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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

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

MARK G. CRUDGE,

Respondent.

SDO - 94 - 01

CONSENT ORDER

Case No. 00-05-0174

THE STATE OF WASHINGTON TO: Mark G. Crudge

INTRODUCTION

The Securities Division, Department of Financial Institutions, State of Washington, and respondent Mark G. Crudge (“Crudge”) do hereby agree to this Consent Order in settlement of the above captioned matter. The Securities Division has, in SDO-101-00 as amended, made certain allegations and conclusions, set forth under the headings “Tentative Findings of Fact” and “Conclusions of Law” which are hereby incorporated by reference into this consent order.

ORDER AND CONSENT

The Securities Division and Crudge have agreed on a basis for resolution of the matters alleged and concluded in SDO-101-00 as amended. Crudge agrees to entry of this Consent Order pursuant to the Securities Act of Washington without admitting or denying the Securities Division’s allegations and conclusions. Crudge acknowledges the Securities Division’s jurisdiction over this matter and its authority to enter this order.

Based upon the foregoing,

CONSENT ORDER

1

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

1 IT IS AGREED AND ORDERED that Crudge's securities salesperson and investment adviser
2 representative licenses shall be revoked. Such revocation shall be effective immediately upon entry of this
3 Consent Order.

4 IT IS FURTHER AGREED AND ORDERED that Crudge shall not make application for nor be granted a
5 broker-dealer or investment adviser license for a period of 3 years from the date of entry of this order.
6 Thereafter Crudge may make application for any of the foregoing licenses.

7 IT IS FURTHER AGREED AND ORDERED that Crudge shall not make application for nor be granted a
8 securities salesperson or investment adviser representative license for a period of 2 years from the date of entry
9 of this order. Thereafter Crudge may make application for any of the foregoing licenses, but such application
10 shall not be approved until Crudge's sponsoring broker-dealer or investment adviser provides the Securities
11 Division with a written acknowledgement that Crudge will be subject to heightened supervision. The time
12 period that Crudge will be subject to heightened supervision will be left to the discretion of his sponsoring
13 broker-dealer or investment adviser.

14 IT IS FURTHER AGREED that Crudge waives his right to a hearing in this matter.

15 DATED this _____ day of _____, 2001.

16 Approved as to form by:

17 _____
18 James M. Shaker, Esq.
19 WSBA #13355
20 Ryan, Swanson & Cleveland, PLLC
21 Attorney for Mark G. Crudge

22 //

23 //

24 //

25 CONSENT ORDER

Signed by:

Mark G. Crudge

THIS ORDER ENTERED THIS 8th DAY OF JANUARY, 2002 BY:



DEBORAH R. BORTNER
Securities Administrator

Approved for entry by:

Michael E. Stevenson
Chief of Enforcement

Presented by:

Chad Standifer
Staff Attorney

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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

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

MARK G. CRUDGE,

Respondent.

SDO - 101 - 00

SUMMARY ORDER SUSPENDING SECURITIES
SALESPERSON REGISTRATION

Case No. 00-05-0174

THE STATE OF WASHINGTON TO: Mark G. Crudge

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondent, Mark G. Crudge, has engaged in dishonest and unethical practices in the securities business while employed as a registered securities salesperson for Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”), and that those practices and violations justify the suspension and/or revocation of Respondent’s securities salesperson’s registration pursuant to RCW 21.20.110(1)(b) and (g).

The Securities Administrator finds that delay in suspending and/or revoking the Respondent’s salesperson registration would be hazardous to the public interest and is necessary or appropriate for the protection of investors and that a Summary Order should be entered immediately. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

I. Respondent

1. **MARK G. CRUDGE** (“Crudge”) has been registered with the State of Washington as a securities salesperson since 1990. Crudge was employed as a securities salesperson with Dean Witter Reynolds, Inc. (“Dean Witter”) from May of 1990 until May of 1996. Crudge was then employed as a securities salesperson for Merrill

SUMMARY ORDER SUSPENDING
SECURITIES SALESPERSON REGISTRATION

1

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

1 Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”) at their Tacoma office from May 3,1996 until his
2 resignation on April 19, 2000. Crudge was again employed with Dean Witter from April 19, 2000 until his
3 termination on June 22, 2000. Crudge is not currently associated with a broker-dealer.

