

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

4 IN THE MATTER OF DETERMINING) Order No.: S-17-2346-18-SC01
5 Whether there has been a violation of the)
6 Securities Act of Washington by:) STATEMENT OF CHARGES AND NOTICE OF INTENT
7 Daniel Robert Taylor,) TO ENTER ORDER TO CEASE AND DESIST, TO DENY
8) FUTURE REGISTRATIONS, TO IMPOSE FINES, AND TO
9 Respondent.) CHARGE COSTS
10)

11 THE STATE OF WASHINGTON TO: Daniel Robert Taylor (CRD #6233712)

12 **STATEMENT OF CHARGES**

13 Please take notice that the Securities Administrator of the state of Washington has reason to believe that
14 Respondent Daniel Robert Taylor has violated the Securities Act of Washington. The Securities Administrator believes
15 that those violations justify the entry of an order against Daniel Robert Taylor to cease and desist from such violations
16 and to charge costs pursuant to RCW 21.20.390 and RCW 21.20.110, to deny Daniel Robert Taylor's future securities
17 registrations pursuant to RCW 21.20.110, and to impose fines against Daniel Robert Taylor pursuant to RCW 21.20.110
18 and RCW 21.20.395. The Securities Administrator finds the following:

19 **TENTATIVE FINDINGS OF FACT**

20 Respondent

21 1. Daniel Robert Taylor (CRD #6233712) is a Pennsylvania resident, who, from 2013 to 2017, acted as an
22 investment adviser representative of his investment adviser firm, Taylor Investment Management, LLC. Daniel Robert
23 Taylor lived in and worked in Pennsylvania during this time period.

24 Related Party

25 2. Taylor Investment Management, LLC (CRD #167918) is a Pennsylvania limited liability company, which was
registered as an investment adviser firm with the Pennsylvania Department of Banking and Securities from 2013 to
2017. Daniel Robert Taylor is the managing member of Taylor Investment Management.

Overview

3. From 2014 to 2017, Daniel Robert Taylor invested Investor DM's funds in a high-risk investment strategy.
Investor DM, a Washington resident, is an older investor with a modest net worth and a conservative investment
profile. Daniel Robert Taylor had a fiduciary duty to act in Investor DM's best interest, and he agreed in writing to
invest Investor DM's account in a more conservative fashion. Daniel Robert Taylor, however, invested a high
proportion of Investor DM's investments in inverse and leveraged ETFs at a high volume, leading Investor DM to lose
nearly half of her net worth. Through this high-risk investment strategy, Daniel Robert Taylor misrepresented the

1 services that he would provide to Investor DM and made unsuitable investments in Investor DM's account, in violation
2 of the Securities Act of Washington.

3 Investor DM Background

4 4. Investor DM, a Washington resident born in 1943, is a single retiree, who has had conservative investment
5 objectives and who has a low risk tolerance. As a widowed retiree, Investor DM has sought to preserve her assets to
6 finance her retirement.

7 5. Investor CM considers herself unsophisticated about investing and has relied on third-parties to help manage
8 her finances. Investor DM has had less than \$300,000 in net worth, and for a period of time, her daughter, who worked
9 in the financial services industry, helped Investor DM conservatively invest her liquid net worth.

10 6. In approximately 2013, Investor DM's daughter was afflicted with a grave illness, and to reduce stress in their
11 lives, they sought a third party to manage their finances. Upon the recommendation of a friend, Investor DM contacted
12 Daniel Robert Taylor about the prospect of Daniel Robert Taylor managing Investor DM's finances.

13 7. Investor DM and Daniel Robert Taylor spoke over the phone a few times about establishing accounts with
14 Daniel Robert Taylor. During these phone calls, Investor DM explained to Daniel Robert Taylor that she had a very
15 low risk tolerance and that she was fine with not making a lot of money through her investments due to her low risk
16 tolerance.

17 8. In the account paperwork that she completed for Daniel Robert Taylor, Investor DM further documented her
18 more conservative investment profile. In selecting her risk tolerance, Investor DM identified that she is "interested in
19 investments that have historically demonstrated a low degree of risk of loss of principal in value." And Investor DM
20 selected income as an investment objective, traditionally a more conservative investment objective, characterized by
21 investments in certificates of deposit, fixed annuities, longer-term fixed income securities, dividend-paying stocks of
22 well-established companies, and other safer securities that generate current income or cash flow.

