyer & Co. ("GH & Co."), since Schroeder said that he already had an account there.

34. Esposito and his girlfriend, Marie Scodari ("Scodari"), decided to open an account and to give Schroeder a power of attorney. On November 21, 2005, Scodari opened an account at GH & Co. that was funded with a deposit of \$25,000.

35. From November 7, 2005 until January 25, 2006, Schroeder traded for Scodari's account and, during that time, lost over \$4,000. Shortly thereafter, Scodari withdrew her remaining funds and closed her account.

36. As recently as June 21, 2006, Schroeder was sending e-mails to Esposito in which Schroeder represented that he was profitably trading other commodity futures accounts.

Schroeder Falsified Another \$1 Million Account Statement

37. In March 2005, Jeffrey Krah ("Krah"), a resident of Nashua, New Hampshire, read some of Schroeder's postings on the letstalkwinning.com internet website. In the postings, Schroeder claimed that he had been very successful trading commodity futures.

38. For months thereafter, Schroeder and Krah exchanged e-mails concerning Schroeder's commodity futures trading and, in October 2005, Schroeder sent Krah copies of false account statements purportedly for Schroeder's personal trading accounts. These statements showed a starting balance in February 2005 of \$100,000 for Schroeder's account at Rosenthal and a net account value of more than \$1.2 million for Schroeder's account at Man in September 2005. These statements were completely false since, at that time, Schroeder did not

even have open trading accounts on the dates represented on the statements, nor did he ever have account balances close to that magnitude at either firm when he had such accounts open.

39. Krah opened his trading account in January 2006 with a deposit of \$25,000. By the end of April 2006, with Schroeder managing the trading in this account, it had lost \$6,961. At that time, Krah terminated Schroeder's trading privileges, although his account remains open.

Schroeder's Overall Trading was Unsuccessful

40. Schroeder traded for himself through three commodity trading accounts at various firms from July through October 2004, losing close to \$32,000 on net deposits totaling \$59,000.

41. From July 2004 through the present, Schroeder had trading authority over eleven client accounts. These accounts had total deposits of \$2.057 million. Six of these accounts were at Man and were introduced by Lakefront, four of these were at GH & Co. and the last of these was at Rosenthal. Ten of the accounts were actually traded by Schroeder, with one of the accounts returning a small profit of \$3,239. However, Schroeder's managed trading accounts had overall trading losses of \$184,465 during the period. Presently, Schroeder has control over two client accounts at GH & Co. with a total account value of more than \$300,000.

**V. VIOLATIONS OF THE COMMODITY EXCHANGE ACT
AND COMMISSION REGULATIONS**

COUNT ONE

**SCHROEDER'S VIOLATIONS OF SECTIONS 4b(a)(2)(i) and (iii) OF THE ACT:
FRAUD BY MISREPRESENTATION**

42. The allegations set forth in paragraphs 1 through 41 are re-alleged and incorporated herein.

43. During the relevant time, Schroeder violated Sections 4b(a)(2)(i) and (iii) of the Act, 7 U.S.C. §§ 6b(a)(2)(i) and (iii) (2002), in that he cheated or defrauded or attempted to cheat

or defraud and willfully deceived or attempted to deceive clients by soliciting them to deposit funds with FCMs for Schroeder to trade by omitting to reveal the material fact that his personal trading and his trading for others over the previous five years had been unprofitable and by making misrepresentations about the size and profitability of his past trading, the risks associated with his trading on their behalf, his educational background and by distributing false trading account statements to further these misrepresentations.

44. Schroeder engaged in the conduct described in this Count in or in connection with orders to make, or the making of, contracts of sale of commodities, for future delivery, made, or to be made, for or on behalf of such other persons where such contracts for future delivery were or may have been used for (a) hedging any transaction in interstate commerce in such commodity, or the products or byproducts thereof, or (b) determining the price basis of any transaction in interstate commerce in such commodity, or (c) delivering any such commodity sold, shipped or received in interstate commerce for the fulfillment thereof.

45. Each material misrepresentation or omission, and each false statement made during the relevant time, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation of Section 4b(a)(2)(i) and (iii) of the Act, 7 U.S.C. §§ 6b(a)(2)(i) and (iii) (2002).

