UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 61247 / December 29, 2009

INVESTMENT ADVISERS ACT OF 1940
Release No. 2967 / December 29, 2009

ADMINISTRATIVE PROCEEDING
File No. 3-13731

In the Matter of **Jeffrey C. Young,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE PROCEEDINGS, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS PURSUANT TO SECTION 15(b) OF THE SECURITIES EXCHANGE ACT OF 1934 AND SECTION 203(f) OF THE INVESTMENT ADVISERS ACT OF 1940**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Section 203(f) of the Investment Advisers Act of 1940 ("Advisers Act") against Jeffrey C. Young ("Young" 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 Proceedings, Making Findings, and Imposing Remedial Sanctions Pursuant to Section 15(b) of the Securities Exchange Act of 1934 and Section 203(f) of the Investment Advisers Act of 1940 ("Order"), as set forth below.

III.

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

Summary

These proceedings arise out of Young's failure to supervise Harold Jaschke, a registered representative who, between May 2006 and March 2008, executed unauthorized transactions, made unsuitable recommendations, and churned his customers' accounts. During this time, Jaschke was associated with First Allied Securities, Inc. ("First Allied"), a registered broker-dealer for which Young was the vice president of supervision. Jaschke violated Section 17(a) of the Securities Act of 1933 ("Securities Act") and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder by engaging in an unauthorized high risk, short term Treasury bond trading strategy on behalf of his customers. Jaschke's customers, the City of Kissimmee ("COK") and the Tohopekaliga Water Authority ("Toho") (collectively, the "Municipalities"), were required by ordinance to invest their funds in order to provide for safety of capital, liquidity of funds, and investment income, in that order of importance, and were prohibited specifically from using the proceeds of repurchase agreements and reverse repurchase agreements for the purpose of making investments. Despite being aware of the ordinances, Jaschke engaged in a high risk trading strategy and leveraged the Municipalities' accounts in violation of the ordinances. In addition, Jaschke lied to the Municipalities to conceal the risky nature of the investments, his use of leverage, and large unrealized losses the accounts experienced as a result of his misconduct.

Young failed reasonably to supervise Jaschke because he failed to respond adequately to "red flags" relating to Jaschke and failed to take reasonable steps to ensure that First Allied's procedures regarding suitability were followed. Young received notices generated by Bear, Stearns Securities Corp. ("Bear Stearns"), First Allied's clearing broker, that highlighted declining equity and high turnover in the Municipalities' accounts. However, Young did not contact the Municipalities to discuss the account activity. In addition, Young was aware that Jaschke claimed that the Bear Stearns account statements were inaccurate and that Jaschke provided the Municipalities with his own trading spreadsheets. While Young himself did not understand Jaschke's spreadsheets and, in fact, questioned the accuracy of the information contained therein, Young did not ensure that the spreadsheets were accurate, despite knowing that they were being provided to the Municipalities. Finally, Young failed to follow First Allied's procedures regarding suitability determinations. As a result, Young failed reasonably to supervise Jaschke within the meaning of Section (15)(b)(6)(A) of the Exchange Act which incorporates by reference Section 15(b)(4)(E) and Section 203(e)(6) of the Advisers Act.

Respondent

1. **Jeffrey C. Young ("Young"),** age 45, resides in San Diego, California. Young has been associated with First Allied since 1997. From 2000 to August 2009, he was vice president of supervision. He is currently vice president of special projects.

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

Other Relevant Entities and Persons

2. **First Allied Securities, Inc. ("First Allied")** is a New York corporation with its principal place of business in San Diego, California. Since 1993, First Allied has been registered with the Commission as a broker-dealer, and, since 1994, as an investment adviser. First Allied licenses over 900 independent contractor representatives and maintains approximately 600 branch offices nationwide. First Allied is solely owned by FAS Holdings Inc., which in turn is solely owned by Advanced Equities Financial Corp.

3. **Harold H. Jaschke ("Jaschke"),** age 48, resides in Houston, Texas. Jaschke was associated with First Allied as a registered representative from June 2005 until August 2008, at which time First Allied terminated its association with Jaschke.