23 9. As part of this paperwork, Investor DM noted that she had minimal investment experience and the only
24 experience that she did have was limited to experience in investing in mutual funds and stocks. Investor DM
25 documented that, at most, she could withstand a five to ten percent loss of principal within a year. Investor DM further
identified an investment time horizon of ten to 20 years, meaning she sought to achieve her financial goals over a ten
to 20-year period.

Given Investor DM's more conservative investment profile, Daniel Robert Taylor represented that he would
invest Investor DM's funds "opportunistically, yet conservatively." The two then agreed in writing to a general
investment strategy more common for the average older retail investor: Daniel Robert Taylor agreed to invest
approximately 60 percent of Investor DM's funds in bonds, approximately 30 percent in stocks, and approximately ten
percent in currencies and commodities. Daniel Robert Taylor further represented that he would not use leverage in any
products that he invested in Investor DM's account.

11. At no point in time as a client of Daniel Robert Taylor did Investor DM change her risk tolerance, investment objectives, or investment time horizon.

12. In April 2014, Investor DM signed an investment adviser agreement with Daniel Robert Taylor to establish two accounts with him: an IRA and a non-retirement account. The investment adviser agreement provided Daniel Robert Taylor with discretionary authority, which provided Daniel Robert Taylor the authority to manage Investor DM's accounts without her input.

13. In April 2014, Investor DM transferred funds from her existing accounts into her two new accounts with Daniel Robert Taylor. These funds represented nearly all of Investor DM's net worth.

Description of Inverse and Leveraged ETFs

14. ETFs¹ are open-end investment companies whose shares list and trade on national securities exchanges at market prices. ETFs, generally, invest in or track a specific index or sector. Inverse ETFs seek to deliver the opposite of the performance of the index or benchmark they track. Leveraged ETFs seek to deliver multiples of the performance of the index or benchmark they track.

15. Most inverse and leveraged ETFs reset daily, and thus only seek to achieve their stated investment objective for a single day. An inverse or leveraged ETF that resets daily will provide the opposite or multiple, respectively, for that day only, of the index that the ETF tracks. Inverse and leveraged ETFs² are synthetic products that invest in swaps, futures contracts, and other derivative instruments to achieve their daily investment objectives.

16. ProShares Short S&P 500 is an example of an inverse ETF that Daniel Robert Taylor invested in Investor DM's account. This inverse ETF seeks to provide daily investment results that correspond to the opposite of the daily performance of the S&P 500. This index is a measure of the stock market performance of companies with large market capitalization. Over the years, in Investor DM's account, Daniel Robert Taylor invested in inverse ETFs that sought to provide daily investment returns that were the opposite of the daily performance of broader market indices, volatility indices, the performance of the European Union euro versus the United States dollar, emerging market indices, and more specialized market indices.

17. Direxion Daily Gold Miners Bull 3x is an example of a leveraged ETF that Daniel Robert Taylor invested in Investor DM's account. This leveraged ETF seeks to provide daily investment results that correspond to three times the

¹ Daniel Robert Taylor also invested in leveraged and inverse exchange-traded notes (ETNs) in Investor DM's accounts. ETNs are a type of debt security that trade on exchanges and promise a return linked to a market index or other benchmark. Inverse and leveraged ETNs share many of the same characteristics and risks as discussed in the following paragraphs. For convenience, further references to ETFs in this document are meant to also include ETNs.

² Daniel Robert Taylor invested in inverse ETFs, leveraged ETFs, and inverse and leveraged ETFs in Investor DM's accounts. While these products are all different, for convenience, except in paragraph 18, further references to inverse and leveraged ETFs are meant to include all three products.

1 daily performance of the New York Stock Exchange Acra Gold Miners Index. This index, generally, is comprised of
2 publicly traded companies primarily involved in the mining of gold and silver in locations around the world. Over the
3 years, in Investor DM's account, Daniel Robert Taylor invested in leveraged ETFs that sought to provide daily
4 investment returns that were the multiple of the daily performance of broader market indices, commodities indices, and
5 volatility indices. Daniel Robert Taylor used leverage up to a multiple of three in these investments.

6 18. ProShares UltraShort Bloomberg Crude Oil is an example of an inverse and leveraged ETF that Daniel Robert
7 Taylor invested in Investor DM's account. This inverse and leveraged ETF seeks daily results that correspond to two
8 times the opposite of the daily performance of the Bloomberg West Texas Intermediate Crude Oil Subindex. This
9 index is intended to reflect the performance of crude oil as measured by the price of futures contracts of West Texas
10 Intermediate sweet, light crude oil. Over the years, in Investor DM's account, Daniel Robert Taylor invested in inverse
11 and leveraged ETFs that sought to provide daily investment returns that were the opposite and the multiple of the daily
12 performance of broader market indices, commodities indices, United States Treasury Bond indices, the performance of
13 the European Union euro versus the United States dollar, and more specialized market indices. Daniel Robert Taylor
14 used leverage up to a multiple of three in these investments.