COUNT TWO

SCHROEDER'S VIOLATION OF SECTION 4b(a)(ii) OF THE ACT: PROVIDING FALSE ACCOUNT STATEMENTS TO PROSPECTIVE CLIENTS

46. The allegations set forth in paragraphs 1 through 45 are re-alleged and incorporated herein.

47. During the relevant time, Schroeder violated Section 4b(a)(2)(ii) of the Act, 7 U.S.C. § 6b(a)(2)(ii) (2002), in that he willfully made or caused to be made false reports or

statements thereof by preparing false account statements and distributing them to prospective clients. These statements misrepresented profits and total account equity for purported Schroeder accounts at Man and Rosenthal.

48. Schroeder engaged in this conduct, in or in connection with orders to make, or the making of, contracts of sale of commodities for future delivery, made, or to be made, for or on behalf of other persons where such contracts for future delivery were or may have been used for (a) hedging any transaction in interstate commerce in such commodity, or the products or byproducts thereof, or (b) determining the price basis of any transaction in interstate commerce in such commodity, or (c) delivering any such commodity sold, shipped or received in interstate commerce for the fulfillment thereof.

49. Each false report or statement thereof during the relevant time, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation of Section 4b(a)(2)(ii) of the Act.

COUNT THREE

SCHROEDER'S VIOLATION OF SECTION 4m(1) OF THE ACT: ACTING AS A CTA WITHOUT BENEFIT OF REGISTRATION

50. The allegations set forth in paragraphs 1 through 49 are re-alleged and incorporated herein.

51. With certain specified exceptions and exemptions, not applicable here, all CTAs are required to be registered with the Commission, pursuant to Section 4m(1) of the Act, 7 U.S.C. § 6m(1) (2002).

52. During the relevant time, Schroeder held himself out as and acted as a CTA, in that, for compensation or profit, he engaged in the business of advising others as to the value of or the advisability of trading in commodity futures.

53. In connection with the conduct described above in this Count, Schroeder used the mails and other means or instrumentalities of interstate commerce, directly or indirectly, to engage in business as, and hold himself out to the public as, a CTA.

54. Defendant Schroeder engaged in these activities without the benefit of registration as a CTA, in violation of Section 4m(1) of the Act, 7 U.S.C. § 6m(1) (2002).

55. Each use of the mails or any means or instrumentality of interstate commerce in connection with defendant Schroeder's business as a CTA without proper registration during the relevant time, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation of Section 4m(1) of the Act.

COUNT FOUR

SCHROEDER'S VIOLATIONS OF SECTION 4o(l) (A) and (B) OF THE ACT: FRAUD BY A CTA

56. The allegations set forth in paragraphs 1 through 55 are re-alleged and incorporated herein.

57. During the relevant time, defendant Schroeder, while acting as a CTA, has violated Section 4o(1)(A) and (B) of the Act, 7 U.S.C. § 6o(1)(A) and (B) (2002), in that he directly or indirectly employed or is employing a device, scheme or artifice to defraud any client or prospective client, and has engaged or is engaging in transactions, practices or a course of business that operated as a fraud or deceit upon clients or prospective clients by using the mails or other means or instrumentalities of interstate commerce. His fraudulent acts included, but were not limited to, deceiving clients by soliciting them to deposit funds with FCMs for Schroeder to trade by omitting to reveal the material fact that his personal trading and his trading for others over the previous five years had been unprofitable and by making misrepresentations about the size and profitability of his past trading, the risks associated with his trading on their

behalf, his educational background and by distributing false trading account statements to further these misrepresentations.

58. Each misrepresentation, omission or false statement made during the relevant time, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation of Section 4o(1) of the Act, 7 U.S.C. § 6o(1) (2002).

COUNT FIVE

**SCHROEDER'S VIOLATION OF REGULATION 4.31:
FAILURE TO PROVIDE DISCLOSURE DOCUMENTS**

59. The allegations set forth in paragraphs 1 through 58 are re-alleged and incorporated herein.

60. During the relevant time, Schroeder entered into agreements with prospective clients to direct the trading in their commodity interest accounts without first, or at the same time, delivering to the prospective clients a Disclosure Document containing the information required by Regulations 4.34 and 4.35, 17 C.F.R. §§ 4.34 and 4.35 (2006), including, among others, a Risk Disclosure Statement and disclosure of the past performance of the trading program, in violation of Regulation 4.31, 17 C.F.R. § 4.31 (2006).

61. Each failure to deliver a Disclosure Document containing the information set forth in Regulations 4.34 and 4.35 during the relevant time, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation of Regulation 4.31, 17 C.F.R. § 4.31 (2006).

