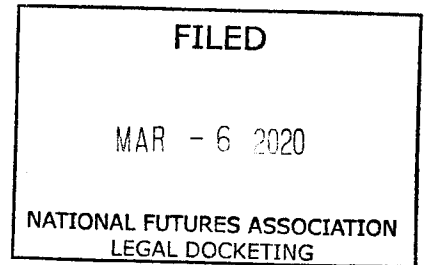


**NATIONAL FUTURES ASSOCIATION  
BEFORE THE  
BUSINESS CONDUCT COMMITTEE**



In the Matter of:

JEREMY RUTH  
(NFA ID #487040),

Respondent.

)  
)  
)  
)  
)  
)

NFA Case No. 20-BCC-002

**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, this Committee issues this Complaint against Jeremy Ruth (Ruth).

**ALLEGATIONS**

**JURISDICTION**

1. At all times relevant to this Complaint, Ruth was an NFA Associate and an associated person (AP) of Postrock Brokerage LLC (Postrock), an introducing broker (IB) NFA Member located in Chicago. As such, Ruth was required to comply with NFA Requirements and is subject to disciplinary proceedings for violations thereof.

**BACKGROUND**

2. Ruth worked as an AP at Postrock from September 2017 to May 2019. Prior to working at Postrock, Ruth worked as an AP at Long Leaf Trading Group Inc., another Chicago IB, from April 2015 to August 2017. Ruth currently has no

Commodity Futures Trading Commission (CFTC) registration or NFA membership status.

3. At Postrock, Ruth had a total of 14 customers for whom he provided trade recommendations as part of his "Time of Our Lives" trading program. Ruth's trading program utilized option spreads – predominantly selling iron condor and iron butterfly spreads. These types of spreads involve buying and selling two puts and two calls (four total legs) with each leg usually consisting of several option contracts. The intent in using these spreads is to limit the amount of risk to which the customer is exposed. However, these spreads also limit the customer's potential profit and can generate significant fees and commissions for the broker.
4. For each contract traded, Ruth charged \$50 in commissions upon entry. In the event that a position was exercised or assigned, the customer was charged an additional \$25 in commissions. Thus, trading one contract on a four-leg spread would cost the customer a minimum of \$200 in commissions, plus an additional \$25 per contract if any legs were exercised or assigned prior to expiration.
5. As most of Ruth's customers placed several option spread trades consisting of multiple contracts per month, customers incurred substantial commissions each month, ultimately resulting in swift, significant drawdowns in their account equity. Moreover, due to the high commission charges of \$50 per contract, all of Ruth's customers eventually closed their accounts at a loss even though some of them had made small gross trading profits, exclusive of commissions.

6. NFA received several complaints against Ruth from customers complaining how he had handled their accounts, both before and during his time at Postrock. As a result of these complaints, NFA commenced an unannounced examination of Postrock in January 2019. At the time of NFA's examination, Ruth had seven active and seven inactive customers. Although all of these accounts were non-discretionary, Ruth recommended the trades for these accounts, which, as previously alleged, were predominantly iron condor and iron butterfly spreads.
7. NFA's investigation involved reviewing tape recordings of Ruth's conversations with customers and reviewing the account statements and trading activity of these customers.
8. After reviewing these tape recordings and the customers' trading activity, NFA determined that Ruth had routinely made material misleading statements to his customers about their profit potential and the performance of his "Time of Our Lives" trading program and had failed to disclose to them that all of his other customers at Postrock had lost money due primarily to the high commissions they were charged. NFA also found that Ruth intentionally misled these customers about their account statements and about the value of their accounts.
9. In addition, NFA's investigation found that Ruth placed numerous trades for his customers' accounts without first obtaining their authorization to place these trades, or exercised discretion over these accounts without having written authority from the customers, by power of attorney or other instrument, to exercise such discretion.