15 19. The Securities and Exchange Commission, the Financial Industry Regulatory Authority (FINRA), and the
16 North American Securities Administrators Association characterize inverse and leverage ETFs as specialized and
17 complex investments that pose risks for "buy-and-hold investors."³ FINRA identifies these investments as appropriate
18 investments in some sophisticated trading strategies. Issuers of inverse and leveraged ETFs note that these investments
19 are appropriate for investors who do not seek current income from their investment in the product. Issuers also caution
20 that these investments should be used only by knowledgeable investors who understand the potential consequences of
21 seeking daily inverse or leveraged investment results. Additionally, since inverse and leveraged ETFs obtain their
22 investment exposure through derivatives, issuers warn that the fund's investment in derivatives may be considered
23 aggressive. Further, issuers note that with leveraged ETFs, utilization of leverage involves special risks and should be
24 considered speculative.

25 Daniel Robert Taylor Misrepresented His Services and Made Unsuitable Investments

20 20. Daniel Robert Taylor lost Investor DM approximately \$120,000, nearly one-half of the value of her accounts,
21 by investing a substantial amount of Investor DM's funds in inverse and leveraged exchange-traded funds (ETFs)

21 ³ These risks are primarily associated with holding inverse and leveraged ETFs for more than one day. Due to the
22 effects of compounding, over time, the performance of inverse and leveraged ETFs that reset daily can differ
23 significantly from the underlying index or benchmark they seek to track. While, in some instances, Daniel Robert
24 Taylor held inverse and leveraged ETFs in Investor DM's accounts for months and sometimes years, leading to
25 thousands of dollars of losses, the significant amount in losses in Investor DM's account were the result of Daniel
Robert Taylor's aggressive day trading of large amounts of inverse and leveraged ETFs in Investor DM's account.

1 through a high-risk investment strategy that relied on a high proportion of Investor DM's investments invested in
2 inverse and leveraged ETFs at a high volume. Through this high-risk investment strategy, Daniel Robert Taylor
3 provided services contrary to the services he represented that he would provide to Investor DM and made unsuitable
4 investments in her accounts.

5 21. Over the course of managing Investor DM's account, Daniel Robert Taylor generally invested anywhere
6 between 35 to 75 percent of Investor DM's assets in inverse or leveraged ETFs and anywhere between 15 to 65 percent
7 of Investor DM's assets in cash. These cash positions mostly functioned as the proceeds from inverse and leveraged
8 ETF sales and the source of funds for new inverse and leveraged ETF purchases, as Daniel Robert Taylor cycled
9 through these investments in Investor DM's account. In some months, Daniel Robert Taylor invested close to 100
10 percent of Investor DM's funds in inverse or leveraged ETFs. Daniel Robert Taylor made no significant investments in
11 equities, bonds, or certificates of deposit in Investor DM's accounts.

12 22. Daniel Robert Taylor invested in inverse and leveraged ETFs in Investor DM's account on a daily or weekly
13 basis at a high volume. And many of these investments were for relatively large amounts, in the thousands and
14 sometimes tens of thousands of dollars. For example, over a nine day period in November 2016, Daniel Robert Taylor
15 made approximately 30 sales of inverse and leveraged ETFs in inverse and leveraged ETFs in Investor DM's accounts
16 and approximately 26 purchases of inverse and leveraged ETFs. The sales amounted to an approximate total of
17 \$158,927 and the purchases amounted to an approximate total of \$252,690. Daniel Robert Taylor made no other
18 investments in Investor DM's account during this time period. Daniel Robert Taylor's investment strategy in this
19 example and many other instances amounted to speculating on the daily movement of a variety of indices with
20 minimal regard to stable, long-term growth in Investor DM's account.

