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

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| In the Matter of: | ) | |
| | ) | |
| LTG TRADING LLC (NFA ID #445789), | ) | |
| | ) | |
| and | ) | NFA Case No. 20-BCC-009 |
| | ) | |
| GARY FULLETT (NFA ID #245066), | ) | |
| | ) | |
| Respondents. | ) | |

## 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(BCC) issues this Complaint against LTG Trading LLC (LTG) and Gary Fullett (Fullett).

## ALLEGATIONS

## JURISDICTION

1. At all times relevant to this Complaint, LTG was registered with the Commodity Futures Trading Commission (CFTC or Commission) as an introducing broker (IB) and a NFA Member. As such, LTG 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, Fullett was registered with the CFTC as an associated person (AP) of LTG, listed as a principal of LTG and a NFA

Associate. As such, Fullett was and is required to comply with NFA Requirements and is subject to disciplinary proceedings for violations thereof.

## BACKGROUND

3. LTG has been registered as an IB and a NFA Member since January 2013. The firm is located in Orland Park, Illinois.

4. Fullett has been a principal of LTG since October 2012 and became an AP of the firm in January 2013. In addition, Fullett has been an NFA Associate and worked periodically since 1992 at several Member firms.

5. Most notably, from April 1998 through November 1999, Fullett was a principal and AP of Leader Trading Group (Leader), a former IB Member. In February 2000, NFA's BCC issued a Complaint against Leader, Fullett and another AP of Leader that—among other violations—charged Fullett with providing false and misleading information to NFA and charged both Leader and Fullett with failing to uphold high standards of commercial honor and just and equitable principles of trade. The Complaint was resolved when an NFA Hearing Panel accepted Leader and Fullett's settlement offer, in which Leader agreed to a permanent membership bar, and Fullett agreed to pay a $4,000 fine and not supervise any NFA Member or Associate (other than himself) for five years.

6. In addition to LTG's IB operations, Fullett and the firm offer educational services aimed at teaching customers to trade futures utilizing the "Wyckoff Trading Method" (Wyckoff Method). The Wyckoff Method, originally developed in 1931, is a complicated method of market analysis designed to predict movements of price and volume in an underlying securities contract. At all times relevant to the

Complaint, LTG and Fullett's educational services included daily newsletters, weekly public webinars and private member-only webinars.

7. For a fee of $1,995, Fullett also offered unlimited one-on-one mentorship sessions. During these one-on-one sessions, Fullett regularly reiterated using the Wyckoff Method to trade futures and talked at times about individual futures trades he had executed for other customers. Additionally, he used these sessions to promote LTG's brokerage business and the trading services he could provide if someone wanted to open a trading account at LTG. Fullett's educational services, including the mentoring sessions, served as LTG's primary method of soliciting customers.

<u>NFA's Investigation and Examination</u>

8. NFA commenced an investigation of LTG in October 2018, after receiving a complaint from a customer alleging that Fullett had engaged in excessive trading and churning in the customer's account. NFA subsequently commenced an examination of LTG in January 2019.

9. LTG had 24 customer accounts during the period of January 2016 through December 2018. As part of the exam, NFA analyzed the trading activity in the accounts and found that the activity in 19 of the 24 accounts was substantially similar.

10. LTG and Fullett had written powers of attorney (POA) granting Fullett discretionary authority to trade some of the 19 accounts. However, Fullett was unable to provide NFA with a definitive answer as to exactly how many LTG customers had executed POAs. During the exam, NFA also interviewed eight

LTG customers, some of whom indicated they only gave Fullett verbal authority to exercise discretion over their accounts.

11. NFA's analysis found that Fullett predominantly traded short options in these 19 accounts, even though Fullett promoted—and many of the customers believed they would be—trading futures. Fullett also frequently sold as many out-of-the-money (OTM) options as a customer's account equity would permit.

12. Because OTM options offer relatively low premiums and, as alleged below, LTG charged high commission rates, Fullett's customers had little chance of experiencing any profits, while Fullett simultaneously subjected them to high commission-to-equity (C/E) ratios. Additionally, since selling options requires less margin per contract than establishing outright futures positions, Fullett could sell more options and generate more commissions than if he had traded outright futures.

13. The firm's commission and fee structure varied considerably from customer to customer. Although two LTG customers paid commissions of as little as $12 per contract, other customers paid as much as $60 per contract. The majority of LTG's customers paid commissions of at least $45 per contract.

