

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

FILED

APR 14 2011

NATIONAL FUTURES ASSOCIATION
LEGAL DOCKETING

In the Matter of:)
)
CALIFORNIA CAPITAL TRADING)
GROUP LLC)
(NFA ID #386834),)
)
EDGAR I. PAREDES)
(NFA ID #355266),)
)
OSCAR T. MORALES)
(NFA ID #373824),)
)
and)
)
JASON L. LOVELY)
(NFA ID #414989),)
)
Respondents.)

NFA Case No. 11-BCC-004

COMPLAINT

Having reviewed the investigative report submitted by the Compliance Department of National Futures Association ("NFA"), and having found reason to believe that NFA Requirements are being, have been or are about to be violated and that the matter should be adjudicated, NFA's Business Conduct Committee issues this Complaint against California Capital Trading Group LLC ("CCTG"), Edgar I. Paredes ("Paredes"), Oscar T. Morales ("Morales") and Jason L. Lovely ("Lovely").

ALLEGATIONS

JURISDICTION

1. At all times relevant to this Complaint, CCTG was an introducing broker ("IB") NFA Member. As such, CCTG was and is required to comply with NFA Requirements and is subject to disciplinary proceedings for violations thereof.

2. At all times relevant to this Complaint, Paredes was the sole owner, a principal, and an associated person ("AP") of CCTG and an NFA Associate. As such, he was and is required to comply with NFA Requirements and is subject to disciplinary proceedings for violations thereof. CCTG is liable for violations of NFA Requirements committed by Paredes in the course of his activities on behalf of CCTG.
3. At all times relevant to this Complaint, Morales and Lovely were APs of CCTG and NFA Associates. As such, they were and are required to comply with NFA Requirements and are subject to disciplinary proceedings for violations thereof. CCTG is liable for violations of NFA Requirements committed by Morales and Lovely in the course of their activities on behalf of CCTG.

BACKGROUND

4. CCTG is located in Whittier, California and has been a registered IB Member of NFA since September 2007. It was guaranteed by Peregrine Financial Group from September 2007 until June 2010. Paredes was the sole owner and principal of CCTG and was also an AP of the firm. Morales was a CCTG AP from October 2007 through February 2009 and Lovely was an AP of CCTG between October 2009 and June 2010.
5. As of NFA's May 2010 examination of CCTG, the firm had approximately 100 active customer accounts and six registered APs. NFA's analysis of trading in CCTG's customers' accounts determined that 91.5% of them experienced net losses in 2008 and that 97.3% had net losses in 2009. CCTG's standard round-turn commission rate was \$83. Additional fees brought the total average round-turn charge into the \$90 to \$95 range. The breakeven points to recover

commissions and fees on almost all of the trades recommended by the firm were between 50% and 99%. In 2008, 70.4% of the \$147,845 in customer losses was attributable to commissions, which totaled \$104,125. In 2009, 55.3% of the \$650,151 in customer losses was due to commissions, which totaled \$359,585. Total net gains in the few accounts that experienced net profits in 2008 and 2009 were somewhat less than \$17,000.

6. Generally speaking, CCTG's customers had little or no futures trading experience and their decisions regarding the trades that they made and the strategies that they used were based heavily on recommendations made by CCTG's brokers. Those recommendations, particularly those made by Morales, included a number of trades and strategies that were clearly contrary to the high standards of commercial honor and just and equitable principles of trade required of NFA Members and Associates in that they maximized commissions but left little opportunity for the customers to achieve an overall profit. Examples include the use of out-of-the-money bull call option spreads, the trading of mini-contracts that multiplied commission expenses when trading standard contracts could have achieved the same economic purpose at substantially lower trade costs and investing virtually all of a customer's equity immediately when they made a deposit into their account. In addition, Morales and Lovely engaged in deceptive solicitations.
7. The abusive trading recommendations and deceptive solicitations that occurred at CCTG went unchecked by CCTG and Paredes and evidence a failure on their part to diligently supervise CCTG's APs' trading recommendations and sales practices.

APPLICABLE RULES

8. NFA Compliance Rule 2-2(a) provides that no Member or Associate shall cheat, defraud or deceive, or attempt to cheat, defraud or deceive, any commodity futures customer.
9. NFA Compliance Rule 2-4 provides that Members and Associates shall observe high standards of commercial honor and just and equitable principles of trade in the conduct of their commodity futures business.
10. NFA Compliance Rule 2-29(a)(1) provides that no Member or Associate shall make any communication with the public which operates as a fraud or deceit.
11. NFA Compliance Rule 2-9(a) provides that each Member shall diligently supervise its employees and agents in the conduct of their commodity futures activities for or on behalf of the Member. Each Associate who has supervisory duties shall diligently exercise such duties in the conduct of that Associate's commodity futures activities on behalf of the Member.