Background

4. Jaschke recommended that the Municipalities engage in a trading strategy involving long-term, zero-coupon United States Treasury Bonds, also known as "STRIPS" (which stands for Separate Trading of Registered Interest and Principal of Securities). Jaschke's strategy involved buying and selling the same STRIPS within a matter of days, and sometimes within the same day, to take advantage of short term changes in the price of STRIPS. In addition to simply short-term trading in STRIPS, Jaschke used repurchase agreements, or "repos," to finance purchases of STRIPS for the Municipalities. Repos are agreements in which a seller of securities agrees to buy the securities back from the purchaser at a specified price at a designated future date. In other words, repos are a type of short- term loan, which in this case were collateralized by STRIPS. The use of repos significantly increased the risks to which Jaschke's customers were exposed, as repos effectively allowed the accounts to borrow large amounts of money in order to hold larger positions of STRIPS. As a result of Jaschke's trading strategy, between May 2006 and June 2007, COK's account value declined 56% and Toho's account value declined 58%, an aggregate unrealized loss of more than $47 million. The Municipalities closed their accounts in March 2008 at a profit.

5. The individuals responsible for making investment decisions on behalf of the Municipalities relied upon Jaschke for information regarding their investments in STRIPS. They also relied on Jaschke to ensure that any investing they engaged in complied with their investment policies, which were substantially identical, and codified in municipal ordinances. The ordinances stated, among other things, that the Municipalities' funds were to be invested to provide safety of capital, liquidity of funds, and investment income, in that order of importance. The ordinances, while allowing for the use of repos for liquidity, also specifically prohibited using repos for the purpose of making investments. Despite these restrictions, Jaschke engaged in risky trading and used repos in a manner that directly violated the terms of the Municipalities' investment ordinances.

Jaschke's Material Misrepresentations and Omissions

6. Jaschke lied to the Municipalities regarding his use of leverage in their accounts. In fall 2006, the STRIPS market fell, causing Jaschke to significantly leverage the Municipalities' accounts to allow him to continue his trading strategy. This, in turn, caused the

percentage of equity in the Municipalities' accounts to drop below Bear Stearns' equity threshold. As a result, the accounts began receiving house calls that required an infusion of cash to meet the required equity percentage. House calls could be satisfied by either wiring cash into the account, or by selling off securities.

7. Jaschke lied to the Municipalities about the house calls' existence. He instructed his customers to ignore communications on First Allied letterhead regarding the need to make deposits to cover the house calls. When Jaschke needed additional funds wired into one of the accounts to satisfy a house call, he contacted his customers purporting to offer them new STRIPS "investments," which typically involved an investment of a fixed amount that would be returned shortly with a specific rate of return. However, instead of investing his customers' funds as promised, Jaschke simply used the "investment" funds to meet house calls, then returned the funds plus the rate of return when the accounts no longer needed the cash to meet the required equity threshold. If the Municipalities weren't interested in making these "investments," or if Jaschke chose not to approach them, he would simply direct First Allied's margin clerks to sell securities to cover the calls without ever disclosing either the house call or the sale to his customers (although the Municipalities did receive trade confirmations).

8. Jaschke also lied to the Municipalities regarding their account activity and performance. Between December 2006 and June 2007, the Municipalities' accounts continuously lost value, and experienced extremely large, unrealized losses by the summer of 2007 when the STRIPS market rapidly declined. Jaschke never disclosed the unrealized losses to his customers. Although the Municipalities received account statements from Bear Stearns, Jaschke instructed them to ignore those statements. For example, when one customer noticed that Toho's account statement showed losses in December 2006, Jaschke told him that the statements were inaccurate due to problems with Bear Stearns' systems, and instructed him to instead rely on spreadsheets Jaschke had prepared. On at least one of Jaschke's spreadsheets, the market value of Toho's STRIPS was overstated by approximately $25 million.

9. In late summer 2007, COK's and Toho's auditors began reviewing the Municipalities' investment activity and identified the unrealized losses. Jaschke blamed the losses on Bear Stearns and falsely claimed that the accounts had mistakenly been treated as margin accounts and were wrongfully liquidated, at a loss, to cover margin calls. In reality, Bear Stearns neither liquidated the Municipalities' accounts, nor directed anyone at First Allied to do so. Instead, the losses resulted from Jaschke's trading in the accounts while the STRIPS market suffered a dramatic decline, and Jaschke simply lied to deflect attention from his unauthorized activities.

Jaschke's Unauthorized Trading

10. Between May 2006 and March 2008, Jaschke engaged in several different types of unauthorized trading in the Municipalities' accounts. Despite the fact that the Municipalities held non-discretionary accounts with First Allied, Jaschke conducted hundreds of short-term STRIPS transactions in the Municipalities' accounts without the full knowledge or authorization of his customers.

