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NATIONAL FUTURES ASSOCIATION
BEFORE THE
HEARING PANEL

JAN 14 2008

NATIONAL FUTURES ASSOCIATION
LEGAL DOCKETING

In the Matter of:)
)
Cornerstone Capital Management LLC)
(NFA ID #347927))
)
and) NFA Case No. 07-BCC-024
)
Joseph Thomas Profit, Jr.)
(NFA ID #277718),)
)
Respondents.)

DECISION

On November 12, 2007, a designated Panel of the Hearing Committee held a hearing to consider the charges against Cornerstone Capital Management LLC (Cornerstone) and Joseph Thomas Profit, Jr. (Profit). The Panel issues the following Decision under National Futures Association (NFA) Compliance Rule 3-10.

I

PROCEDURAL HISTORY

On June 28, 2007, NFA's Business Conduct Committee issued a four count Complaint against Cornerstone and Profit. Count I alleged that Cornerstone and Profit provided false information to NFA in violation of NFA Compliance Rule 2-2(f). Count II of the Complaint charged Cornerstone with violating NFA Compliance Rule 2-29(f) for failing to maintain support for advertised rates of return. In addition, Count III alleged that Cornerstone violated NFA Compliance Rules 2-29(b)(1) and

2-29(b)(2) by using deceptive and misleading promotional material. Finally, Count IV of the Complaint charged Cornerstone and Profit with failing to supervise the activities of Cornerstone in violation of NFA Compliance Rule 2-9(a).

Profit filed an Answer on behalf of himself and Cornerstone. In that Answer, Profit indicated that he could neither admit nor deny the allegations in the Complaint.

II

EVIDENCE PRESENTED AT THE HEARING

NFA presented the testimony of one witness and introduced several documents into evidence. Cornerstone and Profit did not appear at the hearing, and no evidence was presented on their behalf.¹

Yongseok Kim

Yongseok Kim (Kim) testified he is currently employed as a manager in NFA's Compliance Department. According to Kim, Cornerstone was an NFA Member CPO and CTA. Profit was Cornerstone's sole principal and Associated Person (AP).

Kim also testified that in December 2006, NFA received a telephone call from an NFA Member FCM regarding some promotional material the firm had received regarding Cornerstone. The promotional material included references to high rates of return that Cornerstone had achieved. Kim testified that NFA was surprised by this promotional material because Cornerstone had represented to NFA on more than one occasion that it was not active as a CPO or CTA. Specifically, the disclosure document that Cornerstone filed with NFA on October 1, 2005, stated that neither the trading

¹ Profit and Cornerstone were properly served with notice of this hearing in an Order dated October 18, 2007.

advisor nor any of its trading principals had previously directed any accounts. (See NFA Exhibit 1.) In addition, Kim testified that although in late 2005 Profit notified NFA that it was operating the Icon Fund, when NFA contacted Profit in early 2006 to follow up on the annual report that would have been due for the Fund, Profit told NFA that he had not as yet actually started operating the pool. Later in 2006, as part of its regular procedures, NFA contacted Cornerstone to confirm that the CPO was not operating any pools. Profit informed NFA at that time that Cornerstone was not operating any pools.

Kim testified that, based on the promotional material provided by the NFA Member, NFA staff conducted some independent research and identified several websites soliciting for CTAs that included a disclosure document for Cornerstone's Icon Trading Program (Icon Program) that had not been provided to NFA. (See NFA Exhibit 2.)

Kim further testified that the disclosure document included performance history for the Icon Program. This information indicated that the Icon Program began trading in October 2004 and had achieved monthly rates of return between 14 and 40 percent between then and March 2006.

Kim stated that, based on this information, NFA decided to visit the firm immediately. The firm's registration records indicated that its offices were located in New York City.

According to Kim, NFA arrived at Cornerstone's New York office on Friday, January 19, 2007 and learned that no representative of Cornerstone was there. Kim stated that a receptionist at the location attempted to contact someone from

Cornerstone. A short time later, NFA staff received a phone call from Profit, who was in Georgia.

Kim testified that NFA told Profit that they needed to meet with him immediately and review some of Cornerstone's records. Kim stated that Profit first told NFA that the records were at the New York address but later changed his story and said the records were in Georgia. Eventually, Profit told NFA that he didn't know where the records were.

Kim further testified that NFA staff traveled to Georgia the following Monday to meet with Profit. During the meeting, NFA questioned Profit about the firm's CTA clients and pool participants. Profit told NFA that he did not have any CTA clients. NFA confronted Profit with the fact that NFA knew that Cornerstone had been soliciting clients on CTA websites. Profit then stated that Cornerstone had three managed accounts, and he provided NFA with a list of the accounts. NFA, however, had already learned through several NFA FCM Members that Cornerstone had several CTA clients and a few of those clients were not included on the list that Profit provided NFA. When NFA confronted Profit with this information, Profit stated that Cornerstone had six CTA clients.

