

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

4 IN THE MATTER OF DETERMINING
5 Whether there has been a violation of the
6 Securities Act of Washington by:

7 Suk Jin Hong, a/k/a Joseph Hong,

8 Respondent

Order No.: S-19-2798-20-SC01

STATEMENT OF CHARGES AND NOTICE OF
INTENT TO ENTER ORDER TO DENY FUTURE
REGISTRATIONS, IMPOSE FINES, AND CHARGE
COSTS

9 **THE STATE OF WASHINGTON TO: Joseph Hong (CRD #6342504)**

10 **STATEMENT OF CHARGES**

11 Please take notice that the Securities Administrator of the State of Washington has reason to believe
12 that Respondent Suk Jin Hong, a/k/a Joseph Hong, has violated the Securities Act of Washington. The
13 Securities Administrator believes those violations justify the denial of the Respondent's securities salesperson
14 and/or investment adviser representative registrations pursuant to RCW 21.20.110(1), and the imposition of
15 a fine pursuant to RCW 21.20.110(1). The Securities Administrator finds as follows:

16 **TENTATIVE FINDINGS OF FACT**

17 Respondent

18 1. Suk Jin Hong, a/k/a Joseph Hong ("Hong") is a Washington resident and former registered
19 investment adviser representative and securities salesperson with various financial firms in the Seattle area.
20 Hong's Central Registration Depository number is 6342504.

21 Related Parties

22 2. Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") is a registered broker-
23 dealer and investment adviser. Hong worked as a registered securities salesperson with Merrill Lynch from

1 November 2015 to July 2016, and continued to conduct personal securities trades in a Merrill Lynch account
2 after leaving the firm's employment.

3 3. LPL Financial LLC ("LPL") is a registered broker-dealer and investment adviser. Hong
4 worked as a registered securities salesperson for LPL from November 2016 to March 2017.

5 4. Symetra Securities, Inc. ("Symetra") is a registered broker-dealer. Hong worked as a registered
6 securities salesperson for Symetra from October 2017 to December 2018.

7 5. Bank of America, N.A. ("Bank of America") is a retail bank where Hong and his wife
8 conducted their personal banking during the times relevant to this action. Both Bank of America and Merrill
9 Lynch are owned by Bank of America Corporation.

10 6. Fidelity Brokerage Services LLC ("Fidelity") is a registered broker-dealer. In addition to his
11 Merrill Lynch brokerage account, Hong maintained an account at Fidelity during the time period relevant to
12 this action.

13 Overview

14 7. In September 2017, after incurring significant losses on margin trading in his personal Merrill
15 Lynch trading account, Hong had a negative account balance of approximately \$14,000. Hong then withdrew
16 an additional \$30,000 from the trading account, then ultimately transferred that \$30,000 to a Fidelity account
17 in order to keep the money away from Merrill Lynch and Bank of America. Hong entered into a repayment
18 agreement with Merrill Lynch, but failed to make the first payment and has not made any payments since
19 then. Additionally, Hong failed to disclose the existence of the Fidelity account to LPL while employed there,
20 as required by the rules of the Financial Industry Regulatory Authority and related Washington regulations.

21 Nature of the Conduct

1 8. On or about July 25, 2016, shortly after leaving Merrill Lynch, Hong opened a brokerage
2 account at Fidelity. Hong began working for LPL on November 7, 2016, but never disclosed the existence of
3 the Fidelity account to LPL and did not receive LPL’s permission to maintain the account, as required by the
4 rules of the Financial Industry Regulatory Authority.

5 9. Throughout late 2016 and most of 2017, Hong engaged in margin trading in his personal
6 Merrill Lynch account. Margin trading is the practice of borrowing money from a financial firm (generally a
7 broker-dealer) in order to fund additional transactions in an account. The use of margin can substantially
8 magnify an investor’s gains or their losses. If the value of the investor’s margin account falls below a certain
9 level, the lender may issue a “margin call,” which requires the investor to sell some of the assets in the account
10 or deposit additional funds to bring it back up to a minimum level.

11 10. Between October 2016 and April 2017, the value of the assets in Hong’s Merrill Lynch account
12 at the end of the month ranged from \$106,410.68 to \$145,236.00. During the same period, the month-end
13 balance of the margin loan in Hong’s account ranged from approximately \$64,311.32 to \$75,761.07, meaning
14 that between 50-60% of the assets in Hong’s account at a given time were purchased with funds borrowed
15 from Merrill Lynch. Hong substantially increased his use of margin in May 2017, carrying a loan balance of
16 nearly \$150,000.

17 11. During this period, Hong traded exclusively in individual stocks, often buying large stock
18 positions and selling them within one to two days. Hong concentrated his portfolio in a small number of stocks
19 at any particular time, generally between one and three. Hong’s trading was successful in most months, but
20 in August 2017, he lost over \$104,000—over three-quarters of the net value of his portfolio at the beginning
21 of the month. Hong’s losses continued to mount during September 2017.