14. The commission rate that Fullett charged to a particular customer appears to have been assessed arbitrarily, though Fullett claimed he charged a higher rate to those customers who needed more attention. However, when NFA asked Fullett to produce LTG's commission schedule, he was unable to do so and admitted that he never disclosed his commission rate to customers in writing.

15. NFA's trading analysis found that over half of LTG's customers had monthly C/E ratios that exceeded 50%. In certain months, some customers' C/E ratios were as high as 127%, 137% and 141%.

16. Furthermore, after Fullett established the option positions, he failed to diligently monitor his customers' accounts. As a result, a number of customers had to pay margin call charges and liquidation fees to the futures commission merchant (FCM) that carried the accounts.

17. Given Fullett's tendency to establish as many positions as possible, coupled with LTG's high commission rate, it is not surprising that all but one of the firm's customers realized overall losses of approximately $368,000 between January 2016 and December 2018. Over $303,000 (or 82%) of this amount was attributable to commissions and fees, of which $252,000 was paid to LTG and Fullett.

<u>Customer Interviews</u>

18. As alleged above, NFA interviewed eight LTG customers during the exam. The interviews of three customers (referred to as Customer A, Customer B and Customer C) are alleged in more detail, below. Collectively, the customer interviews produced the following evidence.

19. The customers told NFA they were originally introduced to LTG through references Fullett made to his brokerage business as part of his educational services. Many of the customers had enrolled in Fullett's mentorship sessions prior to opening their trading accounts. The customers said that Fullett—through

his education and mentorship services—predominantly emphasized trading futures using the Wyckoff Method.

20. The customers said that they came to trust Fullett over the course of their relationship with him, which led them to open trading accounts at LTG and grant Fullett discretion to trade their accounts. Since Fullett mainly discussed futures trading in his educational services, his predominant trading of short options in their accounts surprised the customers. The customers also did not expect Fullett to utilize most of their account equity to trade or anticipate the amount of trading activity in their accounts. All of the interviewed customers realized overall losses in their accounts.

21. According to the customers, Fullett rarely disclosed the exact rate of his commissions and fees and often downplayed the impact those commissions and fees had on a customer's profitability. In fact, many customers told NFA they were totally unaware of their commission rate, and several customers thought they were paying a lower commission rate than they were actually charged.

<u>LTG Customer A</u>

22. Before opening his account, Customer A had used LTG and Fullett's educational services for more than three years, by participating in group webinars and mentoring sessions. According to Customer A, Fullett focused on trading futures and stocks in the educational classes, with no discussion of selling options. Customer A said he decided to open an account with LTG because of his friendship with Fullett and based on Fullett's trading knowledge and experience.

23. Customer A gave Fullett discretion to trade the account by executing a written POA. After the account opened, Customer A received and reviewed his account statements. However, Customer A did not understand the types of positions that Fullett was placing and said the trading activity was nothing like the trading discussed in the education sessions. When Customer A told Fullett he was surprised by the selling of options, Fullett told him they were better off using this method. Customer A said he trusted that Fullett had more knowledge than he did and followed Fullett's direction. According to Customer A, Fullett also said he would teach Customer A as they went along so Customer A could become more comfortable with selling options.

24. Customer A said Fullett never discussed the size or number of positions that would be traded within the account. Customer A also said margin calls would occur periodically and, each time, he would express concern to Fullett.

25. Customer A said the FCM contacted him in July 2017 because Fullett was not responding to the FCM's inquiries about a margin call. According to Customer A, the FCM indicated the account had been liquidated, leaving a debit balance of just over $8,000. Therefore, Customer A closed his account.

26. Customer A said he mistakenly thought the commissions and fees referenced on his account statements went to the FCM only, and not Fullett. When Customer A asked about the commissions and fees, Fullett said that he would take care of the fees. Further, when Customer A asked Fullett how he was getting paid, Fullett told him not to worry about it. Customer A eventually learned he was paying LTG and Fullett a $55 commission rate.

27. Customer A opened his account with LTG and Fullett in January 2017 with a deposit of $45,000. When the account closed six months later, Customer A's losses exceeded $50,000, which included the approximate $8,000 debit balance. Customer A paid more than $67,000 in commissions and fees, which included fees of $3,400 for 44 margin calls and three liquidations resulting from Fullett's failure to monitor the account. Customer A's monthly C/E ratio averaged 40%, with one monthly C/E ratio as high as 55%.