COUNT I

VIOLATION OF NFA COMPLIANCE RULES 2-2(a), 2-29(a)(1) AND 2-4: MAKING DECEPTIVE AND MISLEADING SALES SOLICITATIONS AND FAILING TO UPHOLD HIGH STANDARDS OF COMMERCIAL HONOR AND JUST AND EQUITABLE PRINCIPLES OF TRADE.

12. The allegations contained in paragraphs 1 through 6 and 8 through 10 are realleged as paragraph 12.
13. NFA's Board of Directors has issued an Interpretive Notice entitled "Commissions, Fees and Other Charges," which, in pertinent part, provides that it is a violation of the high standards of commercial honor and just and equitable principles of trade required of NFA Members to engage in trading practices or recommend transactions or strategies to retail customers that are intended to

increase the amount of commissions and fees generated, without serving any economic or other purpose for the customers. The Notice identified large spread positions, butterfly spreads and deep out-of-the money options as examples of trading approaches that have been used by a few Members in apparent schemes to maximize commissions without regard to the customers' best interests.

14. CCTG customer, Peter Tovenati ("Tovenati") had no experience trading futures before opening an account through CCTG and Morales in March 2009. Tovenati relied entirely on Morales' advice for the trades that he made. Tovenati made six deposits into his account over fourteen months, totaling \$68,633. There was only \$375 left in the account when Tovenati closed it in June 2010. In contrast to Tovenati's ruinous losses, CCTG and Morales generated \$51,682 in commissions from the trading in Tovenati's account.
15. Morales and CCTG violated the high standards of commercial honor and just and equitable principles of trade required of NFA Members and Associates in that they recommended trades to Tovenati that maximized commissions without regard for Tovenati's best interests. For example, Morales recommended a strategy that involved loading the account with as many contracts as possible immediately following each of Tovenati's six deposits. In fact, after Tovenati made a \$14,000 deposit on April 28, 2009, Morales enticed him to buy 55 cotton call options, costing \$15,824 after paying commissions and fees. This trading activity used all but \$357 of the remaining available equity in Tovenati's account.
16. Morales also encouraged Tovenati to make trades that, as a practical matter, could have been accomplished using an approach that would result in significantly lower commission expenses. For example, on June 8, 2009, acting

on Morales' recommendation, Tovenati purchased 45 mini-gold contracts. The same trading objective could have been accomplished with only 15 standard-sized gold contracts, as mini-gold contracts represent one-third of a standard gold contract. Morales' advice resulted in Tovenati paying \$3,735 in commissions and fees on the 45 mini-gold contracts when he could have traded 15 standard gold contracts for only \$1,245 in commissions and fees. The 45 lot mini-gold contracts ultimately resulted in a net loss of \$2,088 on top of the \$3,735 in transaction costs. The only apparent purpose of Morales' recommendation to Tovenati that he trade mini-contracts was to generate triple the commissions than CCTG and Morales would have generated having Tovenati trade standard contracts.

17. In February 2009, CCTG and Morales solicited James Griffen ("Griffen") of Akron, Ohio, to open an account introduced by CCTG, which Griffen agreed to do. Griffen had limited trading experience prior to opening his account through CCTG and his decisions on what trades to make and strategies to use were based entirely on recommendations made by Morales. Griffen made four deposits, totaling \$18,500, into his account between February 2009 and April 2010. By the time that he closed his account in June 2010, it had lost \$17,709 of which \$14,963 went for commissions.
18. Morales and CCTG violated the high standards of commercial honor and just and equitable principles of trade required of NFA Members and Associates in that they recommended trades to Griffen that maximized the commissions without regard for Griffen's best interests. Specifically, Morales suggested that Griffen trade large numbers of mini-contracts. For example, on March 9, 2009, 12 mini-

gold contracts were bought and sold in Griffen's account, yielding a loss of \$1,245 plus commissions and fees of \$995. Morales maximized the commissions on these trades without concern for Griffen's best interests in that he recommended the most expensive way for Griffen to establish the gold position when he could have recommended trading standard-sized gold contracts which would have resulted in essentially the same gold position for Griffen at one-third of the commission expense.