4 **II. Nature of Crudge’s Conduct**

5 **A. Background**

6 2. From at least September of 1999 until his resignation in April of 2000, Mark Crudge engaged in
7 business practices that adversely impacted the accounts of at least 25 Merrill Lynch customers. Crudge’s
8 pattern of conduct included excessive trading, making unsuitable investment recommendations, executing
9 unauthorized transactions, and recommending purchases of securities on margin that greatly exceeded the
10 capability of his customers to pay for those purchases. Several customers sustained significant losses in their
11 accounts due to changes in the value of securities that Crudge had either recommended or had purchased without
12 authorization.

13 **B. Summary**

14 *Excessive Trading*

15 3. Crudge induced trading in many customer accounts that was excessive in light of the financial
16 resources of those customers and the character of their accounts. One indicator of excessive trading is the
17 turnover rate of an account, which reflects the number of times during a given period that the securities in an
18 account are replaced by new securities. The turnover rate is calculated by dividing the total dollar amount of
19 securities purchases for a given period by the average monthly capital investment in the account. Courts
20 generally find excessive trading to exist when the turnover rate in an account is in excess of six. The turnover
21 rates in many of Crudge’s customer accounts are highly indicative of excessive trading.
22

1 investment objectives were long term. A high school graduate, Customer A had very little experience in the stock
2 market. He and his wife have a modest income and did not want to be overly aggressive with their Merrill Lynch
3 accounts. Immediately upon gaining control of Customer A's accounts, Crudge began to make unauthorized
4 purchases of securities. Between September of 1999 and April of 2000, most of the securities Crudge purchased in
5 Customer A's accounts were unauthorized. Examining February of 2000 alone, Crudge purchased over 1.4 million
6 dollars worth of securities in one of Customer A's accounts. During the time that Crudge managed Customer A's
7 accounts, he pursued a high risk trading strategy, reflected by the fact that by March of 2000, almost 90% of
8 Customer A's holdings were in technology securities. Crudge also margined the account heavily, even though
9 Crudge had never discussed margin trading with Customer A.

10 9. Customer A was very concerned about Crudge's actions and asked him where the money was coming
11 from to purchase these stocks. Crudge told Customer A not to worry and promised to make him a millionaire. By
12 March of 2000, the margin debit balance in one of Customer A's accounts was \$317,130, while the market value of
13 the account was only \$506,666. During Crudge's management of this account, its net portfolio value fell from
14 approximately \$263,000 in September of 1999 to a deficit of -\$12,039 in April of 2000.

15 "Customer B"

16 10. Crudge became Customer B's account representative in January of 2000. One of Customer B's
17 accounts with Merrill Lynch had a total turnover rate of 9.17 from February of 2000 to April of 2000. This
18 quantity of trading was inconsistent with Customer B's investment objectives and her financial situation. Customer
19 B's disability payments are her sole source of income and her investment objectives were therefore long term.
20 Customer B wanted to establish two accounts. One was to be a long term holding account that was not to be traded
21 or margined, and she wanted to purchase only "brick and mortar" stocks in the other account. Crudge never set up
22 a holding account per Customer B's instructions. Instead, immediately after gaining control of Customer B's
23 accounts, Crudge began to make unauthorized purchases of securities. In one account, Crudge purchased over 2.1
24 million dollars worth of securities in February and March of 2000. The majority of these purchases were

1 unauthorized. Crudge also traded heavily on margin in two of Customer B's accounts without her approval. Due
2 to Crudge's margin trading in the account during this short time period, Customer B paid \$5,831.23 in margin
3 interest charges.

