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NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION

2012 SEP 21 P 3:16

Arizona Corporation Commission

COMMISSIONERS

AZ CORP COMMISSION  
DOCKET CONTROL

DOCKETED

GARY PIERCE, Chairman  
BOB STUMP  
SANDRA D. KENNEDY  
PAUL NEWMAN  
BRENDA BURNS

SEP 21 2012

DOCKETED BY  
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In the matter of: )  
)  
PATRICK B. HAMMONS, CRD#1030468, and )  
PERI ANN HAMMONS, a.k.a. Peri Ann Brown, )  
husband and wife; )  
)  
TF6 ADVISORS, LLC, an Arizona limited )  
liability company, d.b.a. TFG Advisors; and )  
)  
PACIFIC VENTURES & TRADING LLC, an )  
Arizona limited liability company; )  
)  
Respondents. )

DOCKET NO. S-20860A-12-0414

**NOTICE OF OPPORTUNITY FOR  
HEARING REGARDING PROPOSED  
ORDER TO CEASE AND DESIST,  
ORDER FOR RESTITUTION, ORDER  
FOR ADMINISTRATIVE PENALTIES,  
AND ORDER FOR OTHER  
AFFIRMATIVE ACTION**

**NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING**

**EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER**

The Securities Division ("Division") of the Arizona Corporation Commission ("Commission") alleges that respondents PATRICK B. HAMMONS, TF6 ADVISORS, LLC, d.b.a. TFG Advisors, and PACIFIC VENTURES & TRADING LLC have engaged in acts, practices, and transactions that constitute violations of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities Act") and the Arizona Investment Management Act, A.R.S. § 44-3101 *et seq.* ("IM Act").

The Division further alleges that respondent PATRICK B. HAMMONS, CRD#1030468 ("HAMMONS"), directly or indirectly controlled respondent PACIFIC VENTURES & TRADING LLC ("PVT") within the meaning of A.R.S. § 44-1999; HAMMONS is jointly and severally liable with, and to the same extent as PVT, for PVT's violations of the anti-fraud

1 provisions of the Securities Act.

2 **I.**

3 **JURISDICTION**

4 1. The Commission has jurisdiction over this matter pursuant to Article XV of the  
5 Arizona Constitution, the Securities Act and the IM Act.

6 **II.**

7 **RESPONDENTS**

8 2. Respondent HAMMONS is an individual who at all relevant times resided in  
9 Maricopa County, Arizona.

10 3. Respondent TF6 ADVISORS, LLC, d.b.a. TFG Advisors ("TFG") is a manager-  
11 managed Arizona limited liability company organized by HAMMONS on June 19, 2006.  
12 HAMMONS was at all relevant times and currently is the manager of TFG.

13 4. Respondent PVT is a manager-managed Arizona limited liability company  
14 organized by HAMMONS on June 17, 2009. HAMMONS was at all relevant times and  
15 currently is the manager of PVT.

16 5. HAMMONS, TFG and PVT may be referred to as "Respondents." At all relevant  
17 times, Respondents were not licensed by the Commission as investment advisers or investment  
18 adviser representatives, or registered by the Commission as securities brokers or securities  
19 salesmen.

20 6. Peri Ann Hammons, a.k.a. Peri Ann Brown, was at all relevant times the spouse of  
21 HAMMONS. Peri Ann Hammons, who is also referred to as "Respondent Spouse," is included in  
22 this action solely to determine the liability of HAMMONS and Peri Ann Hammons's marital  
23 community pursuant to A.R.S. § 44-2031(C) and A.R.S. § 44-3291(C).

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1 be used for “general operations and the funding of equity, fixed-income and futures/commodities  
2 trading accounts.”

3 15. HAMMONS further represented to at least two of the PVT investors that  
4 HAMMONS would use their investment funds primarily for day-trading stock index futures and  
5 other securities and that PVT would pay TFG for HAMMONS’s services.

6 **TFG’s Financial Services**

7 16. At all relevant times, TFG has represented that it and its principals<sup>1</sup> have extensive  
8 experience with and are primarily engaged in providing financial services including managing  
9 client accounts and portfolios, and advising others as to the value of securities or as to the  
10 advisability of investing in, purchasing or selling securities.