11. Additionally, Jaschke's use of repos was unauthorized. Jaschke led the Municipalities to believe that the repos were used only to facilitate the transfer of funds between the Municipalities and First Allied, and would not be used to leverage the Municipalities' investment portfolios. Despite his statements to his customers, Jaschke continually used repos to highly leverage both accounts.

12. Finally, Jaschke conducted unauthorized transactions to hide the numerous house calls the Municipalities received. Jaschke engaged in unauthorized sales of securities to meet some house calls, and lied to his customers about non-existent investment opportunities in order to secure funds to satisfy other house calls.

Jaschke's Unsuitable Recommendations

13. Jaschke's trading strategy was unsuitable for the Municipalities in light of their investment ordinances and their conservative investment objectives. Their investment ordinances prioritized safety of capital above all else, and specifically prohibited using repos for the purpose of making investments. Jaschke was aware of, and had copies of, the Municipalities' investment ordinances, and the accounts were listed as having low or moderate risk tolerances within First Allied's internal account-tracking system. Nevertheless, Jaschke embarked on a risky trading strategy that involved short-term trading, a practice described as "trading" in First Allied's written definitions of investment objectives, which was not appropriate for customers with a low investment risk tolerance. Additionally, Jaschke used repos to invest in STRIPS, a practice he knew was specifically prohibited by the Municipalities' investment ordinances.

Jaschke's Churning

14. Between May 2006 and March 2008, although COK's and Toho's accounts were set up as non-discretionary, Jaschke engaged in unauthorized trading and/or in effect had complete discretion over the accounts at all relevant times. Jaschke excessively traded the Municipalities' accounts for his own gain in disregard of his customers' interest.

Young's Failure to Supervise Jaschke

15. Young failed reasonably to supervise Jaschke. Young was the vice president of supervision and the head of First Allied's supervision department, a role that required him to oversee and train other supervisors regarding compliance with First Allied's policies and procedures. While Young was not Jaschke's direct supervisor, he became actively involved in supervising Jaschke in September 2006 and thereafter began making significant supervisory decisions regarding Jaschke's handling of the Municipalities' accounts. Young also had the powers traditionally associated with a supervisor, including the ability to discipline and fire Jaschke.

Young Failed to Respond Reasonably to Red Flags

16. Young was first notified of abnormal trading in the Municipalities' accounts in September 2006 when automated account surveillance reports, or "exception reports," generated by Bear Stearns were escalated to him. The exception reports showed turnover rates of 17 for

COK and 21 for Toho, and indicated the possibility of churning in the accounts.[2] When a valid exception report was generated, First Allied's general practice was to send its customers a "negative response letter," i.e., no response is required. The negative response letter informed the customer of the type of activity shown on the exception report and provided the customer with the contact information for the regional supervisor responsible for the account in the event the customer had questions.

17. However, when Young received the September 2006 exception reports for the Municipalities, he did not send them negative response letters. Young was concerned because institutional (rather than retail) customers were involved, and he had had little experience dealing with such customers and was unsure whether to send out the typical negative response letter or whether to take some other action. Because he believed, based on representations from Jaschke, that the Municipalities were sophisticated and that the trading in the accounts was occurring at their direction, Young worried that he would appear to be uninformed if First Allied were to send the customers negative response letters, since he assumed that they and Jaschke understood the activity in the accounts better than he did. Bear Stearns generated additional exception reports in December 2006 indicating turnover ratios of 301 for COK and 106 for Toho, and highlighting the fact that COK's account had underperformed the S&P by 40%. Young did not send negative response letters to the Municipalities with respect to these reports as well. Young's responses to the exception reports were inadequate, as they did not result in prompt follow up on red flags regarding churning and suitability.

18. Over the next few months, as the Municipalities' account equity continued to drop, Young became increasingly concerned about the activity in both accounts. In response, Young had numerous conversations with Jaschke, during which Jaschke provided various excuses for the volatile account activity, including the falsehood that Bear Stearns' automated system did not know how to treat repos, which supposedly caused the exception reports and inaccurate account statements to be generated. Young failed adequately to question the veracity of Jaschke's often detailed and convoluted explanations, partly because he did not understand Jaschke's complex underlying trading strategy.

19. Furthermore, Young asked Jaschke to provide him copies of the spreadsheets Jaschke supposedly kept to reconcile the account activity due to the purported complexity of Bear Stearns' account statements. After several initial delays, Jaschke finally produced the spreadsheets, but Young did not fully understand them. Young was told by Jaschke that Jaschke was providing these same spreadsheets to the Municipalities and, although concerned about their accuracy, Young did not take any other steps to ensure that the Municipalities were receiving accurate account information from Jaschke. Young's failure to respond to red flags regarding the accuracy of information provided to the customers by Jaschke was unreasonable, particularly given that he was also aware of other red flags regarding the same accounts.