22 12. On or about September 29, 2017, Hong transferred \$30,000 from his Merrill Lynch trading
23 account to his personal Bank of America account. At the time, the margin loan balance in Hong’s Merrill

1 Lynch account was \$78,596.64, and the only asset in the account was \$64,637.81 of pending proceeds from
2 Hong's sale of stock in Veritone Inc. on the preceding day, meaning that the account already had a negative
3 balance of nearly \$14,000 even before Hong's transfer. Hong was able to effect the transfer due to Merrill
4 Lynch's overdraft protection, which automatically extended a loan of \$30,000 to his account, but required
5 prompt payback.

6 13. After the transfer to his personal account, Hong made a series of \$30,000 transfers among his
7 personal account, his joint account with his wife, and his wife's Merrill Lynch account. After these transfers,
8 Hong moved the \$30,000 from his personal account to his Fidelity account. Hong stated in an email to the
9 Securities Division that Merrill Lynch and Bank of America were freezing his accounts to assist in repaying
10 the overdraft, and that he moved the money to Fidelity "maybe to safeguard money to pay the bills and rent
11 or simply to have the money retained in another account for safe keeping," but refused to provide the Securities
12 Division with specific information about his reasons for each transfer. Hong entered into an agreement with
13 Merrill Lynch to repay \$5,000 per month for six months, but defaulted on the first payment and has not made
14 any further payments.

15 14. After transferring the \$30,000 to Fidelity, Hong began engaging in similar short-term margin
16 trading activity. Hong also incurred significant losses in the Fidelity account, and due to a combination of
17 investing losses and account withdrawals, the account had essentially no value by the end of January 2018.
18 Hong continued to make sporadic deposits and withdrawals throughout 2018 and 2019, but as of the end of
19 2019, the Fidelity account had only \$0.12.

20 Based upon the above Findings of Fact, the following Conclusions of Law are made:

21 **CONCLUSIONS OF LAW**

22 1. Joseph Hong, as described above, engaged in a dishonest or unethical practice in the securities
23 business, as defined by WAC 460-22B-090, by knowingly overdrafting his Merrill Lynch brokerage account

1 and transferring the proceeds to another financial institution without reasonably believing he would be able
2 to repay the overdraft.

3 2. Joseph Hong, as described above, engaged in a dishonest or unethical practice in the securities
4 business, as defined by FINRA Rule 3210 and incorporated into Washington law by WAC 460-22B-090(19),
5 by failing to disclose the existence of the Fidelity account to LPL and failing to obtain LPL's written consent
6 to maintain the account.

7 3. The practices described above are grounds for the suspension of Joseph Hong's securities
8 salesperson registration pursuant to RCW 21.20.110(1)(g).

9 **NOTICE OF INTENT TO DENY FUTURE REGISTRATION**

10 Pursuant to RCW 21.20.110(1), and based upon the above Tentative Findings of Fact and Conclusions
11 of Law, the Securities Administrator intends to order that any securities salesperson or investment adviser
12 representative registration of Respondent Joseph Hong shall be denied.

13 **NOTICE OF INTENT TO IMPOSE FINES**

14 Pursuant to RCW 21.20.110(1) and based upon the above Tentative Findings of Fact and Conclusions
15 of Law, the Securities Administrator intends to order that the Respondent Joseph Hong shall be liable for and
16 pay a fine of \$5,000.

17 **NOTICE OF INTENT TO CHARGE COSTS**

18 Pursuant to RCW 21.20.110(1) and based upon the above Tentative Findings of Fact and Conclusions
19 of Law, the Securities Administrator intends to order that the Respondent Joseph Hong shall be liable for and
20 shall pay investigative costs of \$1,000.

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22 **AUTHORITY AND PROCEDURE**

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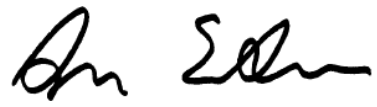
1 This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject
2 to the provisions of Chapter 34.05 RCW. The Respondent, Joseph Hong, may each make a written request
3 for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR
4 HEARING accompanying this Order. If the Respondent does not make a hearing request in the time allowed,
5 the Securities Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law
6 as final and to enter a permanent order to deny the Respondent's future securities registrations, to impose
7 fines, and to charge investigative costs.

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9 Signed and Entered this 9th day of March, 2020.

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11 _____
12 William M. Beatty
13 Securities Administrator

14 Approved by:

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16 _____
17 Suzanne Sarason
18 Chief of Enforcement

19 Presented by:

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21 _____
22 Adam N. Yeaton
23 Financial Legal Examiner

24 Reviewed by:

25 

26 _____
27 Jack McClellan
28 Financial Legal Examiner Supervisor