4 11. Customer B tried to discuss the situation with Crudge numerous times, constantly urging him to
5 consult her before making trades. Despite these discussions, Crudge continued to purchase securities without
6 authorization. By February of 2000, the margin debit balance in one of Customer B's accounts was over
7 \$1,000,000. The account's net portfolio value was a deficit of -\$47,327. During the time he managed Customer
8 B's accounts Crudge pursued a high risk trading strategy, reflected by the fact that by March of 2000, 100% of
9 Customer B's holdings were in technology securities. In April of 2000, Customer B received a margin call in that
10 account from Merrill Lynch. She was forced to liquidate most of her securities holdings to meet the margin call
11 and sustained a serious financial loss.

12 "Customer C"

13 12. Crudge became Customer C's account representative in January of 2000. At that time, Customer C
14 was 26 years old and had no investing experience. Customer C had received a settlement due to a work injury,
15 could no longer work, and was looking to invest his money prudently. Customer C's investment goal was the
16 maintenance of a livable monthly income for his family. Immediately upon gaining control of the account, Crudge
17 began to purchase securities without Customer C's authorization. From January to April of 2000, Crudge made
18 approximately 43 purchases of securities in one of Customer C's accounts. The majority of these purchases were
19 unauthorized. Crudge also purchased many of these securities on margin without getting approval from Customer
20 C to execute margin trades. Customer C was not aware that his account was being margined and had never
21 discussed the risks of margin trading with Crudge. During the time Crudge managed Customer C's accounts, he
22 pursued a high risk trading strategy, reflected by the fact that by March of 2000, 80% of Customer C's holdings
23 were in technology securities.

1 13. Customer C tried to speak with Crudge upon learning about what was occurring in his account,
2 specifically mentioning his dissatisfaction with the margin trading that was being done in his account. Crudge told
3 him that margin trading was the smart thing to do and he continued to purchase securities on margin without
4 getting Customer C's approval. Crudge continually increased the margin debt in Customer C's account. By April
5 of 2000, the margin debit balance was \$131,284. During the time Crudge managed Customer C's account, its net
6 portfolio value fell from \$189,622 in February of 2000 to \$131,284 in April of 2000.

7 "Customer D"

8 14. Crudge became Customer D's account representative in February of 2000. In March and April of
9 2000, Crudge purchased securities in the accounts of Customer D without authorization. Customer D was not
10 aware that any trades had been made until he received confirmation notices in the mail from Merrill Lynch. In fact,
11 Customer D had not spoken with Crudge since he opened his Merrill Lynch accounts in February.

12 15. Crudge also made several purchases on margin in Customer D's account without getting
13 authorization to execute margin trades. Customer D had no experience with margin trading, had never
14 discussed margin trading with Crudge, was not aware of its risks, and did not authorize margin trades to be
15 made in his account. As a result of margin purchases made by Crudge, the margin debit balance in Customer D's
16 account in March of 2000 was \$246,992, representing almost two-thirds of the account's market value of \$379,536.
17 In April of 2000, Customer D received a margin call from Merrill Lynch and was forced to liquidate most of
18 his holdings to meet this call.

19 "Customer E"

20 16. Crudge became Customer E's account representative in approximately August of 1999. Customer
21 E's investment objectives were long term as he was interested in financing his children's education and his own
22 retirement. Customer E has a modest annual income of around \$50,000. He was comfortable with limited
23 margin trading but did not want to overextend his margin debt. When Crudge became Customer E's account
24 representative in August of 1999, the margin debt in Customer E's account was approximately \$30,000.

1 Crudge immediately began purchasing large amounts of securities on margin. As he continued to increase the
2 margin debt in Customer E's account, Crudge never discussed the heightened risks of such a strategy with
3 Customer E. By March of 2000, the margin debt balance in Customer E's account was \$376,038, while the
4 market value of the account was only \$659,832.

5 17. Customer E complained to Crudge about the margin debt and asked that Crudge sell some of his
6 securities. Crudge refused to sell any securities and repeatedly told Customer E not to worry about the margin
7 debt. In April of 2000, Customer E received a margin call from Merrill Lynch. He was forced to liquidate
8 most of his holdings to meet the call and sustained a significant financial loss.

