

1 **STATE OF WASHINGTON**
2 **DEPARTMENT OF FINANCIAL INSTITUTIONS**
3 **SECURITIES DIVISION**

4 IN THE MATTER OF DETERMINING) S-03-002-03-TO01
5 Whether there has been a violation of the)
6 Securities Act of Washington by:) SUMMARY ORDER TO CEASE AND
7 SEATTLE CAPITAL GROUP LLC,) DESIST AND NOTICE OF INTENT TO
8 JAE H. PAK and LUZ VALDEZ,) IMPOSE FINES AND ORDER
9) AFFIRMATIVE RELIEF
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Respondents) Case No. S-03-002

THE STATE OF WASHINGTON TO: SEATTLE CAPITAL GROUP
1000 DEXTER AVENUE NORTH, STE 202
SEATTLE, WA 98109

JAE H. PAK
1400 LAKE WASHINGTON BLVD. N.
STE C106
RENTON, WA 98056

LUZ VALDEZ
19507 170th AVE NE
WOODINVILLE, WA 98072

16 **STATEMENT OF CHARGES**

17 Please take notice that the Securities Administrator of the State of Washington has reason
18 to believe that Respondents, Seattle Capital Group LLC, Jae H. Pak and Luz Valdez, have each
19 violated the Securities Act of Washington and that their violations justify the entry of an order of
20 the Securities Administrator under RCW 21.20.390 against them to cease and desist from such
21 violations. The Securities Administrator finds that delay in ordering the Respondents to cease
22 and desist from such violations would be hazardous to investors and to the public and that a
23 Summary Order to Cease and Desist should be entered immediately. The Securities
24 Administrator finds as follows:
25

SUMMARY ORDER TO CEASE AND DESIST AND 1
NOTICE OF INTENT TO IMPOSE FINES AND ORDER
AFFIRMATIVE RELIEF

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 **TENTATIVE FINDINGS OF FACT**

2 **RESPONDENTS**

- 3 1. The Seattle Capital Group LLC (“SCG”) is a Washington limited liability company with its
4 principal place of business at 1000 Dexter Avenue North, Suite 202, Seattle, WA 98109. Jae
5 H. Pak is the sole member of SCG.
6
7 2. Jae H. Pak (“Pak”) is Chief Executive Manager, President and Chief Executive Officer of
8 SCG. He resides at 2629 SW Nevada Street, #101, Seattle, WA 98126.
9
10 3. Luz Valdez (“Valdez”) is Administrative Executive of SCG. She resides at 19507 170th
11 Avenue NE, Woodinville, WA 98072.

12 **NATURE OF RESPONDENT’S CONDUCT**

13 *Seattle Capital Group*

- 14 4. Beginning on or about December 2000 and continuing at least to December 2002, Pak,
15 through SCG, offered and sold securities and offered investment advice and services to the
16 general public for a fee. Both practices were done without benefit of registration.
17
18 5. Pak formed SCG with the express purpose of trading in securities. The SCG operating
19 agreement executed on November 10, 2000 provides, “The Partnership’s business and
20 purpose is to seek above average capital appreciation by investing in, and trading equities,
21 options, private placements and other securities and instruments (collectively “Securities”).”
22 At the time the operating agreement was executed and at no time subsequent has SCG been
23 registered with the State of Washington as an investment adviser or securities broker-dealer.
24 At no time has Pak been registered as an investment adviser, an investment adviser
25 representative or a securities salesperson. At no time has Valdez been registered as an
investment adviser, investment adviser representative or a securities salesperson.