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[2] A turnover rate measures the turnover in an account, which is the number of times during a given period that the securities are replaced by new securities, by dividing the total cost of purchases made during a given period by the average amount invested during that period. A turnover rate that exceeds six is presumptive of churning. Arceneaux v. Merrill Lynch, Pierce, Fenner & Smith, Inc., 767 F.2d 1498, 1502 (11th Cir. 1985); In the Matter of Al Rizek, 1998 SEC LEXIS 905, at 52.

Young Failed to Assess Suitability in Accordance With Firm Policies

20. Despite the fact that he considered the Municipalities to be institutional investors, Young did not adequately assess the suitability of Jaschke's trading based on the firm's institutional investor suitability guidelines, which required consideration of the customer's ability to evaluate investment risk independently, and the extent to which the customer was exercising independent judgment regarding the transaction.

21. Additionally, First Allied's written supervisory procedures required Young to conduct reviews of exception reports. However, he failed to verify the accuracy of Jaschke's responses to the exception reports generated in September and December 2006. In February 2007, Jaschke submitted his responses to the December 2006 exception reports, falsely stating that the risk tolerance for the Municipalities was "high." Young knew that this was a change from prior account records he had reviewed. Those records were from 2003, and Young had asked Jaschke to have the Municipalities submit updated account documentation**.** However, Young did not check the firm's records to see if they had actually been updated, and did not check to see if any new paperwork had actually been submitted by the Municipalities. In fact, the Municipalities' account information was never changed within the firm's records and always showed a low or moderate risk tolerance because the Municipalities, by the terms of their investment ordinances, were required to engage only in conservative trading. If Young had checked the firm's internal systems, he would have seen that the Municipalities were listed as having low or moderate risk tolerances, and likely could have detected or prevented Jaschke's fraud.

22. Young's failure to follow the firm's established procedures was especially unreasonable because he was the head of First Allied's supervision department and was responsible for overseeing and training other supervisors regarding compliance with the firm's policies and procedures.

Legal Analysis

23. As a result of the conduct described above, Jaschke violated Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

24. Section 15(b)(4)(E) of the Exchange Act requires broker-dealers reasonably to supervise persons subject to their supervision, with a view toward preventing violations of the federal securities laws. See, e.g., Dean Witter Reynolds, Inc., Exchange Act Rel. No. 46578 (October 1, 2002). The Commission has emphasized that the "responsibility of broker-dealers to supervise their employees by means of effective, established procedures is a critical component in the federal investor protection scheme regulating the securities markets." Id. Section 15(b)(4)(E) of the Exchange Act provides for the imposition of a sanction against a broker or dealer who "has failed reasonably to supervise, with a view to preventing violations of the securities laws, another person who commits such a violation, if such other person is subject to his supervision." Section 15(b)(6)(A)(i) incorporates by reference Section 15(b)(4)(E) and provides for the imposition of sanctions against persons associated with a broker-dealer. Similarly, Section 203(f) of the Advisers Act, incorporating by reference Section 203(e)(6) of the Advisers Act, authorizes the Commission to sanction a person who is associated, or at the time of

the alleged misconduct was associated, with an investment adviser for failing reasonably to supervise, with a view to preventing violations of the federal securities law, another person who commits such a violation, if that person is subject to the person's supervision.

25. As a result of the conduct described above, Young failed reasonably to supervise Jaschke within the meaning of Section 15(b)(4)(E) of the Exchange Act, and within the meaning of Section 203(f) of the Advisers Act, when he failed to supervise Jaschke with a view to preventing and detecting his violations of the federal securities laws.

IV.

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

Accordingly, pursuant to Section 15(b) of the Exchange Act and Section 203(f) of the Advisers Act, it is hereby ORDERED that:

A. Respondent Young be, and hereby is, suspended from association in a supervisory capacity with any broker, dealer or investment adviser for a period of nine (9) months.

B. IT IS FURTHER ORDERED that Respondent shall, within one year of the entry of this Order, pay a civil money penalty in the amount of $25,000 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Young as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Michele Wein Layne, Division of Enforcement, Securities and Exchange Commission, 5670 Wilshire Blvd., Suite 1100, Los Angeles, CA 90036.

By the Commission.

Elizabeth M. Murphy
Secretary