

FILED

MAY 14 2009

**NATIONAL FUTURES ASSOCIATION
BEFORE THE
BUSINESS CONDUCT COMMITTEE**

**NATIONAL FUTURES ASSOCIATION
LEGAL DOCKETING**

In the Matter of:)
)
LAKE SHORE ASSET MANAGEMENT)
LIMITED) NFA Case No. 09-BCC-004
(NFA ID #372911),)
)
Respondent.)

DECISION

Having reviewed all matters relevant to the Complaint issued by the Business Conduct Committee ("Committee") of National Futures Association ("NFA") against Lake Shore Asset Management ("Lake Shore") in the above-captioned proceeding, and having found that Lake Shore was duly served with the Complaint and that it did not file an Answer to the Complaint, the Committee hereby issues the following Decision.

I

ALLEGED VIOLATIONS OF NFA REQUIREMENTS

On March 16, 2009, the Committee issued a Complaint charging Lake Shore with violations of NFA Compliance Rules 2-2(a), 2-29(b)(1) and 2-29(b)(2) for using false and misleading promotional material; violations of NFA Compliance Rule 2-2(f) for providing false and misleading information to NFA; and violations of NFA Compliance Rule 2-5 for failing to cooperate in an NFA investigation.

II

FAILURE TO RESPOND

The Complaint was served on Lake Shore by first-class mail and overnight delivery to the last address that it had provided to NFA, as required under NFA Compliance Rule 3-3(a). Neither of the mailings was returned to NFA and they are, therefore, presumed to have been received by Lake Shore. Pursuant to NFA Compliance Rules 3-4 and 3-6, Lake Shore was given notice in the Complaint that it was required to file a written Answer with NFA within thirty days. Lake Shore was further informed in the Complaint that a failure to file an Answer would be deemed to be an admission of the facts and legal conclusions alleged in the Complaint and a waiver of its right to a hearing.

Lake Shore failed to respond to the Complaint in any way and NFA sent another copy of the Complaint to it on April 21, 2009, along with a letter that noted that it had not filed a timely Answer and reminded Lake Shore that, under NFA Compliance Rule 3-4, its failure to answer would be deemed to be an admission of all of the allegations of the Complaint and a waiver of Lake Shore's right to a hearing. The letter further informed Lake Shore that if it intended to file an Answer it should do so by April 28, 2009. Lake Shore has neither filed an Answer to the Complaint nor otherwise responded to it.

III

FINDINGS AND CONCLUSIONS

The Committee finds that Lake Shore was duly served with the Committee's Complaint at the last address that it provided to NFA. The Committee further finds that Lake Shore failed to answer the Complaint. Pursuant to NFA

Compliance Rule 3-6(b), Lake Shore is, therefore, deemed to have admitted the facts and legal conclusions alleged against it in the Complaint and to have waived its right to a hearing. Therefore, the Committee finds that Lake Shore committed each and every violation alleged against it in the Complaint. Specifically, the Committee finds the following.

FINDINGS AS TO COUNT I

Lake Shore failed to cooperate in an NFA investigation in that:

1. Lake Shore revoked NFA's ability to access a password protected website that contained information necessary for NFA to collect evidence related to an investigation of Lake Shore.
2. During NFA's investigation, Lake Shore failed to give NFA certain information citing concerns about Swiss and international laws regarding privacy, despite the fact that Lake Shore had agreed to make its books and records available to NFA within 72 hours of notice when it applied as a foreign applicant for NFA membership and it had also certified that it was not subject to any blocking, privacy or secrecy laws that created an obstacle to full record production.
3. A Lake Shore principal in Chicago who had previously provided some information to NFA during its investigation refused to provide further information, claiming that he had no ownership interest or executive authority and could not authorize the release of information.
4. Lake Shore informed NFA that the firm would not provide any information related to offshore accounts or pools and would only provide information related to what the firm purported to be the single U.S. client who was invested in LS Fund IV U.S. In reality, Lake Shore did not provide NFA with any additional information about its purportedly sole U.S. customer after the brief time that NFA had access to the protected area of the firm's website.
5. At various times during NFA's investigation, Lake Shore and its representatives made numerous commitments to NFA that they would take initiatives to inform NFA of the firm's activities with regard to producing documents and information required by NFA but Lake Shore ultimately failed to respond in any substantive way.
6. Lake Shore's failure to cooperate promptly and fully in NFA's inquiry left NFA unable to verify the nature of Lake Shore's business and the identities of its customers and pool participants

and the value of their investments. Further, NFA was unable to verify the amount and location of assets under management and the accuracy of performance information featured on Lake Shore's website.