- 1 6. Pak held himself and SCG out to the general public as an investment adviser through the
2 world wide web and word of mouth solicitation. The Internet domain name of SCG,
3 seacapgroup.com, is registered to Pak. The SCG website represented SCG as a reputable
4 investment service for high net worth individuals and institutions. The website represented
5 SCG as offering “high-yield sound investments” that used “high-quality technical
6 instruments in fund management.”
7
- 8 7. SCG and Pak maintained numerous online trading accounts with Protrader Securities
9 Corporation (“Protrader”), a registered broker-dealer headquartered in Austin, Texas.
10 Protrader offers online trading accounts and proprietary trading software through which
11 customers may execute trades in such accounts. Protrader markets its systems for use by
12 “active traders” or institutions, defined by Protrader as those who place ten or more trades
13 per day. Protrader receives a commission on every trade executed through its trading
14 accounts. In 2000 and 2001, Protrader also operated a number of trading centers in various
15 cities with computer workstations running Protrader proprietary software. In December
16 2000, Protrader operated a trading center at 1000 Dexter Avenue North, Suite 202, which
17 was located in the same office suite as SCG. Protrader and SCG shared a receptionist and
18 telephone number. Pak’s business card represented SCG as “The Seattle Capital Group @
19 Protrader Securities Corporation”. As of April 2001, SCG held at least nine Protrader
20 accounts.
21

22 *Investor A*

- 23 8. On or about January 2001, Pak solicited \$700,000 from a Washington investor (“Investor
24 A”). Investor A is a retired Boeing engineer and was investing the proceeds of the sale of his
25 Boeing stock options on behalf of his family limited partnership (“the Family LP”). At the

1 time of the solicitation by Pak, Investor A had approximately ten years of investment
2 experience with a retail brokerage. Additionally, he had approximately two years experience
3 trading securities through an online discount brokerage.

4 9. On or about December 2000, after viewing a television advertisement for Protrader, Investor
5 A contacted Protrader to set up an online trading account and obtain the Protrader trading
6 software, as described in Paragraph 7 above, to operate on his home computer (hereinafter
7 “Protrader workstation”). Protrader’s corporate headquarters advised Investor A to contact
8 Doug Duggan (“Duggan”), the branch manager of the Seattle Protrader trading center.
9 Duggan has been registered as a securities salesperson with the State of Washington since
10 1993. At the time of his employment with Protrader, Duggan held series 63, 7, 24, 3, 4 and
11 55 licenses. Duggan, as branch manager, actively marketed Protrader services in the Seattle
12 market in an effort to increase revenues for that center. Trading center revenue increased in
13 part through opening new trading accounts and encouraging active trading by Protrader
14 account holders. Duggan invited Investor A to visit the Seattle trading center. Investor A
15 visited the Seattle trading center on several occasions, observing the operation of the trading
16 software. During one of these visits, Duggan suggested to Investor A that he use an onsite
17 computer workstation at the Seattle trading center, rather than having the Protrader
18 workstation installed at his home because of the increased customer service available onsite
19 and the greater access to market information. Investor A declined to use an onsite
20 workstation, preferring to trade from his home.
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23 10. Duggan assigned Protrader employee Paul M. Franklin (“Franklin”) to assist Investor A in
24 setting up a home Protrader workstation. Franklin has been a registered securities
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1 salesperson in the State of Washington since April 2000. Duggan represented that Franklin
2 would assist Investor A in configuring and operating his Protrader workstation.

3 11. Franklin visited Investor A's home over approximately six weeks, ostensibly to assist him
4 with the installation and operation of the Protrader workstation. Investor A also made
5 numerous further visits to the Protrader Seattle office for instruction on the operation of the
6 Protrader workstation. On one of these visits, Duggan introduced Investor A to Pak.

7
8 12. Franklin urged Investor A to allow SCG to manage his funds instead of making his own
9 investment decisions using the Protrader workstation and trading software. Franklin
10 represented that SCG employed "professionals" with highly advanced investment expertise
11 who could profitably invest Investor A's money using low risk strategies. On one of his
12 visits to Investor A's house to assist with the Protrader workstation, Franklin brought Pak
13 with him so that Pak could personally solicit Investor A to allow Pak and SCG to act as
14 Investor A's investment adviser.

15 13. Pak represented to Investor A that SCG was a "multi-million dollar operation" with "many"
16 accounts under management. Pak further represented that SCG employed numerous
17 professionals who managed investment portfolios, conducted technical analysis and provided
18 investment advice. Pak also represented that SCG had been investing successfully for years.
19 At no time, either before, during or after his solicitation did Pak provide Investor A with
20 proof of any of his claims regarding himself or SCG.
21

22 14. Pak represented to Investor A that an investment with SCG was low risk due to the utilization
23 of a "hedging strategy." Since Investor A was investing money on behalf of the Family LP,
24 the promise of a low risk investment strategy was very important to his decision to invest.
25 Pak did not disclose what the hedging strategy would be or how it would be implemented.