10. NFA's investigation further determined that Ruth downplayed the significant impact that commissions had on profit potential – i.e., the high commissions Postrock charged made it nearly impossible for customers to make a profit on the spreads they traded. NFA also found instances where Ruth acquired spread positions consisting of multiple legs of which certain legs offered the customers no economic benefit and seemed solely designed to generate commissions for Ruth and Postrock. These deficiencies are alleged in detail below.

#### **APPLICABLE RULES**

11. 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.
12. 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. A related Interpretive Notice entitled, "Commissions, Fees and Other Charges," requires NFA Members and Associates who charge high commissions to disclose to customers the impact of commissions and fees on profit potential. The Interpretive Notice also makes clear that a Member or Associate who recommends transactions or strategies to retail customers to increase the amount of commissions and fees generated, without serving any economic or other purpose for the customers, violates high standards of commercial honor and just and equitable principles of trade.
13. NFA Compliance Rule 2-8(a) provides, in pertinent part, that no Member or Associate shall exercise discretion over a customer's commodity futures account

unless the customer or account controller has authorized the Member or Associate, in writing, by power of attorney or other instrument, to exercise such discretion.

### COUNT I

**VIOLATION OF NFA COMPLIANCE RULES 2-2(a) AND 2-4: FAILING TO DISCLOSE THE IMPACT OF COMMISSIONS ON CUSTOMERS' PROFIT POTENTIAL; PLACING TRADES FOR CUSTOMERS WHICH OFFERED NO ECONOMIC BENEFIT TO THEM AND, INSTEAD, ONLY GENERATED ADDITIONAL COMMISSIONS; MAKING MISLEADING STATEMENTS TO CUSTOMERS; AND FAILING TO DISCLOSE TO CUSTOMERS THAT ALL OF RUTH'S OTHER CUSTOMERS HAD LOST MONEY.**

14. The allegations contained in paragraphs 1 through 8, 10, 11, and 12 are realleged as paragraph 14.
15. One of Ruth's customers, who is referred to herein as Customer A, was an 80-year-old retiree, with a net worth of under \$250,000, and no futures or commodities trading experience. Customer A invested \$10,000 of his savings with Ruth in March 2018 and traded until approximately January 2019, when he closed his account with a loss of approximately \$8,500.
16. After opening his account, Customer A told Ruth that he did not understand how to read his account statements and asked Ruth to explain them to him. Ruth referred Customer A to the 'New Cash Balance' and the 'Net Liquidating Value' (NLV) on Customer A's account statements and suggested that the 'New Cash Balance' more accurately reflected the value of Customer A's account than the NLV, which Ruth claimed was "the worst way to determine the value of your account."
17. By explaining Customer A's account statement in this way, Ruth misled Customer A into believing that his account's value was actually greater than it

was. This was due to the fact that when a spread was initiated, the premiums initially collected were more than the premiums paid, causing the cash value of the account to increase and making it appear that the account was profitable.

18. However, the cash balance did not reflect the value of open positions in Customer A's account and, therefore, did not reflect the actual value of Customer A's account, which was the account's NLV.
19. By misleading Customer A, as well as his other customers, into believing that the cash balance – which reflected premiums collected but not the value of open positions – was the true value of their accounts, Ruth gave Customer A and his other customers the false impression that their accounts were profitable.
20. Also, by emphasizing the cash balance of Customer A's account, Ruth also concealed Customer A's trading losses and the effect that the excessive commissions had on Customer A's account. Ruth continued this ruse for many months, until the NLV of Customer A's account got so low that Ruth was unable to place the same types of spread positions that he had previously placed in Customer A's account. When this occurred, the cash balance in Customer A's account approximated the NLV and, thus, more closely reflected the true value of Customer A's account.
21. In August 2018, Customer A expressed his dissatisfaction to Ruth about the performance of his account, as he believed he had lost \$3,000 of his initial \$10,000 investment. Actually, the situation was worse than Customer A thought. In fact, by August 2018, Customer A's account had actually lost about \$6,000 and the NLV of his account was only about \$4,000.