19. In addition to recommending trades to Griffen that were not in Griffen's best interests, CCTG and Morales' solicitation of Griffen was deceptive and misleading in that, despite the fact that the vast majority of Morales and CCTG's customers suffered substantial overall losses, Morales assured Griffen that he was an expert trader.
20. In December 2009, CCTG and Morales solicited Roger Athens ("Athens") of Le Mars, Iowa to open an account through CCTG, which Athens agreed to do. Athens had no previous investment experience prior to opening his account through CCTG and he entirely depended on Morales to give him trading advice. Athens deposited \$10,000 into his account and lost \$9,433, including the \$4,532 that he paid in commissions.
21. Morales and CCTG violated the high standards of commercial honor and just and equitable principles of trade required of NFA Members and Associates in that they recommended trades to Athens that maximized commissions without regard for Athens' best interests. As was the case with Tovenati, Morales' advice included loading Athens' account with trades immediately following a deposit by Athens. For example, on the very day that Athens funded his account, Morales

recommended trading a 10 lot call spread on gold and a 10 lot call spread on silver. The trades cost Athens \$3,718 in commissions and fees and left him with only \$281 of available equity. Furthermore, each of these option spreads had breakeven points of 61.97%, making it highly unlikely that either of these trades would be profitable. Indeed, both the gold and silver spreads were subsequently offset at a loss.

22. In addition to recommending trades to Athens that were not in Athens' best interests, CCTG and Morales' solicitation of Athens was deceptive and misleading in that Morales told Athens that he would double his money trading gold because Morales knew what he was doing and had insider information about the markets.
23. In September 2009, Morales solicited Joshua Barnes ("Barnes") of Charlevoix, Michigan to open an account through CCTG, which Barnes agreed to do. Barnes invested a total of \$15,000 and lost almost the entire amount. Barnes paid nearly \$10,500 in commissions and fees in the three months that his account actively traded.
24. Morales and CCTG violated the high standards of commercial honor and just and equitable principles of trade required of NFA Members and Associates in that they recommended trades to Barnes that maximized commissions without regard for Barnes' best interests. Specifically, on November 6, 2009 and at Morales' recommendation, Barnes traded a 10 lot long put Euro-dollar option spread. On the short leg of this spread, Barnes collected a premium of only \$25 on each of the ten contracts but paid \$92.45 in commissions and fees on each of these same contracts, which represented more than three times the premium collected.

While the entire option spread generated substantial commissions for CCTG and Morales, establishing the short leg of the trade yielded no benefit for Barnes. If Barnes had instead only purchased the long options, the trade would have had upward potential and his risk would have been limited to the cost of the trade plus commissions and fees, which totaled \$2,674.50. However, by adding the short options, and thus creating the spread, this trade was an automatic loser as it was impossible for the trade to overcome the high commissions charged. Furthermore, having the short options included in the trade increased Barnes' maximum potential loss. Barnes eventually lost \$3,475.50 on this trade.

25. On or about June 7, 2010, CCTG and CCTG AP Lovely solicited NFA auditor Kolade Agbaje-Williams ("Williams") – posing as a prospective customer – to open an account through CCTG. Lovely told Williams that he could easily make money trading futures through CCTG and that Williams would have to "unlearn everything he knows about trading" and stick 100% to what Lovely told him to do. Lovely also recommended that Williams trade option spreads as a form of "protection" and, despite the fact that CCTG's customers consistently suffered substantial losses, misrepresented to Williams that his average client made "about 10% per month."
26. By reason of the foregoing acts and omissions, CCTG, Morales and Lovely are charged with violations of NFA Compliance Rules 2-2(a) and 2-29(a)(1) and CCTG and Morales are charged with violations of NFA Compliance Rule 2-4.

COUNT II

VIOLATION OF NFA COMPLIANCE RULE 2-9(a): FAILING TO SUPERVISE.