1 Pak also represented to Investor A that SCG would double his original investment within one
2 year.

3 15. On February 12, 2001, Investor A, on behalf of the Family LP, and Pak, on behalf of SCG,
4 entered into a contract authorizing SCG to engage in transactions in securities on behalf of
5 the Family LP in a joint investment account. The stated purpose was to “seek above average
6 capital appreciation by investing in, and trading equities, options, private placements and
7 other securities and instruments.” The Family LP contributed \$700,000 and SCG contributed
8 \$300,000 to the joint investment account. Under the contract, SCG would receive a
9 performance-based fee of 50% of any profits generated by SCG’s equity trading in the
10 account. The contract did not provide for compensation based on total performance of the
11 account over a definite period or as of definite dates. Under the terms of the contract, in
12 order for Pak and SCG to double Investor A’s original investment within one year, as
13 described in paragraph 14 above, while receiving 50% of any profits as a fee, Pak and SCG
14 would have needed to produce at least a 200% return on Investor A’s investment, not
15 accounting for transaction-related fees.
16

17 16. Investor A provided Pak two checks paid to the order of Seattle Capital Group totaling
18 \$700,000 on February 12, 2001. That same day, Pak endorsed both checks and deposited the
19 same into a Bank of America account held jointly with his wife Dong Yen Hua (the “Joint
20 Account”) on February 12, 2001. On February 22, 2001 Pak withdrew \$700,000 from the
21 Joint Account in the form of a cashiers check made payable to Spear, Leeds and Kellogg, the
22 clearing firm for Protrader. A handwritten note at the lower left hand corner of the cashiers
23 check indicated the destination Protrader account as “4MAC.”
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1 17. Pak utilized an existing Protrader account, account number 4MAC, held in the name of
2 Seattle Capital Group for Investor A's joint investment account (the "4MAC account"). On
3 February 26, 2001, the existing balance in the 4MAC account was \$300,000, the amount of
4 SCG's contribution. On February 26, 2001, Protrader credited the 4MAC account \$700,000
5 for the Bank of America cashiers check, the amount of Investor A's investment. As of the
6 close of business on February 26, 2001, the account balance in the 4MAC account was
7 \$1,000,000, \$700,000 of which represented Investor A's contribution and \$300,000 of which
8 represented SCG's contribution.
9

10 18. Immediately thereafter, Pak or an agent of SCG began to execute complex and risky
11 transactions at a high velocity in the 4MAC account. The trading included high volume day
12 trading, buying and selling options contracts and numerous short sales. A short sale is the
13 sale of securities a seller does not own, in anticipation of a decline in the price of the
14 securities. For the month of March 2001, 1,100 trades were executed in the 4MAC account.
15 Through December 4, 2001, an average of 64 trades were conducted per day. Investor A
16 received limited information on the status of his investment. For the first year of his
17 investment, he received monthly statements prepared by SCG that showed only a total
18 monthly profit or loss and the month ending Family LP equity. Upon Investor A's
19 insistence, SCG eventually provided Investor A online access through Protrader to view
20 account activity in the Family LP account. At no time did Investor A hold authority to
21 execute transactions in the Protrader accounts that held the Family LP's investment.
22

23 19. The value of the 4MAC account immediately declined in the first month of SCG's trading.
24 The account briefly regained value from March 28, 2001 to May 16, 2001, achieving a high
25 of \$1,149,638.42 on April 26, 2001.

1 20. On May 17, 2001, Pak withdrew a \$62,000 fee from the 4MAC account. Subsequently, the
2 4MAC account value declined dramatically, reaching a low of \$352,04.33 on June 18, 2001.

3 21. When Investor A confronted Pak with the serious losses in his account, Pak represented that
4 the heavy losses in the 4MAC were attributable to a “bad” trader who was making the
5 transactions in the 4MAC account. Pak told Investor A that he had fired the “bad” trader and
6 had put “his best trader,” Valdez, in charge of trading for 4MAC account.