21 23. This high-risk strategy directly contravened the written agreement, described in paragraph 10, between Daniel
22 Robert Taylor and Investor DM, in which Daniel Robert Taylor agreed to conservatively invest Investor DM's funds.
23 This relatively conservative investment strategy contemplated investments in low-cost ETFs, and mutual funds, as well
24 as individual purchases of stocks and bonds. Daniel Robert Taylor, however, made few, if any, of these investments in
25 Investor DM's accounts and instead invested nearly all of Investor DM's accounts in inverse or leveraged ETFs or left
her funds sitting in cash

26 24. Daniel Robert Taylor's high-risk investment strategy was unsuitable for Investor DM because it did not match
27 or was contrary to Investor DM's investment objectives. Large investments and high-volume investments in inverse
28 and leveraged ETFs were contrary to Investor DM's documented risk profile, exceeded Investor DM's stated ability to
29 withstand a loss to the principal value of her investment, did not match her written investment objective of seeking
30 income from her investments, and were at odds with her listed investment time horizon.

1 25. Not only did Daniel Robert Taylor fail to provide to Investor DM the financial services he initially represented
2 he would, but his high-risk investment strategy contravened Investor DM's investment objectives and lead to massive
3 losses in her accounts.

4 Daniel Robert Taylor Has Since Closed His Firm and Withdrawn His Investment Adviser Registration

5 26. Having lost close to half of her net worth and unable to sustain more losses to her accounts, in June 2017,
6 Investor DM transferred her accounts from Daniel Robert Taylor. In communications with Investor DM around this
7 time, Daniel Robert Taylor admitted that while he sought to protect Investor DM from a market decline, his investment
8 strategy produced poor results for Investor DM.

9 27. Daniel Robert Taylor pursued the same investment strategy with his other clients, leading to large losses in
10 their accounts as well.

11 28. In October 2017, Daniel Robert Taylor closed his firm and withdrew his registration as an investment adviser
12 representative.

13 29. Daniel Robert Taylor has reached informal settlements with some of his clients who have complained to him
14 about their investment losses.

15 **CONCLUSIONS OF LAW**

16 Based on the above Findings of Fact, the following Conclusions of law are made:

17 1. Daniel Robert Taylor's high-risk investment strategy in Investor DM's accounts constituted a dishonest or
18 unethical business practice as defined in WAC 460-24A-220(8) because Daniel Robert Taylor misrepresented the
19 advisory services that he would provide to Investor DM. This conduct also violated RCW 21.20.020.

20 2. Daniel Robert Taylor engaged in dishonest or unethical business practices as defined in WAC 460-24A-220(1),
21 by purchasing inverse and leveraged ETFs in Investor DM's account without reasonable grounds to believe that these
22 transactions were suitable for the customer, based upon a reasonable inquiry concerning the customer's investment
23 objectives, financial situation and needs, and other relevant information. This conduct also violated RCW 21.20.702.

24 **NOTICE OF INTENT OF ORDER TO CEASE AND DESIST**

25 Pursuant to RCW 21.20.390(1), and based upon the above Tentative Findings of Fact and Conclusions of Law,
the Securities Administrator intends to order that Daniel Robert Taylor shall cease and desist from violations of WAC
460-24A-220(8), WAC 460-24A-220(1), RCW 21.20.020, and RCW 21.20.702.

NOTICE OF INTENT TO DENY FUTURE REGISTRATIONS

Pursuant to RCW 21.20.110(1), and based upon the above Tentative Findings of Fact and Conclusions of
Law, the Securities Administrator intends to deny any future broker-dealer, broker-dealer representative, investment
adviser, or investment adviser representative registrations that Daniel Robert Taylor may file in the future.

NOTICE OF INTENT TO CHARGE COSTS

Pursuant to RCW 21.20.110(7) and RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Daniel Robert Taylor shall be liable for and pay costs, fees, and expenses incurred in the administrative investigation and hearing of no less than \$8,000.

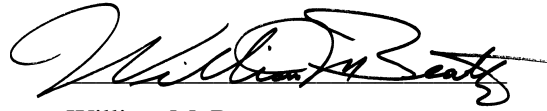
NOTICE OF INTENT TO IMPOSE FINES

Pursuant to RCW 21.20.110(4) and RCW 21.20.395, and based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Daniel Robert Taylor shall be liable for and pay a fine of \$24,000.

AUTHORITY AND PROCEDURE

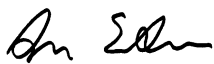
This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject to the provisions of Chapter 34.05 RCW. Daniel Robert Taylor may make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this order. If Daniel Robert Taylor does not make a hearing request in the time allowed, the Securities Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and to enter a permanent order to cease and desist, to deny future registrations, to impose the fines sought, and to charge the costs sought against Daniel Robert Taylor.

Signed and Entered this 27th day of December 2018.



William M. Beatty
Securities Administrator

Approved by:



Suzanne Sarason
Chief of Enforcement

Presented by:



Eric Palosaari
Financial Legal Examiner

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