11 17. For example, the “Services” page of TFG’s website, [www.tfgadvisors.com](http://www.tfgadvisors.com), states  
12 that “TFG Advisors develops financial resource plans and assists clients in obtaining necessary  
13 capitalization to meet stated business objectives.” The website further states that “TFG Advisors  
14 has managed in excess of \$250 million in private portfolios and \$10 billion of institutional  
15 accounts. TFG’s approach is centered around maximizing portfolio performance and liquidity.”

16 18. Additionally, TFG produced reports and market analysis related to advising others  
17 as to the value of securities. For example, over a period of several weeks, TFG frequently sent  
18 updates to at least one PVT member. These updates were simple, trading-themed newsletters;  
19 they included market news and analysis and charts related to HAMMONS’s trading activities and  
20 objectives.

21 19. Finally, the illustrated packet given to PVT investors includes a page labeled  
22 “Strategic Partners.” On this page TFG is described as a “Financial advisory firm whose  
23 principal role [as PVT’s “strategic partner”] will be to manage trading room operations[.]”  
24  
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26 <sup>1</sup> TFG’s website uses the plural, “principals”; but HAMMONS is the only principal and, at all times relevant, was TFG’s sole employee.

1 **PVT's Agreement with TFG**

2 20. At or around October 2009, PVT entered an agreement with TFG regarding the  
3 provision of financial services to PVT (the "Agreement").

4 21. Under the terms of the Agreement, PVT would pay TFG for HAMMONS's  
5 services. These services consisted of managing PVT's capital by creating and trading an  
6 investment portfolio of equities, futures and other securities; this would include day-trading in  
7 these securities.

8 22. In exchange for these services, PVT would pay TFG a monthly payment of \$500  
9 for every \$10,000 of capital under management, plus 40% of trading profits earned each month.  
10 The remaining 60% of profits would go to PVT and its members.

11 **TFG/HAMMONS's Use of PVT Capital**

12 23. HAMMONS applied approximately \$32,500 of PVT's capital toward day-trading  
13 in equities, futures or other securities.

14 24. HAMMONS day-traded with this capital in two different trading platforms.

15 25. PVT's most-used trading platform was TradeStation, Inc. ("TS"). On or around  
16 January 12, 2010, PVT opened a TS futures trading account (the "TS Account"). In order to  
17 open this account, PVT completed a "Futures Account Application." HAMMONS signed this  
18 application on January 4, 2010 as the "Primary Authorized Representative" of PVT. As stated in  
19 the terms of the Application, HAMMONS is the only person with authority to give or receive  
20 instructions from TS regarding the account and the only person authorized to trade in the  
21 account. As explained in this Application, this account provides PVT with a trading platform  
22 through which PVT can purchase and sell futures.

23 26. PVT transferred \$10,000 into the TS Account in January 2010, and another  
24 \$10,000 on March 31, 2010.

25 27. PVT also opened and transferred \$10,000 to a TS equities account. No trading  
26 activity occurred in the equities account and the \$10,000 was later transferred to the TS Account,

1 where it was used in trading activities.

2 28. Beginning in January 2010 and continuing through October 2011, HAMMONS,  
3 as the manager of TFG, bought and sold futures contracts and other securities in TS Account.

4 29. HAMMONS's trading in the TS Account resulted in significant net losses. As of  
5 December 30, 2011, the market value of the account was \$689.08.

6 30. On January 5, 2010 HAMMONS opened a trading account with Rosenthal Collins  
7 Group, LLC. The account is in HAMMONS's name. In order to open the Rosenthal account,  
8 HAMMONS signed an "Account Opening Worksheet" which states that the account will be used  
9 for speculative trading of futures, foreign currencies and metals.

10 31. The day prior to opening the Rosenthal account, PVT transferred \$2,500 to  
11 HAMMONS's checking account. Upon opening the trading account, HAMMONS deposited  
12 \$2,500 into the Rosenthal account.

13 32. In January, February and July 2010, and November 2011, HAMMONS traded  
14 futures contracts and other securities in the Rosenthal account.

15 33. The trading activity for each of these four months resulted in losses. By  
16 December 31, 2010, the value of the Rosenthal account was reduced to \$762; by December 30,  
17 2011, the account value was reduced to \$461.

18 **PVT's Payment to TFG for TFG's Services**

19 34. In exchange for HAMMONS's financial services of managing and trading PVT's  
20 capital, PVT paid TFG monthly fees.

21 35. For the 20-month period beginning in January 2010 and ending August 2011,  
22 PVT paid TFG monthly fees ranging from \$2,000 to \$15,000, for a total of \$75,700.