9 **EMERGENCY**

10 18. The Securities Administrator finds that an emergency exists because Respondent knowingly and
11 intentionally engages in unethical sales practices by engaging in excessive trading in customer accounts, by
12 making unsuitable recommendations to customers, by making trades without customer knowledge, and by
13 recommending purchases of securities that exceed the capability of customers to pay for those purchases; and
14 that such conduct presents an immediate danger to the safety and welfare of the investing public, and is likely
15 to continue to do so.

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

17 **CONCLUSIONS OF LAW**

18 **I. Excessive Trading**

19 19. Crudge, as described above, engaged in one or more dishonest or unethical practices in the
20 securities business, as defined by WAC 460-22B-090(6), by inducing trades in customer accounts that were
21 excessive in size and frequency in view of the financial resources and character of the accounts. Such practice
22 is grounds for the suspension or revocation of his salesperson registration pursuant to RCW 21.20.110(1)(g).
23

1 **II. Suitability**

2 20. Crudge, as described above, engaged in one or more dishonest or unethical practices in the
3 securities business, as defined by WAC 460-22B-090(7), by recommending to customers the purchase and sale
4 of securities without reasonable grounds to believe that such transactions were suitable for those customers.
5 Such practice is grounds for the suspension or revocation of his salesperson registration pursuant to RCW
6 21.20.110(1)(g).

7 **III. Unauthorized Trades**

8 21. Crudge, as described above, engaged in one or more dishonest or unethical practices in the
9 securities business, as defined by WAC 460-22B-090(8), by executing transactions on behalf of customers
10 without authorization to do so. Such practice is grounds for the suspension or revocation of her salesperson
11 registration pursuant to RCW 21.20.110(1)(g).

12 **IV. Recommendations Beyond Customer Capability**

13 22. Crudge engaged in one or more dishonest or unethical practices in the securities business, as
14 defined by WAC 460-22B-090(19), by failing to comply with a provision of the National Association of
15 Securities Dealers, Inc. (NASD) Conduct Rules. Crudge, as described above, violated NASD Conduct Rule
16 IM-2310-2 (Fair Dealing with Customers), by recommending the purchase of securities or the continuing
17 purchase of securities in amounts which were inconsistent with the reasonable expectation that his customers
18 had the financial ability to meet such a commitment. Such practice is grounds for the suspension or revocation
19 of her salesperson registration pursuant to RCW 21.20.110(1)(g).

20 **V. Anti-Fraud Provisions**

21 23. Crudge, as described above, in connection with the offer and sale of securities, made untrue
22 statements of material fact or omitted to state material facts necessary in order to make the statements made, in
23 light of the circumstances under which they were made, not misleading, in violation of RCW 21.20.010(2).

1 Such practice is grounds for the suspension or revocation of her salesperson registration pursuant to RCW
2 21.20.110(1)(b).

3 24. Crudge, as described above, in connection with the offer and sale of securities, engaged in acts,
4 practices or courses of business which operate or would operate as a fraud or deceit upon any person, in violation of
5 RCW 21.20.010(3). Such practice is grounds for the suspension or revocation of her salesperson registration
6 pursuant to RCW 21.20.110(1)(b).

7 **SUMMARY ORDER**

8
9 Based upon the foregoing, NOW, THEREFORE, IT IS HEREBY SUMMARILY ORDERED that the
10 salesperson registration of Mark G. Crudge, be, and hereby is, summarily suspended pending a final
11 determination in this proceeding.

12 **AUTHORITY AND PROCEDURE**

13 This SUMMARY ORDER is entered pursuant to the provisions of RCW 21.20.110 and is subject to the
14 provisions of RCW 21.20.120 and Chapter 34.05 RCW. The respondent, Mark G. Crudge, may make a written
15 request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR
16 HEARING accompanying this order. If Mr. Crudge does not request a hearing in this matter, the Securities
17 Administrator will, based on the foregoing Findings of Fact and Conclusions of Law, enter an order revoking Mr.
18 Crudge's securities salesperson registration.

19 **CONTINUING INVESTIGATION**

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

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DATED this 23rd day of October , 2000.



DEBORAH R. BORTNER
Securities Administrator

Approved by:

Presented by:

Michael E. Stevenson
Chief of Compliance

Chad Standifer
Staff Attorney