

UNITED STATES OF AMERICA
Before the
COMMODITY FUTURES TRADING COMMISSION

In the Matter of:

ALFRED A. L. GLADSTONE
23634 Aetna Street
Woodland Hills, CA 91367

Respondent.

:
: **CFTC Docket No. 01-24**
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:
: **COMPLAINT AND NOTICE**
: **OF HEARING PURSUANT TO**
: **SECTIONS 6(c) AND 6(d), OF THE**
: **COMMODITY EXCHANGE ACT,**
: **AS AMENDED**
:
:

The Commodity Futures Trading Commission ("Commission") has received information from its staff that tends to show, and the Commission's Division of Enforcement ("Division") alleges that:

I. SUMMARY

1. From January 1998 to May 2000, Alfred Gladstone ("Gladstone"), an associated person ("AP") and principal at FSG International, Inc. ("FSGI"), solicited prospective customers to open accounts to trade options on commodity futures contracts ("commodity options") and solicited customers to purchase additional commodity options. Gladstone fraudulently solicited customers and prospective customers ("customers") to purchase commodity options by knowingly misrepresenting, and failing to disclose, material facts concerning, among other things: (i) the likelihood that a customer would realize large profits from commodity options trading; (ii) the risk involved in commodity options trading; and (iii) the performance record of Gladstone's customers.

II. RESPONDENT

2. **Alfred Albert Louis Gladstone**, whose last known address is 23634 Aetna Street, Woodland Hills, CA 91367, was registered with FSGI as an AP from August 1996 to May 2000, listed as a principal from October 1997 to December 1998, and listed as a branch manager from July 1999 to May 2000. Gladstone has most recently been registered with Ivy Financial as an AP from March 2000 to March 2001, and listed as a principal from March 2000 to March 2001. Currently, Gladstone is not registered with the Commission in any capacity.

III. FACTS

GLADSTONE'S FRAUDULENT MISREPRESENTATIONS AND OMISSIONS

3. From approximately January 1998 to May 2000, Gladstone solicited customers to open accounts to trade commodity options and solicited customers who had accounts to purchase additional commodity options.

4. Gladstone solicited his own customers, and also solicited additional funds from virtually every new customer who invested with FSGI's Los Angeles office.

5. Gladstone instructed APs in the Los Angeles office to falsely introduce him to their new customers as a vice-president who was in the office for a short period time and had taken a special interest in the customer's account. After being so introduced, Gladstone would attempt to "reload" a customer, i.e., he would solicit him to purchase additional commodity options.

6. In order to induce customers to invest funds with FSGI, Gladstone made exaggerated claims of profit potential and minimized the risk involved in trading commodity options, and overstated his track record trading commodity options for other customers.

a. Misrepresentations that Exaggerated the Likelihood of Profit

7. During the course of sales solicitations, Gladstone misrepresented the likelihood of customers profiting from the purchase of commodity options.

8. Gladstone made misrepresentations to customers, including, but not limited to, the following:

(i) that the purchase of commodity options from Gladstone was a “sure thing,” “a can’t miss,” and a “sure bet,” or words to that effect;

(ii) that the customer could easily triple their investment, or words to that effect;

(iii) that the customer would not complain when the trade made a profit of \$500,000, or words to that effect;

(iv) that an investment of \$18,000 would return over \$150,000 in profits, or words to that effect; and

(v) that the recommended trade “will be a real winner,” or words to that effect.

9. After leaving FSGI and becoming an AP at Ivy Financial, Gladstone continued to make exaggerated claims of profit potential.

10. He told one Ivy Financial customer, for example, that he was recommending the trade of a lifetime that would make the customer a lot of money. When the customer indicated to Gladstone that he needed approximately \$56,000 for a special project, Gladstone replied, “I can make you that \$56,000 and more.”

b. Misrepresentations and Omissions that Minimized the Risk of Loss

11. During the course of sales solicitations of FSGI customers, Gladstone routinely failed to disclose adequately the risk of loss inherent in the purchase of commodity options.

Occasional references to risk were nullified by Gladstone's high-pressure sales tactics and by his misrepresentations and omissions which falsely conveyed that while losses on commodity options were theoretically possible, purchasing commodity options with Gladstone was virtually risk free.

12. Gladstone made misrepresentations to his customers, including, but not limited to, the following:

(i) that there was "no way this [the recommended trade] can go sour," or words to that effect;

(ii) that the customers should simply trust him because he knew what he was doing and his "sound advice" would make them money, or words to that effect; and

(iii) that 90% of people who invest in commodities lose money while the other 10% of the people make "big bucks." Gladstone assured his customers that they would be among the 10% who made "big bucks," or words to that effect.

c. Misrepresentations that
Overstated Performance Record

13. During the course of sales solicitations of FSGI customers, Gladstone misrepresented and overstated his performance record to customers.

14. Gladstone made misrepresentations to his customers, including, but not limited to, the following:

(i) that all his customers were making money, or words to that effect; and

(ii) that he had made millions of dollars for his clients, or words to that effect.