22. Ruth responded to Customer A's concerns by telling him that the cash balance of his account was over \$7,500 and that \$2,500 was not a large amount of money to lose and could be recouped from future premiums that would be collected. This was an extraordinarily rosy forecast considering that Customer A's account had already lost nearly 60% of its value and had only one net profitable month since beginning trading in March 2018.
23. In late November 2018, Customer A again inquired as to how his account was performing. Ruth told Customer A that, "we're actually going to end up somewhere between \$100 and \$350 per contract for the month, so it's going to be a slight gain." Ruth's claims were false as the NLV of Customer A's account decreased in November 2018 by approximately \$1,200 – from approximately \$4,200 to approximately \$3,070, with \$950 of the loss attributable to commissions. This amounted to a nearly 23% decrease in NLV in November from the prior month's NLV, after factoring in commissions, fees and the change in unrealized gains/losses.
24. In January 2019, Customer A closed his account after it had sustained a loss of approximately \$8,500, nearly \$8,000 of which went to commissions. Customer A told Ruth, "I guess your wonderful system...didn't work very well," to which Ruth responded, "We had a bad month last month." Customer A then remarked that they "had a bad month several times before and the only people who benefited from this whole thing were you people and I paid the price."

25. Customer A ended his call with Ruth by telling Ruth, "you had a pretty good sales pitch and you presented it very, very well, like you won 3 out of 4 transactions and all that good stuff and that obviously wasn't the case."
26. Another one of Ruth's customers, who is referred to herein as Customer B, was 73 years old and self-employed at the time he opened an account with Postrock in August 2018.
27. Customer B opened his account with an initial deposit of \$25,000. As soon as Customer B opened his account, Ruth pressured him to immediately enter into several spread positions and cautioned him not to wait to acquire the positions. When Customer B expressed some hesitance, Ruth told Customer B that, "to get the risk/reward ratios, we've got to get in today." Customer B indicated that he wanted to think about whether he wanted to make the trades at that time.
28. Several hours later, Ruth called Customer B again and told him that, "I'm going to have to get these positions executed, so just bear with me" and "we'll go over them in more detail" later. Without informing Customer B of the details of the trades, Ruth acquired four spread positions for Customer B's account consisting of 16 legs with each leg having three contracts for a total of 48 contracts. Customer B was charged \$2,400 in commissions for these trades.
29. Approximately a week after Customer B opened his account, he asked Ruth to go over his account statements with him so he could see how much money he had made or lost. Ruth told Customer B that the account statements were too confusing for Customer B to understand; that the statements "don't necessarily give you the best picture as to how your account is performing;" and that if



Customer B looked at his account statements every single day, it would drive him crazy.

30. Ruth told Customer B that he would explain to Customer B each month how his positions were performing and, that way, Customer B could keep track of how his account was doing and if he was making or losing money.
31. In early January 2019, Customer B called Ruth to discuss his account. During this call, Ruth told Customer B that he had made some trades for Customer B in December without first getting Customer B's authorization. Ruth said that he made these trades because "in December, there was a lot of volatility...crazy things in the market" so he "made the decision to roll out the positions another month to create a super month...and we readjusted stuff, and brought in some more premium."
32. Ruth's explanation of the activity in Customer B's account in December was very misleading as Customer B's account lost 37% of its value in December, with the NLV decreasing from \$18,845 to \$11,847. Customer B's account was also charged over \$3,000 in commissions in December.
33. During the above call, Customer B asked Ruth how his account's performance was at the end of 2018. Ruth said that he did not have that information available. Customer B reminded Ruth that he "started out at \$25,000" and asked if he was still at \$25,000. Ruth said that Customer B was "either there or maybe even above." However, as Ruth knew or should have known (as he had access to Customer B's account information), Customer B's account had lost more than half of its value as of the end of December 2018.