23 36. Another \$10,000 of PVT's funds sat for almost two years in a trading account  
24 controlled by HAMMONS. No trading occurred in that account. At the end of the two-year  
25 period the \$9,622 account balance was transferred to TFG.

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1           37.    In August 2011, PVT effectively emptied its Chase bank account when it made a  
2 final transfer to TFG in the amount of \$34,000.

3           38.    Thus, PVT paid a total of approximately \$119,322 to TFG.

4           **Miscellaneous Allegations**

5           39.    HAMMONS represented to some PVT investors that the investors' funds would  
6 be used to generate investment income and trading profits, primarily through day-trading and  
7 other investing. In fact, only a fraction of investor funds were put into trading accounts. The  
8 vast majority of investor funds went to pay TFG.

9           40.    HAMMONS failed to disclose to PVT and PVT's members that, in order for  
10 PVT's assets to merely maintain their value, TFG's assets would need to experience gains at least  
11 equal to the monthly fees paid to TFG.

12           41.    HAMMONS represented to two Arizona-based PVT investors that their combined  
13 interest in PVT increased in value by 11.63% during 2010. This increase was shown in a written  
14 Balance Sheet, provided to these investors. HAMMONS represented to these investors that the  
15 increase in value occurred in part due to profitable trading. HAMMONS made these  
16 representations without disclosing the following items, which HAMMONS either knew or should  
17 have known:

18                   a)    Only a fraction of PVT's funds were used in trading;

19                   b)    There were only three months in 2010 where PVT incurred net gains from  
20 trading in the TS Account, and these gains were modest: in January, September and  
21 November, PVT had respective trading profits of approximately \$326, \$47 and \$281;

22                   c)    During 2010, PVT incurred net losses in the TS Account of more than  
23 approximately \$23,000, which reduced the TS Account's market value to approximately  
24 \$3,901 at the end of 2010;

25                   d)    All of PVT's monthly trading in 2010 in the Rosenthal account resulted in  
26 losses; and

1 e) Payments from PVT to TFG contributed to a large reduction of PVT's  
2 capital.

3 42. TFG/HAMMONS did not at any time have a certified public accountant review by  
4 actual examination PVT's bank accounts, trading accounts and securities, or prepare an auditor's  
5 report and financial statements for PVT.

6 **IV.**

7 **VIOLATION OF A.R.S. § 44-3151**

8 **(Transactions by Unlicensed Investment Advisers**  
9 **or Investment Adviser Representatives)**

10 **[TFG/HAMMONS]**

11 43. Respondents TFG and HAMMONS transacted business in Arizona as investment  
12 advisers or investment adviser representatives while not licensed or in compliance with Article 4 of the  
13 IM Act.

14 44. This conduct violates A.R.S. § 44-3151.

15 **V.**

16 **VIOLATION OF A.R.S. § 44-3241**

17 **(Fraud in the Provision of Investment Advisory Services)**

18 **[TFG/HAMMONS]**

19 45. Respondents TFG and HAMMONS engaged in a transaction or transactions within or  
20 from Arizona involving the provision of investment advisory services in which these respondents,  
21 directly or indirectly: (i) employed a device, scheme, or artifice to defraud; (ii) made untrue  
22 statements of material fact or omitted to state material facts that were necessary in order to make the  
23 statements made not misleading in light of the circumstances under which they were made; (iii)  
24 misrepresented professional qualifications with the intent that the client rely on the misrepresentation;  
25 or (iv) engaged in transactions, practices, or courses of business that operated or would operate as a  
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1 fraud or deceit. Respondents TFG and HAMMONS's conduct includes, but is not limited to, the  
2 following:

3 a) Failing to have an independent certified public accountant verify all client  
4 funds and securities by actual examination at least once during each calendar year without  
5 notice as defined by A.A.C. R14-6-206(A)(4)(b)(i);

6 b) Failing to have an independent certified public accountant file a copy of the  
7 auditor's report and financial statements with the Commission within 30 days after the  
8 completion of the examination along with a letter stating that they examined the funds and  
9 securities and describing the nature and extent of the examination as defined by A.A.C. R14-  
10 6-206(A)(4)(b)(ii);

11 c) Failing to act in the best interest of TFG's client, PVT, by transferring the  
12 majority of PVT's funds to TFG and putting only \$32,500 of PVT's funds to a use that had  
13 even a possibility of generating investment income or trading profits;

14 d) Failing to disclose to PVT and PVT's members that TFG would need to  
15 generate gains at least equal to the monthly fees paid in order for PVT's assets not to decrease  
16 in value and that a decrease in asset value may not decrease the fees paid to TFG; and

17 e) Representing to some PVT members that the PVT funds had increased in  
18 value in 2010, partly from successful trading, when in fact HAMMONS's trading activities  
19 resulted in significant losses and PVT's capital had been reduced by significant, continued  
20 payment of fees to TFG throughout 2010.