7
8 22. On August 9, 2001, without the knowledge or approval of Investor A, Pak or an agent of Pak
9 directed the transfer of \$11,000 from the 4MAC account to a Seattle Capital Group bank
10 account held with US Bank. Four days later, on August 13, 2001, Valdez wrote a \$9,000
11 check on that account, payable to herself. The memo portion of the check contained the
12 notation “salary”.

13 23. In December 2001, Protrader switched to a new online trading system, requiring a change in
14 account numbers. The Family LP’s account was transferred to the new system and received
15 a new account number (hereinafter the “432 account”).

16 24. As of December 31, 2001, the value of the 432 account was \$624,063, approximately 60% of
17 its original value. Hoping to regain the value of Investor A’s original investment, on January
18 16, 2002, Investor A, on behalf of the Family LP, and Pak, on behalf of SCG, executed an
19 amended contract to extend the investment agreement to February 12, 2003. Due to Investor
20 A’s concerns about the losses in the Family LP’s account, the contract included a clause that
21 guaranteed any loss suffered by the Family LP above and beyond \$300,000, meaning SCG
22 agreed to return at least \$400,000 of Investor A’s original \$700,000 investment. On January
23 16, 2002, the value of the 432 account was \$621,084.
24
25

- 1 25. Trading in the 432 account continued at a high velocity. During the first five months of
2 2002, a total of 8,298 trades were executed in the 432 account. The account value declined
3 precipitously such that by May 2, 2002, only \$281,487 remained in the 432 account, out of
4 the original \$1,000,000 investment.
- 5 26. As a result of losses in the account and Investor A's dissatisfaction with the account's
6 performance, on June 11, 2002 Pak and Valdez executed a promissory note in favor of the
7 Family LP for \$462,000, payable if the 432 account suffered two consecutive weeks of
8 equity losses.
- 9 27. On or about August 2002, Pak represented to Investor A that he wanted to use \$100,000 of
10 the Family LP's money to set up a margin account for other traders affiliated with SCG. Pak
11 assured Investor A that the margin account would be a very safe means of making money.
12 Pak told Investor A that it would yield profit with "zero risk." Pak did not in fact create a
13 margin account, but instead transferred \$100,000 of the Family LP's funds to another
14 Protrader account (the "688 account"). Valdez then commenced executing transactions in
15 the 688 account.
- 16 28. On November 22, 2002, Investor A issued a demand on the \$462,000 promissory note. On
17 December 4, 2002, the Family LP received \$239,910.65, the total value of the 432 and 688
18 accounts. To date, Investor A has not received the remaining \$222,089.35 due under the
19 promissory note, despite Pak's assurances that he intends to repay the note.
20
21

22 **REGISTRATION STATUS**

- 23 29. Seattle Capital Group is not currently registered under the Securities Act of Washington,
24 RCW chapter 21.20, as an investment adviser or broker-dealer in the State of Washington
25 and has not been previously so registered.

1 30. Jae H. Pak is not currently registered under the Securities Act of Washington, RCW chapter
2 21.20, as an investment adviser, investment adviser representative or securities salesperson in
3 the State of Washington and has not been previously so registered.

4 31. Luz Valdez is not currently registered under the Securities Act of Washington, RCW chapter
5 21.20, as an investment adviser, investment adviser representative or securities salesperson in
6 the State of Washington and has not been previously so registered.

7 **EMERGENCY**

8 The Securities Administrator finds that an emergency exists because Respondents Seattle
9 Capital Group, Jae H. Pak and Luz Valdez continue to knowingly and intentionally engage in
10 dishonest and unethical practices by acting as investment advisers, investment adviser
11 representatives, broker-dealers or securities salespersons without benefit of registration,
12 engage in discretionary, unauthorized and unsuitable high-risk trading without notice to
13 investors, and present a continuing threat to the investing public.

14
15
16 Based upon the above Tentative Findings of Fact, the following Conclusions of Law are
17 made:

18 **CONCLUSIONS OF LAW**

- 19 1. Seattle Capital Group, Jae H. Pak and Luz Valdez have each violated RCW 21.20.040 by
20 offering and/or selling said securities while not registered as investment advisers,
21 investment adviser representatives, broker-dealers or securities salespersons in the State of
22 Washington.
- 23 2. The offer and/or sale of said securities was made in violation of RCW 21.20.010 because, as
24 set forth in the Tentative Findings of Fact above, Respondents Seattle Capital Group, Jae H.

