

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

4 IN THE MATTER OF DETERMINING ) Order No.: S-17-2346-19-C001  
5 Whether there has been a violation of the )  
6 Securities Act of Washington by: ) CONSENT ORDER  
7 Daniel Robert Taylor, )  
8 Respondent. )

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

10 **INTRODUCTION**

11 On December 27, 2018, the Securities Administrator of the state of Washington issued Statement of Charges and Notice of Intent to Enter Order to Cease and Desist, to Deny Future Registrations, to Impose Fines, and to Charge Costs (Statement of Charges), order number S-17-2346-18-SC01, against Daniel Robert Taylor.

12 Pursuant to the Securities Act of Washington, the Securities Division and Respondent Daniel Robert Taylor enter into this Consent Order to settle the allegations described in the Statement of Charges.

13 Respondent Daniel Robert Taylor admits the following Findings of Fact and Conclusions of Law.

14 **FINDINGS OF FACT**

15 Respondent

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

17 Related Party

18 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.

19 Overview

20 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

23 **CONSENT ORDER**

**DEPARTMENT OF FINANCIAL INSTITUTIONS**  
Securities Division  
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1 nearly half of her net worth. Through this high-risk investment strategy, Daniel Robert Taylor misrepresented the  
2 services that he would provide to Investor DM and made unsuitable investments in Investor DM's account, in violation  
3 of the Securities Act of Washington.

#### 4 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.

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

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

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

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

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

20 10. Given Investor DM's more conservative investment profile, Daniel Robert Taylor represented that he would  
21 invest Investor DM's funds "opportunistically, yet conservatively." The two then agreed in writing to a general  
22 investment strategy more common for the average older retail investor: Daniel Robert Taylor agreed to invest  
23 approximately 60 percent of Investor DM's funds in bonds, approximately 30 percent in stocks, and approximately ten

1 percent in currencies and commodities. Daniel Robert Taylor further represented that he would not use leverage in any  
2 products that he invested in Investor DM's account.

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

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

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

#### 11 Description of Inverse and Leveraged ETFs

12 14. ETFs<sup>1</sup> are open-end investment companies whose shares list and trade on national securities exchanges at  
13 market prices. ETFs, generally, invest in or track a specific index or sector. Inverse ETFs seek to deliver the opposite  
14 of the performance of the index or benchmark they track. Leveraged ETFs seek to deliver multiples of the performance  
15 of the index or benchmark they track.

16 15. Most inverse and leveraged ETFs reset daily, and thus only seek to achieve their stated investment objective  
17 for a single day. An inverse or leveraged ETF that resets daily will provide the opposite or multiple, respectively, for  
18 that day only, of the index that the ETF tracks. Inverse and leveraged ETFs<sup>2</sup> are synthetic products that invest in swaps,  
19 futures contracts, and other derivative instruments to achieve their daily investment objectives.

20 16. ProShares Short S&P 500 is an example of an inverse ETF that Daniel Robert Taylor invested in Investor  
21 DM's account. This inverse ETF seeks to provide daily investment results that correspond to the opposite of the daily  
22 performance of the S&P 500. This index is a measure of the stock market performance of companies with large market  
23 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

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

23 <sup>2</sup> 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 indices, the performance of the European Union euro versus the United States dollar, emerging market indices, and  
2 more specialized market indices

3 17. Direxion Daily Gold Miners Bull 3x is an example of a leveraged ETF that Daniel Robert Taylor invested in  
4 Investor DM's account. This leveraged ETF seeks to provide daily investment results that correspond to three times the  
5 daily performance of the New York Stock Exchange Acra Gold Miners Index. This index, generally, is comprised of  
6 publicly traded companies primarily involved in the mining of gold and silver in locations around the world. Over the  
7 years, in Investor DM's account, Daniel Robert Taylor invested in leveraged ETFs that sought to provide daily  
8 investment returns that were the multiple of the daily performance of broader market indices, commodities indices, and  
9 volatility indices. Daniel Robert Taylor used leverage up to a multiple of three in these investments.

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

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

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<sup>3</sup> These risks are primarily associated with holding inverse and leveraged ETFs for more than one day. Due to the effects of compounding, over time, the performance of inverse and leveraged ETFs that reset daily can differ significantly from the underlying index or benchmark they seek to track. While, in some instances, Daniel Robert Taylor held inverse and leveraged ETFs in Investor DM's accounts for months and sometimes years, leading to 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 aggressive. Further, issuers note that with leveraged ETFs, utilization of leverage involves special risks and should be  
2 considered speculative.