21 46. This conduct violates A.R.S. § 44-3241.

22 **VI.**

23 **Violation of A.R.S. § 44-1991**

24 **(Fraud in Connection with the Offer or Sale of Securities)**

25 **[PVT/HAMMONS]**

26 47. In connection with the offer or sale of securities within or from Arizona,

1 respondents HAMMONS and PVT directly or indirectly: (i) employed a device, scheme, or  
2 artifice to defraud; (ii) made untrue statements of material fact or omitted to state material facts  
3 that were necessary in order to make the statements made not misleading in light of the  
4 circumstances under which they were made; or (iii) engaged in transactions, practices, or courses  
5 of business that operated or would operate as a fraud or deceit upon offerees and investors.  
6 HAMMONS and PVT's conduct includes, but is not limited to, the following:

7 a) Representing to some PVT investors that the investor funds would be used  
8 primarily for trading activities and the purchase of assets that could generate investment  
9 income and trading profits when, in fact, HAMMONS put only approximately \$32,500 of  
10 PVT's funds to such use; and

11 b) Failing to disclose to PVT investors that TFG would need to generate  
12 gains at least equal to the monthly fees paid in order for PVT's assets not to decrease in  
13 value and that, even with a decrease in asset value, TFG would not decrease the fees paid  
14 to TFG.

15 48. This conduct violates A.R.S. § 44-1991.

16 49. HAMMONS directly or indirectly controlled PVT within the meaning of A.R.S. §  
17 44-1999. As a result, HAMMONS is jointly and severally liable with, and to the same extent as  
18 PVT for its violations of the anti-fraud provisions of the Securities Act set forth above.

## 19 VII.

### 20 REQUESTED RELIEF

21 The Division requests that the Commission grant the following relief:

- 22 1. Order Respondents to permanently cease and desist from violating the Securities  
23 Act and the IM Act pursuant to A.R.S. §§ 44-2032 & 44-3292.
- 24 2. Order Respondents to take affirmative action to correct the conditions resulting from  
25 Respondents' acts, practices, or transactions, including a requirement to make restitution pursuant to  
26 A.R.S. §§ 44-2032 & 44-3292;



1 Requests should be made as early as possible to allow time to arrange the accommodation.  
2 Additional information about the administrative action procedure may be found at  
3 <http://www.azcc.gov/divisions/securities/enforcement/AdministrativeProcedure.asp>

4 **IX.**

5 **ANSWER REQUIREMENT**

6 Pursuant to A.A.C. R14-4-305, if a Respondent or Respondent Spouse requests a hearing,  
7 the requesting respondent must deliver or mail an Answer to this Notice of Opportunity for  
8 Hearing to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix,  
9 Arizona 85007, within 30 calendar days after the date of service of this Notice. Filing instructions  
10 may be obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet  
11 web site at <http://www.azcc.gov/divisions/hearings/docket.asp>.

12 Additionally, the answering respondent must serve the Answer upon the Division.  
13 Pursuant to A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-  
14 delivering a copy of the Answer to the Division at 1300 West Washington, 3<sup>rd</sup> Floor, Phoenix,  
15 Arizona, 85007, addressed to Ryan J. Millecam.

16 The Answer shall contain an admission or denial of each allegation in this Notice and the  
17 original signature of the answering respondent or respondent's attorney. A statement of a lack of  
18 sufficient knowledge or information will be considered a denial of an allegation. An allegation not  
19 denied will be considered admitted.

20 When the answering respondent intends in good faith to deny only a part or a qualification  
21 of an allegation, the respondent shall specify that part or qualification of the allegation and shall  
22 admit the remainder. Respondent waives any affirmative defense not raised in the Answer.

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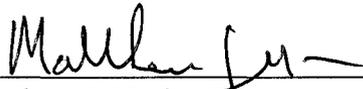
1           The officer presiding over the hearing may grant relief from the requirement to file an  
2 Answer for good cause shown.

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4           Dated this 21st day of September 2012

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Matthew J. Neubert  
Director of Securities

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