7. By reason of the foregoing acts and omissions, Lake Shore is found to have committed violations of NFA Compliance Rule 2-5. The acts or practices underlying these findings constitute conduct that is inconsistent with just and equitable principles of trade.

FINDINGS AS TO COUNT II

Lake Shore provided false information to NFA in that:

1. Lake Shore and its representatives made several representations to NFA that the total of assets under management by Lake Shore was approximately \$1 billion.
2. Contrary to the representations by Lake Shore and its representatives, its assets under management were less than half of \$1 billion.
3. A Lake Shore principal represented to NFA at one point that Lake Shore had no U.S. customers and, later, that it had only one U.S. customer when, in fact Lake Shore had at least ten U.S. customers.
4. Lake Shore represented to NFA that it did not have any direct managed accounts at Lehman Brothers London ("Lehman") when, in fact, it had at least one such account at Lehman that had a value of approximately \$2,000,000.
5. By reason of the foregoing acts and omissions, Lake Shore is found to have committed violations of NFA Compliance Rule 2-2(f). The acts or practices underlying these findings constitute conduct that is inconsistent with just and equitable principles of trade.

FINDINGS AS TO COUNT III

Lake Shore used false or misleading promotional material in that:

1. Lake Shore's website at www.lakeshorefunds.com promoted the firm as operating the Funds and managing customer accounts. A press release included on the site touted a 13-year performance history for Lake Shore's "flagship" program of a 28.27% compounded annual return.
2. A January 29, 2007 press release on Lake Shore's website announced the launch of the Lake Shore Alternative Financial Asset Fund IV. The release also referred to Lake Shore Funds I, II

and III and claimed that its flagship "Program 1" had a 13-year history and that it had generated a 28.27% compound annual return. Lake Shore's website also contained positive performance and other information about seven other funds offered by the firm. In fact, the website did not reflect negative performance for any given year for any of the seven funds.

3. Lake Shore's promotional material was false or misleading in that, contrary to the consistent rosy profits reported by Lake Shore in its communications with the public, the accounts actually suffered substantial and consistent losses. In reality, the referenced accounts lost approximately \$29 million between February 2002 and June 2007.
4. Lake Shore used a Power Point presentation that stated, "Impressive results i.e. LS I-42 'Up' versus 8 'Down' months since Jan 2003". This statement was false or misleading in that the trading results for the only Lake Shore account that had traded since January 2003 reflected that the account had only 17 "Up" months and that it had 33 "Down" months for the period. Additionally, the account lost approximately \$23.4 million since 2002.
5. A December 31, 2006 Lake Shore IV Fact Sheet used by Lake Shore was false and misleading in that, despite the consistent overall losing performance of Lake Shore's funds, the Fact Sheet included purported monthly returns, which on an annualized basis equaled positive returns of 55.5% in 2002, 37.02% in 2003, 33.8% in 2004, 40.3% in 2005 and 21.4% in 2006.
6. By reason of the foregoing acts and omissions, Lake Shore is found to have committed violations of NFA Compliance Rules 2-2(a), 2-29(b)(1) and 2-29(b)(2). The acts or practices underlying these findings constitute conduct that is inconsistent with just and equitable principles of trade.

IV

PENALTY

The Committee deems Lake Shore's violations to constitute very serious misconduct which warrants severe sanctions. Having considered the matter, the Committee hereby orders that Lake Shore is permanently expelled from NFA as of the effective date of this Decision.

V

APPEAL

Lake Shore may appeal this 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 contain any request to present written or oral argument. This Decision shall be final after the expiration of the time for appeal or review, unless it is appealed or reviewed.

**NATIONAL FUTURES ASSOCIATION
BUSINESS CONDUCT COMMITTEE**

Date: 5-14-09

By: 
Chairperson

AFFIDAVIT OF SERVICE

I, Nancy Miskovich-Paschen, on oath state that on May 14, 2009, 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, in envelopes addressed as follows:

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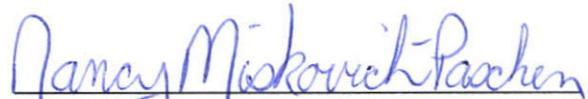
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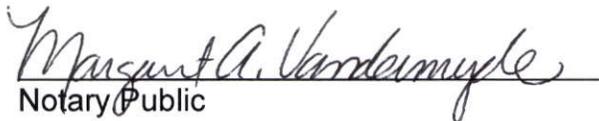
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and by hand delivery to:

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Nancy Miskovich-Paschen

Subscribed and sworn to before me
on this 14th day of May 2009.


Notary Public