Kim testified that NFA did its own investigation and learned that Cornerstone had at least ten managed accounts. The investigation also revealed that Cornerstone began trading these accounts as early as the end of 2005. In addition, on January 27, 2007, Cornerstone's website contained performance information for the trading program that indicated that the program commenced trading in October 2004. This performance information also indicated that the trading program had been

profitable from October 2004 through December 2006. (See NFA Exhibit 4.) Kim stated that the April 1, 2006 disclosure document for Icon Program also indicated that the Program began trading in October 2004. Kim testified that Profit was unable to provide NFA with any support for performance information included in the disclosure document or on the website.

According to Kim, NFA also questioned Profit on whether there were any pool participants in the Icon Fund. Profit first told NFA that there were no pool participants and later changed his story and indicated that there were seven participants. He also told NFA that the first participants invested in the Icon Fund sometime in the beginning of 2006. Kim stated, however, that Profit did not have any documentation to support this. Kim also stated that although NFA was not able to definitively determine when the first participants invested in the Icon Fund, NFA did uncover an annual report for the Icon Fund dated December 31, 2005 (see NFA Exhibit 3) that indicated that the Icon Fund was incorporated on June 1, 2004 and commenced operations on October 1, 2004. The annual report also indicated that the Fund had over \$300,000 in realized gains from October 2004 through December 2005. Profit, however, was not able to provide any supporting documentation for the rates of return he reported in the Icon Fund's 2005 annual report. Profit informed NFA, however that there had been approximately \$1.8 million in contributions and that about \$500,000 remained. Profit indicated that the difference was due primarily to trading losses.

Kim testified that as part of NFA's investigation, NFA contacted FCM Members and was able to gather account statements for a number of Cornerstone's managed accounts trading the Icon Program and for the Icon Fund. In particular, NFA

gathered statements for nine managed accounts and four accounts for the Icon Fund. With these statements, NFA prepared a spreadsheet and calculated the rate of return for each of the accounts. (See NFA Exhibit 5.) This analysis showed that all of the managed accounts had a negative rate of return and three of the four Fund trading accounts lost money. One of the accounts had a profit of approximately \$760.

III

DISCUSSION

The Complaint in this matter charges Cornerstone and Profit with providing false information to NFA in violation of NFA Compliance Rule 2-2(f) and failing to supervise the operations of Cornerstone in violation of NFA Compliance Rule 2-9(a). In addition, the Complaint charges Cornerstone with failing to maintain support for advertised rates of return in violation of NFA Compliance Rule 2-29(f) and for using deceptive and misleading promotional material in violation of NFA Compliance Rule 2-29(b)(1) and 2-29(b)(2). As discussed more fully below, the Panel finds that the Respondents committed each of the violations alleged.

NFA presented compelling evidence to support the allegations in the Complaint. Kim provided detailed, credible testimony and documentary evidence that clearly established that Profit and Cornerstone had provided false information to NFA. Kim stated that Profit told NFA on two occasions that Cornerstone was not operating a commodity pool, and NFA introduced documentary evidence in the form of Cornerstone's October 1, 2005 disclosure document that indicated the firm had represented to NFA that Cornerstone had not previously directed any customer accounts. These representations were clearly false based on the fact that NFA

uncovered ten managed accounts trading the Icon Program and several trading accounts for the Icon Fund. Some of these accounts traded as early as 2005. (See NFA Exhibit 5.) Cornerstone's representations were also contradicted by another disclosure document that indicated the Icon Trading Program had been trading since at least 2004, and an annual report for the Icon Fund that indicated the Fund had been trading since 2004. Furthermore, Profit's story to NFA kept changing and included many inconsistent statements. Therefore, NFA established that Profit and Cornerstone provided false information to NFA about the number of managed accounts and pool participants and the dates that the Icon Program and Icon Fund commenced trading.

Kim's testimony also clearly established that Cornerstone had no support for the rates of return it had in its disclosure document and that the rates of return were false based on NFA's analysis of customers actually trading the Icon Trading Program. Kim testified that Profit did not provide any support for the rates of return, and that Profit eventually admitted that he had none. In addition Kim testified that NFA uncovered a number of managed accounts, including several identified by Profit, trading the Icon Program and each of those accounts had experienced losses. Kim also testified regarding trading accounts for the Fund it had uncovered and that all but one of those accounts had experienced losses. The trading analysis conducted by NFA established that the rates of return in the disclosure document and on the website were false.

Kim's testimony and the documentary evidence that established the above violations were sufficient to establish that Cornerstone and Profit knew about its regulatory failures and had failed to supervise Cornerstone's activities.