<u>LTG Customer B</u>

28. Customer B told NFA that he has known Fullett for eight years and participated in Fullett's webinars and personal training sessions. Customer B said that, before opening his account, he only discussed trading futures and the E-mini S&P contract with Fullett. Although Customer B did not execute a written POA with LTG, he gave Fullett verbal discretion to trade his account because he did not have time to monitor the day-to-day activity in the account and trusted Fullett to do so.

29. Customer B told NFA that he had no idea Fullett would predominantly trade short corn options in his account. He also said he never discussed options with Fullett and did not know he was trading options on futures until NFA's interview of him.

30. Customer B understood he would pay commissions, but said Fullett never told him the exact commission rate. He also said Fullett never discussed margin calls with him before the account opened, though calls occurred often. Customer B discussed the calls with Fullett, who assured him they were not a problem as

long as they did not go past certain limits. However, Customer B did not understand what Fullett meant or know about any margin call charges.

31. Customer B opened his account in February 2018 with an initial deposit of $43,451. When the account closed five months later, Customer B had lost more than $42,800. Customer B paid commissions and fees of about $31,000, which included fees of $1,000 for 27 margin calls and one liquidation due to Fullett's failure to monitor the account. Customer B's monthly C/E ratio averaged 36%, with a C/E ratio one month of more than 55%.

LTG Customer C

32. Customer C also used Fullett's educational services and attended some of his webinars, where the Wyckoff Method was discussed. Customer C said Fullett would discuss trading corn futures in the webinars and he believed that Fullett understood what he was talking about. Customer C also said that Fullett would reach out to him about opening a trading account with LTG and send him messages about placing trades and making money for other clients. Customer C told NFA that he wanted someone to manage his account because he did not have time each day to watch the markets. Therefore, he decided to open an account with Fullett and gave him verbal discretion to trade his account.

33. Customer C told NFA that he thought the trading would be in line with the trading discussed in Fullett's webinars (i.e., trading corn futures). However, he said the trading was completely different since Fullett solely traded corn options. Customer C also said he was surprised to receive margin call notices. When

Customer C questioned Fullett regarding the margin calls, Fullett claimed they were "normal."

34. Customer C said Fullett did not disclose his commission rate or make clear that Customer C would incur additional commission charges whenever Fullett modified a position. Customer C also believed Fullett put on too many positions and always wanted to keep them open since Fullett claimed the markets were working the way he intended.

35. Customer C opened his account in August 2018 with a deposit of $10,000. As of December 31, 2018, Customer C had incurred losses of more than $7,800. During this period, Customer C paid over $8,600 in commissions and fees, including $800 in margin call charges. Customer C's monthly C/E ratio averaged close to 50%, with a ratio one month of as high as 85%.

36. In addition to the misconduct alleged above, NFA's examination found that LTG and Fullett used misleading promotional material that falsely touted positive performance and misrepresented his trading.

## APPLICABLE RULES

37. NFA Compliance Rule 2-2(a) provides, in pertinent part, that no Member or Associate shall cheat, defraud or deceive, or attempt to cheat, defraud or deceive, any commodity futures customer.

38. 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,* provides, in pertinent part, that

a Member who recommends transactions 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. The Interpretive Notice further provides that a Member or Associate must adequately disclose the amount of commissions and fees charged before the transaction occurs.

39. 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 has authorized the Member or Associate, in writing (by power of attorney or other instrument) to exercise such discretion.

40. NFA Compliance Rule 2-29(a) provides, in pertinent part, that no Member or Associate shall make any communication with the public that operates as a fraud or deceit.

41. NFA Compliance Rule 2-29(b) provides, in pertinent part, that no Member or Associate shall use any promotional material which is likely to deceive the public or contains any material misstatement of fact or which the Member or Associate knows omits a fact if the omission makes the promotional material misleading.