15. Gladstone's customers entered into commodity option trades which seldom, if ever, earned the magnitude of profits represented. Most of Gladstone's customers lost money on their accounts as a whole. From 1998 to 2000, Gladstone opened 107 customer accounts. Over

ninety-nine percent (99%) of these accounts suffered net losses, and only one customer account made a profit. Total profits in Gladstone's one profitable account for this time period were approximately \$869.28, while total net losses in his unprofitable accounts exceeded \$1,337,579.

16. While virtually all of Gladstone's customers were losing money, he was making money from the commissions he charged to handle their accounts. Gladstone's commissions for 1999, for example, were \$1,225,215.35.

IV.

VIOLATIONS OF THE COMMODITY EXCHANGE ACT ("ACT") AND COMMISSION REGULATIONS ("REGULATIONS")

COUNT ONE

VIOLATIONS OF SECTION 4c(b) OF THE ACT, AS AMENDED, 7 U.S.C. § 6c(b)(1994), AND SECTION 33.10 OF THE REGULATIONS, 17 C.F.R. § 33.10 (2000): COMMODITY OPTIONS FRAUD

17. Paragraphs 1 through 16 above are re-alleged and incorporated by reference.

18. Gladstone knew that the misrepresentations in his sales solicitations, including those set forth in paragraphs 7 through 14, were false, deceptive, or misleading, or had no reason to believe that they were true, and knew that the sales solicitations failed to disclose material facts to customers.

19. In or in connection with an offer to enter into, the entry into, the confirmation of the execution of, or the maintenance of commodity option transactions, Gladstone cheated, defrauded, or deceived, or attempted to cheat, defraud, or deceive, other persons by making false, deceptive, or misleading representations of material facts and by failing to disclose material facts, including those set forth in paragraphs 7 through 14, in violation of Section 4c(b) of the Act and Section 33.10 of the Regulations.

20. Each fraudulent misrepresentation and omission including those identified and incorporated by reference herein, is alleged as a separate and distinct violation of Section 4c(b) of the Act and Commission Regulation 33.10.

V.

By reason of the foregoing allegations, the Commission deems it necessary and appropriate, pursuant to its responsibilities under the Act, to institute public administrative proceedings to determine whether allegations set forth in Parts I-IV above are true, and, if so, whether an appropriate order should be entered in accordance with Sections 6(c) and 6(d) of the Act, 7 U.S.C. §§ 9, 15 and 13b (1994).

Section 6(c) allows the Commission to enter an order (1) prohibiting a respondent from trading on or subject to the rules of any contract market and requiring all contract markets to refuse such person all trading privileges thereon for such a period as may be specified in the Commission's Order, (2) if the respondent is registered with the Commission in any capacity, suspending, for a period not to exceed six months, or revoking the registration of that respondent, (3) assessing against the respondent a civil penalty not more than the higher of \$110,000 or triple the monetary gain to the respondent for each violation of the Act or Regulations committed after November 27, 1996, and (4) requiring restitution to customers of damages proximately caused by the violations of the respondent.

Section 6(d) allows the Commission to enter an Order directing that the respondent cease and desist from violating the provisions of the Act and Regulations found to have been violated.

VI.

WHEREFORE, IT IS HEREBY ORDERED that a public hearing for the purpose of taking evidence and hearing arguments on the allegations set forth in Parts I-IV above be held before an Administrative Law Judge, in accordance with the Rules of Practice under the Act, 17 C.F.R. § 10.1 et seq. (2000), at a time and place to be fixed as provided in Section 10.61 of the Rules of Practice, 17 C.F.R. § 10.61 (2000), and that all post-hearing procedures shall be conducted pursuant to Sections 10.81 through 10.107 of the Rules of Practice, 17 C.F.R. §§ 10.81 through 10.107 (2000).

IT IS FURTHER ORDERED that Gladstone shall file an Answer to the allegations against him in the Complaint within twenty (20) days after service, pursuant to Section 10.23 of the Rules of Practice, 17 C.F.R. § 10.23 (2000), and pursuant to Section 10.12(a) of the Rules of Practice, 17 C.F.R. § 10.12(a) (2000), shall serve two copies of such Answer and of any document filed in this proceeding upon Jason Gizzarelli or Karen Kenmotsu, Trial Attorneys, Commodity Futures Trading Commission, Division of Enforcement, Three Lafayette Centre, 1155 21st Street, N.W., Washington, D.C. 20581, or upon such other counsel as may be designated by the Division. If Gladstone fails to file the required Answer or fails to appear at a hearing after being duly served, he shall be deemed in default, and the proceeding may be determined against him upon consideration of the Complaint, the allegations of which shall be deemed to be true.

IT IS FURTHER ORDERED that this Complaint and Notice of Hearing shall be served on Gladstone personally or by certified or registered mail forthwith pursuant to Section 10.22 of the Commission's Rules, 17 C.F.R. § 10.22 (2000).

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of the investigative or prosecutorial functions in this or any factually

related proceeding will be permitted to participate or advise in the decision upon this matter except as witness or counsel in proceedings held pursuant to notice.

By the Commission.

Jean A. Webb
Secretary to the Commission
Commodity Futures Trading Commission

Date: September 4, 2001