3 Through a High-Risk Investment Strategy, Daniel Robert Taylor Misrepresented the Services That he Would Provide  
4 to Investor DM and Made Unsuitable Investments in Investor DM's Account

5 20. Daniel Robert Taylor lost Investor DM approximately \$120,000, nearly one-half of the value of her accounts,  
6 by investing a substantial amount of Investor DM's funds in inverse and leveraged exchange-traded funds (ETFs)  
7 through a high-risk investment strategy that relied on a high proportion of Investor DM's investments invested in  
8 inverse and leveraged ETFs at a high volume. Through this high-risk investment strategy, Daniel Robert Taylor  
9 provided services contrary to the services he represented that he would provide to Investor DM and made unsuitable  
10 investments in her accounts.

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

18 22. Daniel Robert Taylor invested in inverse and leveraged ETFs in Investor DM's account on a daily or weekly  
19 basis at a high volume. And many of these investments were for relatively large amounts, in the thousands and  
20 sometimes tens of thousands of dollars. For example, over a nine day period in November 2016, Daniel Robert Taylor  
21 made approximately 30 sales of inverse and leveraged ETFs in inverse and leveraged ETFs in Investor DM's accounts  
22 and approximately 26 purchases of inverse and leveraged ETFs. The sales amounted to an approximate total of  
23 \$158,927 and the purchases amounted to an approximate total of \$252,690. Daniel Robert Taylor made no other  
investments in Investor DM's account during this time period. Daniel Robert Taylor's investment strategy in this  
example and many other instances amounted to speculating on the daily movement of a variety of indices with  
minimal regard to stable, long-term growth in Investor DM's account.

24 23. This high-risk strategy directly contravened the written agreement, described in paragraph 10, between Daniel  
25 Robert Taylor and Investor DM, in which Daniel Robert Taylor agreed to conservatively invest Investor DM's funds.  
26 This relatively conservative investment strategy contemplated investments in low-cost ETFs, and mutual funds, as well  
27 as individual purchases of stocks and bonds. Daniel Robert Taylor, however, made few, if any, of these investments in  
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

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

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

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

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

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

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

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

20 **CONCLUSIONS OF LAW**

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

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

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

6 **CONSENT ORDER**

7 Based upon the foregoing and finding it in the public interest:

1 IT IS AGREED AND ORDERED that Respondent Daniel Robert Taylor shall cease and desist from violating  
2 RCW 21.20.020(c), the section of the Securities Act of Washington prohibiting unethical business practices by  
investment advisers.

3 IT IS FURTHER AGREED AND ORDERED that Respondent Daniel Robert Taylor shall cease and desist  
4 from violating RCW 21.20.702, the Section of the Securities Act of Washington requiring suitable investment  
recommendations.

5 IT IS FURTHER AGREED AND ORDERED that Respondent Daniel Robert Taylor shall be liable for and  
6 shall pay \$3,600 in fines on or before the entry of this Consent Order.

7 IT IS FURTHER AGREED AND ORDERED that the payment of these costs as described above shall be made  
8 as follows: Respondent Daniel Robert Taylor shall pay \$1,800 in fines prior to the entry of this Consent Order and  
\$1,800 in fines by the close of business on October 1, 2019.

9 IT IS FURTHER AGREED that if Respondent Daniel Robert Taylor fails to make any of the scheduled  
10 payments described above, the fines shall become immediately due and payable, and the Securities Division may seek  
enforcement of this Consent Order pursuant to RCW 21.20.395.

11 IT IS FURTHER AGREED AND ORDERED that any securities broker-dealer, securities salesperson,  
investment adviser, or investment adviser representative applications for registration that Daniel Robert Taylor may file  
12 with the Securities Division will be denied.

13 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this Consent Order.

14 IT IS FURTHER AGREED that Respondent Daniel Robert Taylor entered into this Consent Order freely and  
voluntarily and with a full understanding of its terms and significance.

15 IT IS FURTHER AGREED that in consideration of the foregoing, Respondent Daniel Robert Taylor waives its  
right to a hearing and to judicial review of this matter pursuant to RCW 21.20.440 and Chapter 34.05 RCW.

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

17 Signed this \_\_\_17\_\_\_ day of \_\_\_\_\_ May \_\_\_\_\_ 2019.

18  
19 Signed by:

20 \_\_\_\_\_  
21 /s/  
Daniel Robert Taylor

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Signed and Entered this 23rd day of May 2019.



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William M. Beatty  
Securities Administrator

Approved by:

Presented by:



\_\_\_\_\_  
Suzanne Sarason  
Chief of Enforcement

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Eric Palosaari  
Financial Legal Examiner

Reviewed by:



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Jack McClellan  
Financial Legal Examiner Supervisor