

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:

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

Respondents

Order No. S-19-2798-20-FO01

ENTRY OF FINDINGS OF FACT AND
CONCLUSIONS OF LAW AND FINAL ORDER TO
CEASE AND DESIST, TO IMPOSE FINES, AND TO
CHARGE COSTS

7 **THE STATE OF WASHINGTON TO:**

Joseph Hong

8
9 On March 9, 2020, the Securities Administrator of the state of Washington issued Statement of
10 Charges and Notice of Intent to Enter Order to Deny Future Registrations, Impose Fines, and Charge Costs,
11 Order No. S-19-2798-20-SC01 (“Statement of Charges”). The Statement of Charges, together with a Notice
12 of Opportunity for Hearing (“Notice”) and an Application for Adjudicative Hearing (“Application”), were
13 served on Respondent Suk Jin Hong, a/k/a Joseph Hong, on March 11, 2020. The Notice advised
14 Respondent Suk Jin Hong that the Application must be received within twenty days from the date of service.
15 Respondent Suk Jin Hong failed to request an administrative hearing within twenty days of service.

16 The Securities Administrator therefore adopts as final the following Findings of Fact and
17 Conclusions of law as set forth in the Statement of Charges and enters a final order against Respondent Suk
18 Jin Hong to deny future applications for registration, and to impose the fines and costs sought in the
19 Statement of Charges.

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FINAL ORDER

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

1 **FINDINGS OF FACT**

2 Respondent

3 1. Suk Jin Hong, a/k/a Joseph Hong (“Hong”) is a Washington resident and former registered
4 investment adviser representative and securities salesperson with various financial firms in the Seattle area.
5 Hong’s Central Registration Depository number is 6342504.

6 Related Parties

7 2. Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”) is a registered broker-
8 dealer and investment adviser. Hong worked as a registered securities salesperson with Merrill Lynch from
9 November 2015 to July 2016, and continued to conduct personal securities trades in a Merrill Lynch account
10 after leaving the firm’s employment.

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

13 4. Symetra Securities, Inc. (“Symetra”) is a registered broker-dealer. Hong worked as a registered
14 securities salesperson for Symetra from October 2017 to December 2018.

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

18 6. Fidelity Brokerage Services LLC (“Fidelity”) is a registered broker-dealer. In addition to his
19 Merrill Lynch brokerage account, Hong maintained an account at Fidelity during the time period relevant to
20 this action.

21 Overview

22 7. In September 2017, after incurring significant losses on margin trading in his personal Merrill
23 Lynch trading account, Hong had a negative account balance of approximately \$14,000. Hong then withdrew

1 an additional \$30,000 from the trading account, then ultimately transferred that \$30,000 to a Fidelity account
2 in order to keep the money away from Merrill Lynch and Bank of America. Hong entered into a repayment
3 agreement with Merrill Lynch, but failed to make the first payment and has not made any payments since
4 then. Additionally, Hong failed to disclose the existence of the Fidelity account to LPL while employed there,
5 as required by the rules of the Financial Industry Regulatory Authority and related Washington regulations.

6 Nature of the Conduct

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

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

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

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

6 12. On or about September 29, 2017, Hong transferred \$30,000 from his Merrill Lynch trading
7 account to his personal Bank of America account. At the time, the margin loan balance in Hong’s Merrill
8 Lynch account was \$78,596.64, and the only asset in the account was \$64,637.81 of pending proceeds from
9 Hong’s sale of stock in Veritone Inc. on the preceding day, meaning that the account already had a negative
10 balance of nearly \$14,000 even before Hong’s transfer. Hong was able to effect the transfer due to Merrill
11 Lynch’s overdraft protection, which automatically extended a loan of \$30,000 to his account, but required
12 prompt payback.

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

22 14. After transferring the \$30,000 to Fidelity, Hong began engaging in similar short-term margin
23 trading activity. Hong also incurred significant losses in the Fidelity account, and due to a combination of

1 investing losses and account withdrawals, the account had essentially no value by the end of January 2018.
2 Hong continued to make sporadic deposits and withdrawals throughout 2018 and 2019, but as of the end of
3 2019, the Fidelity account had only \$0.12.

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

5 **CONCLUSIONS OF LAW**

6 1. Suk Jin Hong, as described above, engaged in a dishonest or unethical practice in the securities
7 business, as defined by WAC 460-22B-090, by knowingly overdrafting his Merrill Lynch brokerage account
8 and transferring the proceeds to another financial institution without reasonably believing he would be able
9 to repay the overdraft.

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

14 3. The practices described above are grounds for the suspension of Suk Jin Hong's securities
15 salesperson registration pursuant to RCW 21.20.110(1)(g).

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

17 **FINAL ORDER**

18 IT IS HEREBY ORDERED that any future applications for registration with the Securities Division
19 as a securities salesperson or investment adviser representative by Respondent Suk Jin Hong shall be
20 denied.

21 IT IS FURTHER ORDERED that Respondent Suk Jin Hong shall be liable for and shall pay a fine of
22 \$5,000.

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1 IT IS FURTHER ORDERED that Respondent Suk Jin Hong shall be liable for and shall pay
2 investigative costs of \$1,000.

3 **AUTHORITY AND PROCEDURE**

4 This FINAL ORDER is entered pursuant to the provisions of RCW 21.20.390 and RCW 21.20.110,
5 and is subject to the provisions of RCW 21.20.440 and Chapter 34.05 RCW. The Respondent has the right
6 to petition the superior court for judicial review of this agency action under the provisions of Chapter 34.05
7 RCW. For the requirements for judicial review, see RCW 34.05.510 and sections following. Pursuant to
8 RCW 21.20.395, a certified copy of this Order may be filed in Superior Court. If so filed, the clerk shall
9 treat the Order in the same manner as a Superior Court judgment as to the fine, and the fine may be recorded,
10 enforced, or satisfied in like manner.

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

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13 SIGNED and ENTERED this 21st day of April, 2020.

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16 _____
17 William M. Beatty
18 Securities Administrator

19 Approved by:

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21 _____
22 Suzanne Sarason
23 Chief of Enforcement

Presented by:



Adam N. Yeaton
Financial Legal Examiner

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Reviewed by:



Jack McClellan
Financial Legal Examiner Supervisor