



U.S. COMMODITY FUTURES TRADING COMMISSION

Three Lafayette Centre
1155 21st Street, NW, Washington, DC 20581

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RENEE SUSAN SCOTT,
Complainant,

v.

BEACON FINANCIAL TRADING
GROUP, INCORPORATED, and
WILLIAM SCHOOR,
Respondents.

CFTC Docket No. 95-R153

INITIAL DECISION

Renee Susan Scott seeks to recover the \$1,935.26 that she lost trading futures contracts and options on futures in her discretionary account. Scott alleges that William Schoor deceived her about the risks involved in trading options on futures and that she was unsuitable for trading options on futures. Respondents deny any violations.

The findings and conclusions below are based on Scott's complaint,^{1/} respondents' joint answer,^{2/} and the testimony of Scott and Schoor, and reflect my determination that Scott gave

^{1/} The complaint consists of the initial complaint form with exhibits (copy of August 14, 1995 letter from Scott to Schoor, account statements, a copy of an undated "Dear Investor" form letter from Schoor to Scott, a copy of the cancelled \$65 refund check, and a copy of the account-opening documents); and an addendum to the complaint which consisted of a one-page typed description of the complaint and a copy of a CFTC Division of Enforcement questionnaire filled out by Scott. Scott waived discovery and filing a final verified statement.

^{2/} Respondents waived discovery and filing a final verified statement.

generally more convincing testimony than did Schoor. Unless otherwise noted, all dates are in 1995 and amounts are rounded to the nearest dollar.

Findings

Beacon Financial Trading Group, Incorporated, located in Pompano Beach, Florida, is a registered introducing broker, guaranteed by LFG, LLC.

William Schoor has been registered as a principal and associated person with Beacon since 1990. Schoor previously was an associated person with International Precious Metals Corporation, Multivest Options and Rosenthal-Collins.

Renee Susan Scott, a resident of Dallas, Texas, at the time that she opened her account with respondents was receiving social security disability benefits and employed part-time phoning for potential customers for an insurance agent. Scott attended college, but did not receive a degree. On her account application, Scott indicated that her annual income was under \$25,000, that her net worth was under \$20,000, and that her liquid net worth was under \$15,000.^{3/} Scott's investment experience was limited to a handful of stock purchases. At the time that she was solicited by Schoor, Scott did not understand the distinction between derivatives contracts such as options and futures and the underlying commodities such as stocks, treasury bonds and currencies. [Pages 5-11 of hearing transcript.]

^{3/} A copy of the account-opening documents was attached to both the complaint and the answer.

In June of 1995, Schoor called Scott to encourage her to invest in options on futures. Scott told Schoor that she was hesitant because her chief source of income was Social Security disability, because she had no more than \$10,000 in savings, and because she could not meaningfully understand the mechanics of trading options and futures. In reply, Schoor assured her that he would not be calling her if could not make her money, and that he was confident that he could make her "some good money" in the "\$100,000 range." [See factual description of complaint, and pages 11-13 of hearing transcript.]

Soon afterwards, Scott decided to invest \$2,000. Schoor sent an account-opening package, which included an account application form, a customer agreement, power of attorney and risk disclosure statement. In addition to the risk disclosure statement, the customer agreement and "Dear Investor" form letter contained references to the risky nature of trading futures and options. However, when Schoor assisted Scott in filling out the account application he told her that she did need not concern herself with these documents because "all life is risk" and because he would be selecting the trades and making her "a lot of money." As a result, Scott believed that the risks involved were no more than it would have been for any other investment. Schoor did not discuss his trading strategy in detail, and specifically did not explain that he would be selling options for Scott's account. [Pages 17-20 of hearing transcript.]

After the initial conversations with Schoor, Scott still did

not understand the nature of her investment. For example, she assumed that she was buying actual commodities and not options or futures, and she did not understand basic terms like "put," long" or "short;" and when she received her account statement, she did not understand the significance of the strike price. [Compare Scott testimony at pages 20-28 with Schoor testimony at pages 48-50 of hearing transcript.]

For the first trade in Scott's account, on July 7, Schoor sold two T-bond puts and collected a \$150 commission. Scott expressed considerable nervousness as the puts lost value, but Schoor convinced her to hold. [Pages 30-31, and 48-50 of hearing transcript.] On July 19, the T-bond puts were stopped out for a \$1,661 net loss.

Schoor then told Scott that he would try to recoup Scott's losses with some day trades. Schoor made two day trades in futures contracts which realized \$274 in aggregate net losses and resulted in \$150 in commissions. Scott then instructed Schoor to close the account.

Conclusions

The record supports violations of Sections 4b and 4c(b) of the Commodity Exchange Act and CFTC rule 33.10 by Schoor, as well as Beacon's liability for Schoor's violations under Section 2(a)(1)(A) of the Act.

Schoor deceptively induced Scott to open an account with FIG by minimizing the importance of the written risk disclosures, by confidently claiming that would be "making good money" and making

a \$100,000 for Scott, and by failing to disclose that he would be using an extremely risky option selling strategy. The intentional nature of Schoor's violations is evidenced by, among other things, his knowledge of Scott's lack of investment experience and of her extremely limited financial means.

The proper measure of damages is Scott's out-of-pocket losses of \$1,935.26.

ORDER

Violations having been found, respondents William Schoor and Beacon Financial Trading Group, Incorporated are ORDERED to pay to complainant Renee Susan Scott reparations of \$1,935.26, plus prejudgment interest on that amount compounded annually at 5.88% from July 6, 1995, to the date of payment, plus costs of \$125. Liability is joint and several.

Dated May 30, 1997.


Philip V. McGuire,
Judgment Officer