25 Pak and Luz Valdez have each engaged in a scheme or artifice to defraud, made untrue
SUMMARY ORDER TO CEASE AND DESIST AND 10 DEPARTMENT OF FINANCIAL INSTITUTIONS
NOTICE OF INTENT TO IMPOSE FINES AND ORDER Securities Division
AFFIRMATIVE RELIEF PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 statements of material fact, or omitted to state material facts necessary in order to make the
2 statements made, in light of the circumstances under which they were made, not misleading.

- 3 3. Seattle Capital Group and Jae H. Pak have each violated 21.20.030 by accepting
4 compensation on the basis of a share of capital gains or capital appreciation of the funds of a
5 client.

6 **SUMMARY ORDER**

7
8 Based on the foregoing, NOW, THEREFORE, IT IS HEREBY SUMMARILY
9 ORDERED that Seattle Capital Group, Jae H. Pak, Luz Valdez, and their agents and
10 employees, each cease and desist from violation of RCW 21.20.040, the section of the
11 Securities Act of Washington requiring registration of persons acting as investment advisers,
12 investment adviser representatives, broker-dealers or securities salespersons.

13 It is further SUMMARILY ORDERED that Seattle Capital Group, Jae H. Pak and Luz
14 Valdez, and their agents and employees, each cease and desist from violation of RCW
15 21.20.010, the anti-fraud section of the Securities Act.

16 It is further SUMMARILY ORDERED that Seattle Capital Group and Jae H. Pak, and
17 their agents and employees, each cease and desist from violation of RCW 21.20.030,
18 prohibiting certain performance-based investment advisory contracts.

19 **NOTICE OF INTENT TO IMPOSE FINES**

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21 Based on the foregoing Tentative Findings of Fact and Conclusions of Law, the Securities
22 Administrator finds that Respondents have knowingly and recklessly violated the registration
23 and anti-fraud provisions of the Securities Act, and that the imposition of fines under RCW
24 21.20.395 is required in light of the severity of violations. A fine, in an amount not to exceed
25 \$5,000.00 for each violation, should be imposed against Respondents Seattle Capital Group,

1 Jae H. Pak and Luz Valdez, jointly and severally.

2 **NOTICE OF INTENT TO ORDER AFFIRMATIVE RELIEF**

3 Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and
4 Conclusions of Law, the Securities Administrator finds that affirmative action is warranted to
5 correct the conditions resulting from Respondents' violations. Therefore, the Securities
6 Administrator intends to order that Respondents Seattle Capital Group, Jae H. Pak and Luz
7 Valdez shall be jointly and severally liable for and shall provide appropriate affirmative action,
8 including, without limitation, a requirement to provide restitution to all Washington investors
9 and to pay the costs, fees, and other expenses incurred in the conduct of this investigation.

10 **AUTHORITY AND PROCEDURE**

11 This Order is entered pursuant to the provisions of RCW 21.20.390 and RCW 21.20.395,
12 and is subject to the provisions of Chapter 34.05 RCW. The Respondents, Seattle Capital
13 Group, Jae H. Pak and Luz Valdez, may each make a written request for a hearing as set forth
14 in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING
15 accompanying this order.

16 If a Respondent does not make a timely hearing request, the Securities Administrator
17 intends to adopt the foregoing Tentative Findings of Fact and Conclusions of Law as final and
18 make the Summary Order to Cease and Desist permanent as to that Respondent imposing the
19 fines and affirmative relief as described above.

20 **CONTINUING INVESTIGATION**

21 The Securities Division is continuing to investigate the practices of the Respondents to
22 determine the full extent of the violations of the Securities Act that may have occurred in this
23 matter.
24
25

1 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

2 Dated this 20 day of October, 2003

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5 


6 Deborah Rortner
7 Deborah Bortner
8 Securities Administrator

9 Approved by:

Presented by:

10 

11 Michael E. Stevenson
12 Chief of Enforcement

13 

14 Andrea Y. Sato
15 Andrea Y. Sato
16 Financial Legal Examiner