34. Customer B again spoke with Ruth at the end of January 2019 at which time Customer B asked Ruth how his account had performed in January. Ruth claimed that they had a "very, very good month" and that they were going to end the month being up "between \$4,000 to \$6,000." However, in actuality, Customer B's account lost \$775 or 6.54% in January 2019.
35. In this same call, Customer B confronted Ruth about placing unauthorized trades in his account, telling Ruth, "I know we bought some things and you didn't call me up to buy them." Ruth admitted to doing this and explained that, "I rolled those positions, we doubled down. It was very rocky, so I decided to make that move here."
36. When Customer B closed his account in May 2019, his account was worth less than \$7,500, after having a beginning value of \$25,000. Customer B paid a total of more than \$23,000 in commissions to Ruth and Postrock. But for commissions, Customer B's account would have been profitable.
37. Another customer of Ruth's, who is referred to herein as Customer C, was 51 years old and had less than one year trading futures when he opened his account with Ruth and Postrock in October 2018. During his solicitation of Customer C, Ruth pitched his "Time of Our Lives" trading program, telling Customer C that it "is named what it is because time is ultimately what generates returns to the portfolios that we build." Ruth claimed that the "Time of Our Lives" trading program would be able to generate whatever targeted return Customer C wanted.

38. To demonstrate to Customer C how the "Time of Our Lives" trading program would be able to generate income and allow Customer C to target certain levels of return, Ruth utilized a study from the late 1990s that found that 76.5% of all options held until expiration at the CME expired worthless. According to Ruth, by selling short options, Customer C would make money on three out of four of the short options. Ruth said that in the course of a year he would place 48 trades for Customer C and "we're going to win 36 of them, we're going to lose 12 of them."
39. Ruth also told Customer C that, "I do have clients that don't make money. Not a lot of them, but there are a handful of them and the reason why they don't make money, it's very simple. They bring emotions into the investment process." However, Ruth knew that this statement was misleading as none of his clients had ever made a profit due to the excessive commissions they were charged.
40. Ruth further explained to Customer C that he would keep him apprised as to how his account was performing and obtain his authorization to place trades. According to Ruth, "at the end of the day, we have to give you the bottom line to the specific penny of how what's going on and we have to obtain your permission to then execute." However, Ruth did not keep Customer C informed as to the activity in his account and placed a number of trades without Customer C's authorization.
41. Ruth later told Customer C that "other firms don't care if the customer wins or loses because the firm will still profit" but "with us, if we lose, we're not going to get paid." Ruth claimed that Postrock's commissions of \$50 per contract were

low by industry standards, and that Ruth's "Time of Our Lives" trading program only used "14-18% of the available capital in the account at any given point."

42. The above claims were categorically false as Ruth's customers were charged excessive commissions, regardless of the performance of their accounts, and Ruth rarely, if ever, limited trading in customers' accounts to 14-18% of available capital.
43. In mid-January 2019, several months after opening his account, Customer C had a phone call with Ruth about his account. Customer C indicated to Ruth that it was his understanding that his account had only made a total of four trades since its inception and no trades since November 2018. Customer C was mistaken, though, as Ruth admitted to Customer C that he had placed trades in Customer C's account without Customer C's authorization and had been trading Customer C's account the entire time it had been open.
44. In discussing Customer C's account statements, Ruth told Customer C that the purpose of the account statements was not "to figure out the performance of your account, the purpose of it is just to make sure that the trades are in your account."
45. According to Ruth, NFA had designed the account statements and most of the balances on the statements have no meaning for the customer. Customer C asked Ruth what then he should be looking at on his account statements. Ruth said there was "nothing" that Customer C needed to look at as he would keep Customer C informed about the performance of his account.

46. In at least one instance, however, Ruth seriously misinformed Customer C about his account's performance. In this instance, Ruth indicated to Customer C that, as of December 31, 2018, the value of Customer C's account was over \$27,000 – which was the ending cash balance on that date – when the actual liquidating value on that date was only approximately \$12,000.
47. When Customer C closed his account in June 2019, his account – which started with an initial investment of \$25,000 – was worth less than \$3,000. In total, Customer C paid over \$20,000 in commissions.
48. Another Ruth customer, who is referred to herein as Customer D, opened an account with Ruth and Postrock in November 2018 with an initial deposit of \$25,000. His account traded for approximately six months until April 2019 when it closed with a balance of approximately \$11,500. Customer D's account would have made a small profit had it not incurred nearly \$17,500 in commission charges.
49. There were instances when Ruth acquired spread positions for Customer D where certain legs of the spread position offered no economic benefit to Customer D and were designed solely to generate commissions for Ruth and Postrock.
50. For example, on November 30, 2018, Ruth acquired a four-legged T-Bond spread position for Customer D which included two puts and two calls, where the two puts effectively offset one another and could never make a profit in excess of commissions. If the puts were not entered into at all – thus making the spread a single call spread – the potential profit and the risk of loss would have been