## COUNT I

**VIOLATIONS OF NFA COMPLIANCE RULES 2-4 AND 2-8(a): FAILING TO OBSERVE HIGH STANDARDS OF COMMERCIAL HONOR AND JUST AND EQUITABLE PRINCIPLES OF TRADE AND EXERCISING DISCRETION OVER CUSTOMER ACCOUNTS WITHOUT OBTAINING WRITTEN AUTHORITY TO EXERCISE SUCH DISCRETION.**

42. The allegations contained in paragraphs 1 through 35, 38 and 39 are realleged as paragraph 42.

43. As alleged above, LTG and Fullett's trading of OTM options and extremely high commission and fee charges combined to produce commissions for LTG and Fullett, but appeared to offer little or no economic benefit to their customers. In addition to charging high commissions, Fullett often used virtually all of his customers' available equity to sell as many options as the account equity would permit.

44. LTG and Fullett also made the trading decisions for their customers. However, as alleged above, LTG and Fullett never obtained a POA from some customers that authorized LTG and Fullett to exercise discretionary trading authority over their accounts.

45. Further, even though Fullett exercised discretion over his customers' accounts, he failed to diligently monitor the positions he placed in the accounts. Thus, while Fullett generated more than $300,000 in commissions and fees, his clients sustained over 300 margin calls and 15 liquidations, which accounted for nearly $11,000 of those commission and fee charges.

46. As alleged above, Fullett failed to adequately disclose the amount of commissions and fees before the trades were placed and failed to explain how the commission and fee charges impacted a customer's ability to profit. Further, in at least one instance, Fullett downplayed the impact of commissions and fees by telling a customer not to worry about them.

47. By trading the customers' accounts in this manner, LTG and Fullett violated the high standards of commercial honor and just and equitable principles of trade

expected of NFA Members and Associates and the requirement to have written authorization from customers to trade their accounts on a discretionary basis.

48. By reason of the foregoing acts and omissions, LTG and Fullett are charged with violations of NFA Compliance Rules 2-4 and 2-8(a).

## COUNT II

### VIOLATIONS OF NFA COMPLIANCE RULES 2-2(a), 2-29(a)(1), 2-29(b)(1) AND 2-29(b)(2): USING MISLEADING AND DECEPTIVE PROMOTIONAL MATERIAL AND DECEPTIVE AND MISLEADING SALES SOLICITATIONS.

49. The allegations contained in paragraphs 1 through 8, 11, 14, 18 through 37, 40 and 41 are realleged as paragraph 49.

50. As alleged above, and described below in more detail, LTG and Fullett utilized misleading solicitations and promotional material that misrepresented Fullett's trading and falsely touted positive performance.

51. Through their educational services, LTG and Fullett solicited customers using webinars and newsletters. Each week, LTG and Fullett produced an average of ten "public" and "private" webinars, including one-on-one membership webinars that promoted Fullett's trading. Public webinars were available free of charge, while private webinars required a subscription. In addition to these webinars, LTG and Fullett produced daily newsletters. NFA estimates that LTG and Fullett produced hundreds of webinars and newsletters from 2016 through 2018.

52. As part of the exam, NFA reviewed LTG's promotional material and found that it almost exclusively promoted directional-based futures trading (i.e., Fullett's adaption of the Wyckoff Method to futures trading), and included no material discussion of trading short options or their unique risks. Further Fullett could not

explain why he predominantly traded short options when he mainly touted futures trading to prospective customers.

53. Fullett also claimed that he disclosed to customers that he would trade short options, even though he was unable to provide NFA with any corroborating evidence to support this claim. Fullett's claim is also belied by the fact that almost all the customers NFA interviewed understood that Fullett utilized the Wyckoff Method advertised in his webinars and newsletters to trade futures. As a result, Fullett and LTG's promotional material was deceptive and misleading since it failed to disclose the short options trading that Fullett and LTG employed when trading customer accounts.

54. In addition to misrepresenting his trading, Fullett also misrepresented customer performance. For example, two LTG customers told NFA that, during one-on-one sessions, Fullett often touted positive customer performance for other accounts he managed. However, as alleged above in paragraph 17, every customer—but one—lost money trading with LTG and Fullett from 2016 through 2018. Further, the only customer with net positive performance made approximately $750 during the two-month period the account was open. Accordingly, Fullett's statements regarding his other customers' performance were false and misleading.

55. By reason of the foregoing acts and omissions, LTG and Fullett are charged with violations of NFA Compliance Rules 2-2(a), 2-29(a)(1), 29(b)(1) and (2).

## 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 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 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: 04/17/2020

By: Jan P. O'Haire
Chairperson

(Ecs/Complaints/2020. LTG, Fullett FINAL (6.20).docx)