IV

FINDINGS AND CONCLUSIONS

1. At all relevant times, Cornerstone was an NFA Member CPO and CTA. As such, Cornerstone is required to comply with NFA Requirements and is subject to disciplinary proceedings for all violations of NFA Requirements that occurred while it was a Member. See NFA Compliance Rule 2-14
2. At all relevant times, Profit was the sole owner and principal of Cornerstone and was an associated person (AP) of Cornerstone and an NFA Associate in accordance with NFA Bylaw 301(b). As such, Profit is required to comply with NFA Requirements and is subject to disciplinary proceedings for all violations of NFA Requirements that occurred while he was an Associate. See NFA Compliance Rule 2-14.
3. In October 2005, Profit, on behalf of Cornerstone, submitted to NFA a Disclosure Document regarding Cornerstone's CTA services. The document represented that neither Cornerstone nor Profit had previously managed any accounts.
4. In September 2006, Profit, on behalf of Cornerstone represented to NFA in its annual questionnaire that Cornerstone did not have any funds under management.
5. On January 22, 2007, Profit represented to NFA that Cornerstone did not have any CTA clients.

6. The representations in paragraphs 3, 4 and 5 above were false and misleading because Cornerstone had CTA clients for which it was managing accounts since at least April 2006.
7. In March 2006 and September 2006, Profit, on behalf of Cornerstone, represented to NFA that the Icon Fund had not yet commenced operations.
8. On January 22, 2007, Profit represented to NFA that the Icon Fund began accepting participant funds in or around May 2006. On January 23, 2007, Profit represented to NFA that the Icon Fund had actually begun accepting participant funds in April or May 2005.
9. Financial statements for the Icon Fund dated December 31, 2005, which had been provided to participants in the Fund, represent that the Icon Fund began operations in 2004.
10. The representations detailed in paragraphs 7 and 8 above were false, misleading and contradictory.
11. Based on the foregoing, Profit and Cornerstone provided NFA with false and misleading information in violation of NFA Compliance Rule 2-2(f). This conduct is inconsistent with just and equitable principles of trade.
12. Cornerstone's website claimed that Cornerstone's Icon Trading Program had achieved annual rates of return of 14%, 42% and 21% for the years 2004, 2005, and 2006 respectively. Cornerstone's disclosure document for the Icon Program, which appeared on various websites advertising

CTA services, also claimed that Cornerstone had achieved those rates of return.

13. Profit and Cornerstone were not able to provide NFA with any evidence that Cornerstone had achieved those rates of return.
14. The customer's identified by Profit as trading the Icon Program actually lost money trading through the program.
15. Based on the foregoing, Cornerstone violated NFA Compliance Rule 2-29(f) and 2-29(b)(1) and 2-29(b)(2). This conduct is inconsistent with just and equitable principles of trade.
16. Profit was the only owner and principal of Cornerstone listed with NFA and was also a registered AP of Cornerstone. Profit had supervisory duties over Cornerstone's activities.
17. Based on the conduct described above, Cornerstone and Profit failed to adequately supervise the activities of Cornerstone and therefore Cornerstone and Profit violated NFA Compliance Rule 2-9(a). This conduct is inconsistent with just and equitable principles of trade.

V

PENALTIES

A number of factors must be considered when determining the appropriate sanctions for these violations. One of the more important factors is the nature of the offense. The evidence at this hearing clearly showed that Profit and Cornerstone lied to NFA and customers on numerous occasions and completely ignored the regulatory requirements that apply to CPOs and CTAs. These are very serious violations and

deserve a serious sanction. Moreover, Profit's failure to participate in this process is further evidence of his complete disdain for the regulatory framework in the futures industry.

After considering the evidence against Profit and Cornerstone, the Panel imposes the following sanctions:

1. Cornerstone and Profit are permanently barred from NFA Membership, Associate Membership and acting as a principal of an NFA Member.
2. Cornerstone and Profit shall pay a fine of \$200,000 within 30 days of the date of this Decision. Cornerstone and Profit are jointly and severally liable for this fine.

VI

APPEAL

Cornerstone and Profit may appeal the Panel's Decision to the Appeals Committee of NFA by filing a written Notice of Appeal with NFA's Secretary within fifteen days of the date of this Decision. Pursuant to NFA Compliance Rule 3-13(a), the Notice must describe those aspects of the disciplinary action to which exception is taken and must include any request to present written or oral arguments. The Decision shall be final after the expiration of the time for appeal or review unless it is appealed or reviewed.

VII

INELIGIBILITY

Pursuant to the provisions of CFTC Regulation 1.63, this Decision and the sanctions imposed by it render Profit permanently ineligible to serve on a governing

board, disciplinary committee, oversight panel, or arbitration panel of any self-regulatory organization, as that term is defined under CFTC Regulation 1.63.

NATIONAL FUTURES ASSOCIATION

Date: January 4, 2008

By: Wendy Robinson
Wendy Robinson
Chairperson

/nam(Decision:Cornerstone Capital Management LLC.caw)

AFFIDAVIT OF SERVICE

I, Nancy Miskovich-Paschen, on oath state that on January 14, 2008, I served copies of the attached Decision, by sending such copies in the United States mail, postage prepaid, certified mail, return receipt requested, and by regular mail, first-class delivery, in envelopes addressed as follows:

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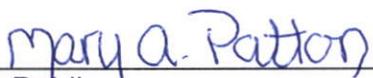
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Nancy Miskovich-Paschen

Subscribed and sworn to before me
on this 14th day of January 2008.



Notary Public