27. The allegations contained in paragraphs 1 through 7 and 11 are realleged as paragraph 27.
28. Paredes owned CCTG and was the only individual at CCTG who had supervisory responsibilities over the firm's operations, including solicitations by its APs and trading in customer accounts.
29. The duty to diligently supervise, in part, requires Members and Associates who have supervisory duties to initiate and execute effective procedures to ensure that the Member's employees comply with NFA Requirements in all aspects of their futures-related activities, including sales practices and trade recommendations.
30. The allegations contained in paragraphs 13 through 18, 20, 21, 23 and 24 are realleged as paragraph 30.
31. CCTG and Paredes failed in their obligation to diligently supervise the trades and strategies that Morales recommended to Tovenati, Griffen, Athens and Barnes and thereby allowed Morales to recommend trades that maximized commissions without regard for the best interests of those CCTG customers.
32. The allegations contained in paragraphs 19, 22 and 25 are realleged as paragraph 32.
33. CCTG and Paredes failed in their obligation to diligently supervise the sales practices of CCTG's AP and thereby allowed Morales and Lovely to make misleading and deceptive sales solicitations to their customers as alleged in Count I.

34. By reason of the foregoing acts and omissions, CCTG and Paredes are charged with violations of NFA Compliance Rule 2-9(a).

PROCEDURAL REQUIREMENTS

ANSWER

You must file a written Answer to the Complaint with NFA within thirty days of the date of the Complaint. The Answer shall respond to each allegation in the Complaint by admitting, denying or averring that you lack sufficient knowledge or information to admit or deny the allegation. An averment of insufficient knowledge or information may only be made after a diligent effort has been made to ascertain the relevant facts and shall be deemed to be a denial of the pertinent allegation.

The place for filing an Answer shall be:

National Futures Association
300 South Riverside Plaza
Suite 1800
Chicago, Illinois 60606
Attn: Legal Department-Docketing

E-Mail: Docketing@nfa.futures.org
Facsimile: 312-781-1672

Failure to file an Answer as provided above shall be deemed an admission of the facts and legal conclusions contained in the Complaint. Failure to respond to any allegation shall be deemed an admission of that allegation. Failure to file an Answer as provided above shall be deemed a waiver of hearing.

POTENTIAL PENALTIES, DISQUALIFICATION AND INELIGIBILITY

At the conclusion of the proceedings conducted as a result of or in connection with the issuance of this Complaint, NFA may impose one or more of the following penalties:

- (a) expulsion or suspension for a specified period from NFA membership;
- (b) bar or suspension for a specified period from association with an NFA Member;
- (c) censure or reprimand;
- (d) a monetary fine not to exceed \$250,000 for each violation found; and
- (e) order to cease and desist or any other fitting penalty or remedial action not inconsistent with these penalties.

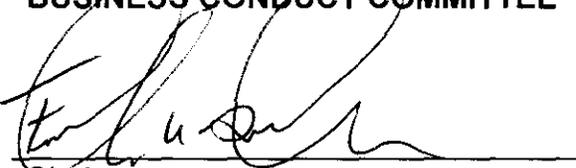
The allegations in this Complaint may constitute a statutory disqualification from registration under Section 8a(3)(M) of the Commodity Exchange Act. Respondents in this matter who apply for registration in any new capacity, including as an associated person with a new sponsor, may be denied registration based on the pendency of this proceeding.

Pursuant to the provisions of Commodity Futures Trading Commission ("CFTC") Regulation 1.63, penalties imposed in connection with this Complaint may temporarily or permanently render Respondents who are individuals ineligible to serve on disciplinary committees, arbitration panels and governing boards of a self-regulatory organization, as that term is defined in CFTC Regulation 1.63.

**NATIONAL FUTURES ASSOCIATION
BUSINESS CONDUCT COMMITTEE**

Dated: 04/14/2011

By:



Chairperson

AFFIDAVIT OF SERVICE

I, Nancy Miskovich-Paschen, on oath state that on April 14, 2011, I served copies of the attached Complaint, by sending such copies in the United States mail, first-class delivery, and by overnight mail, in envelopes addressed as follows to:

California Capital Trading Group LLC
7623 Milton Avenue
Unit C
Whittier, CA 90602
Attn: Edgar I. Paredes, President

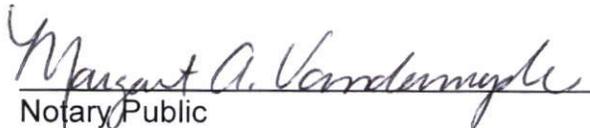
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13006 E. Philadelphia Street
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Oscar T. Morales
12005 Paddison Avenue
Norwalk, CA 90650

Jason L. Lovely
894 San Juan Circle
Duarte, CA 91010


Nancy Miskovich-Paschen

Subscribed and sworn to before me
on this 14th day of April 2011.


Notary Public