essentially the same as when the puts were included in the spread. The only difference is that Customer D would have saved \$300 in commissions.

51. On January 29, 2019, Ruth acquired a four-legged Euro FX spread which again included two puts and two calls, where the put positions effectively offset each other as the strike prices and premiums were nearly identical. Nevertheless, Customer D had to pay commissions and fees on the puts, which could have been avoided had the trade only consisted of the two call positions. As such, the put positions offered no economic benefit to Customer D.
52. Ruth also recommended and entered into multi-legged option spreads for Customer D in which one leg of the spread was at or near in-the-money when initiated and, therefore, more likely to be exercised or assigned and converted into futures contracts. This allowed Ruth to collect commissions not only on the option spreads but also on the futures contracts.
53. By entering into these at or near in-the-money spreads, Ruth could also collect a greater amount of premium for Customer D's account, which raised the cash balance in the account and tended to mask trading losses and the high commissions charged to Customer D's account.
54. Ruth made similar trades to those that he made for Customer D – which offered no apparent economic benefit to the customer – in the accounts of Customers A, B, and C.
55. By reason of the foregoing acts and omissions, Ruth is charged with violations of NFA Compliance Rules 2-2(a) and 2-4.

## COUNT II

### **VIOLATIONS OF NFA COMPLIANCE RULE 2-2(a) OR NFA COMPLIANCE RULE 2-8(a): MAKING UNAUTHORIZED TRADES FOR CUSTOMERS OR EXERCISING DISCRETION OVER CUSTOMER ACCOUNTS WITHOUT OBTAINING WRITTEN AUTHORITY FROM THE CUSTOMERS TO EXERCISE SUCH DISCRETION.**

56. The allegations contained in paragraphs 1 through 7, 9, 11, and 13 are realleged as paragraph 56.
57. In addition to the losing trading strategy and high commissions that Ruth inflicted on Customer A, Ruth placed approximately 60 positions in Customer A's account without obtaining Customer A's authorization to place such trades.
58. Similar to Customer A, there was no evidence in the tape-recorded conversations between Ruth and Customer B that Customer B ever authorized over 40 positions that Ruth placed in his account involving over 120 option contracts.
59. Ruth also placed a number of trades in Customer C's account without Customer C's authorization. In fact, all of the trades placed in Customer C's account in December 2018 were made without Customer C's authorization. In all, Ruth placed nearly 40 positions involving over 100 contracts in Customer C's account in the period from October 2018 through January 2019 without authorization.
60. Alternatively, Ruth exercised discretion over the accounts of Customer A, B, and C without obtaining written authority from these customers to exercise such discretion.
61. By reason of the foregoing acts and omissions, Ruth is charged with violations of NFA Compliance Rule 2-2(a) or, alternatively, NFA Compliance Rule 2-8(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

Email: [Docketing@nfa.futures.org](mailto:Docketing@nfa.futures.org)

Facsimile: 312-781-1672

Failure to file an Answer shall be deemed an admission of the facts and legal conclusions contained herein and a waiver of a hearing. Failure to respond to any allegation of the Complaint shall be deemed an admission thereof.

### **POTENTIAL PENALTIES, DISQUALIFICATION AND INELIGIBILITY**

At the conclusion of the proceedings conducted 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 herein 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 AP with a new sponsor, may be denied registration based on the pendency of this proceeding.

Pursuant to 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: 03-06-2020

By: \_\_\_\_\_

Chairperson

m/rvh/Jeremy Ruth Complaint