VI. RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that this Court, as authorized by Section 6c of the Act, 7 U.S.C. § 13a-1, and pursuant to its own equitable powers:

- A. Find that defendant Schroeder violated Sections 4b(a)(2)(i), (ii) and (iii), 4m(1) and 4o(1) of the Act, 7 U.S.C. §§ 6b(a)(2)(i), (ii) and (iii), 6m(1), and 6o(1) (2002) and Regulation 4.31, 17 C.F.R. § 4.31 (2006);
- B. Enter a statutory restraining order and an order of preliminary injunction restraining and enjoining the defendant and all persons insofar as they are acting in the capacity of his agents, servants, successors, assigns, and attorneys, and all persons insofar as they are acting in active concert or participation with him who receive actual notice of such order by personal service or otherwise, from directly or indirectly:
 1. Destroying, mutilating, concealing, altering or disposing of any books and records, documents, correspondence, brochures, manuals, electronically stored data, tape records or other property of defendant, wherever located, including all such records concerning defendant's business operations; and
 2. Refusing to permit authorized representatives of the Commission to inspect, when and as requested, any books and records, documents, correspondence, brochures, manuals, electronically stored data, tape records or other property of defendant, wherever located, including all such records concerning defendant's business operations.
- C. Enter a statutory restraining order and an order of preliminary injunction restraining and enjoining defendant Schroeder and all persons insofar as they are acting in the capacity of his agents, servants, successors, assigns, and attorneys, and all persons insofar as they are acting in active concert or participation with him who receive actual notice of such order by personal service or otherwise, from directly or indirectly withdrawing, transferring, removing, dissipating, concealing or disposing of, in any manner, any funds, assets, or other property, wherever situated, including but not limited to, all funds, personal property, money or securities held in safes, safety deposit boxes and all funds on deposit in any financial institution, bank or savings and loan account held by, under the control of, or in the name of, defendant Schroeder.
- D. Enter orders of preliminary and permanent injunction prohibiting defendant Schroeder and any other person or entity associated with him, including any successor thereof, from:
 1. engaging in conduct, in violation of Sections 4b(a)(2)(i), (ii) and (iii), 4m(1) and 4o(1) of Act, 7 U.S.C. §§ 6b(a)(2)(i), (ii) and (iii), 6m(1) and 6o(1) (2002) and Regulation 4.31, 17 C.F.R. §4.31 (2006);

2. engaging in, controlling, or directing the trading of any commodity futures or options accounts for or on behalf of any other person or entity, whether by power of attorney or otherwise; and
 3. applying for registration or claiming exemption from registration with the Commission in any capacity, and engaging in any activity requiring such registration or exemption from registration with the Commission, except as provided for in Regulation 4.14(a)(9), 17 C.F.R. § 4.14(a)(9) (2006), or acting as a principal, agent, officer or employee of any person registered, required to be registered, or exempted from registration with the Commission, except as provided for in Regulation 4.14(a)(9), 17 C.F.R. § 4.14(a)(9)(2006). This includes, but is not limited to, soliciting, accepting, or receiving any funds, revenue or other property from any other person, giving commodity trading advice for compensation, except as provided in Regulation 4.14(a)(9), 17 C.F.R. § 4.14(a)(9) (2006), or soliciting prospective clients related to the purchase or sale of commodity futures or options.
- E. Enter an order directing defendant Schroeder to disgorge, pursuant to such procedure as the Court may order, all benefits received from the acts or practices that constitute violations of the Act or Regulations, as described herein, and interest thereon from the date of such violations;
- F. Enter an order directing defendant Schroeder to make full restitution to every client whose funds were solicited by him as a result of acts and practices that constituted violations of the Act and Regulations, as described herein, and interest thereon from the date of such violations;
- G. Enter an order assessing a civil monetary penalty against the defendant in the amount of not more than the higher of \$120,000 (\$130,000 for violations occurring after October 23, 2004) or triple the monetary gain to the defendant for each violation by the Defendant of the Act or Regulation;
- H. Enter an order directing that defendant Schroeder make an accounting to the court of all his assets and liabilities, together with all funds he solicited from and paid to clients and other persons in connection with commodity futures transactions, including salaries, commissions, fees, loans and other disbursements of money and property of any kind, from, but not limited to, January 2004 to and including the date of such accounting;
- I. Enter an order requiring defendant Schroeder to pay costs and fees as permitted by 28 U.S.C. §§ 1920 and 2412(a)(2); and

J. Order such other and further remedial ancillary relief as the Court may deem appropriate.

Dated: September 27, 2006

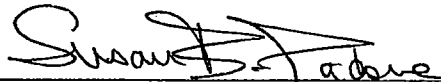
Respectfully submitted,

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