

3. In late 2017, Dang advised the couple to transfer their retirement money to an online brokerage firm and to provide him with their log-in credentials so that he could make trades in their accounts. Dang caused the couple to sign account opening documents in early 2018 that, without their knowledge or informed consent, elected speculative risk tolerance profiles that included options investing. Dang also convinced the couple to pay him directly a management fee of 1% in cash.

4. Dang led the couple to believe that he would invest the majority of their investment portfolio conservatively and, in addition, would retain a minimum of \$250,000 in cash in their accounts to weather any potential downturn in the markets. Dang's speculative options trading in the clients' accounts far exceeded the amount of money Dang led the couple to believe would be invested in such strategies. From February through December 2018, the clients' retirement accounts plummeted from more than \$2.2 million to approximately \$145,000 (a 93% drop) through Dang's unauthorized stock options trading. By November 2019, their brokerage account balances bottomed out at approximately \$27,000 (a loss of 99%).

5. Even as the couple watched their retirement savings dwindle, Dang lied to them about the cause and the amounts of losses, thereby convincing them to allow him to continue trading. At times, he blamed the losses on the national political environment. At other times, he claimed there were no losses at all because stock options held value that was not reflected in the monthly account statements.

6. Dang's deceptions, which are detailed further below, lulled his clients into believing that their retirement savings were secure when, in fact, Dang had lost nearly all their money.

7. By virtue of his actions, Defendant Dang has employed a device or scheme to defraud his clients and has engaged in transactions, practices and courses of business that operated as a fraud and deceit upon his clients, in violation of Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 (“Advisers Act”) [15 U.S.C. §§80b-6(1), 80b-6(2)].

8. Accordingly, the Commission seeks: (a) a permanent injunction prohibiting Dang from further violations of the relevant provisions of the Advisers Act; (b) disgorgement of ill-gotten gains, plus pre-judgment interest; and (c) civil penalties due to the egregious nature of Dang’s violations.

JURISDICTION

9. The Commission seeks a permanent injunction and disgorgement pursuant to Section 209(d) of the Advisers Act [15 U.S.C. §80b-9(d)]. The Commission seeks a civil penalty pursuant to Section 209(e) of the Advisers Act [15 U.S.C. §80b-9(e)].

10. This Court has jurisdiction over this action pursuant to Sections 209(d), 209(e) and 214 of the Advisers Act [15 U.S.C. §§80b-9(d), 80b-9(e), 80b-14]. Venue is proper in this District because, at all relevant times, Defendant Dang resided and transacted business in the District and his clients resided in the District.

11. In connection with the conduct described in this Complaint, Dang directly or indirectly made use of the mails or the means or instruments of transportation or communication in interstate commerce.

12. Dang's conduct involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and resulted in substantial loss, or significant risk of substantial loss, to other persons.

DEFENDANT

13. **Hai Khoa Dang** ("Dang"), age 48, is a resident of Manchester, Connecticut. He had previously been registered at various times as a representative with several different registered broker-dealers and investment advisers. While employed by these firms, Dang maintained various state and Financial Industry Regulatory Authority ("FINRA") securities licenses.

FACTUAL ALLEGATIONS

A. Dang's Background

14. In 2006, Dang left employment with the last registered firm he was associated with and, since then, he has not been affiliated with any registered broker or investment adviser, nor has he ever renewed any of his securities licenses or registrations. After 2006, Dang continued to advise individual clients as an unregistered investment adviser.

15. As an investment adviser, Dang owed a fiduciary duty to his clients. The fiduciary duty an investment adviser owes to his clients comprises a duty of care and a duty of loyalty, including a duty of candor.

16. In 2012, one of Dang's former clients submitted a complaint to FINRA, alleging, among other things, that Dang, while employed at a registered broker-dealer in 2006, improperly borrowed approximately \$180,000 from the client in violation of FINRA rules (and never repaid the loan), and that the client suffered investment losses as a result of Dang's investment

recommendations when he was an unregistered investment adviser. In November 2016, in connection with this complaint, the State of Connecticut Department of Banking issued a Cease and Desist Order, finding that Dang had engaged in dishonest or unethical practices in the securities business. Dang did not contest the Order, and the Order was made permanent in December 2016.

B. Dang Becomes Client A's and B's Adviser and Manages Their Retirement Portfolio

17. Client A and his wife, Client B, live in Connecticut. Prior to his retirement in 2009, Client A worked for more than three decades at an aerospace technology firm, rising to become a project manager.

18. In the late 1990s, Dang was a registered representative with a broker-dealer firm. In order to generate business, Dang made a presentation to Client A and others at the aerospace technology firm. As a result of Dang's solicitation efforts, Client A decided to invest a significant portion of his and his wife's retirement funds at the broker-dealer firm where Dang worked at the time. By 2001, Dang was the only person advising Clients A and B about their retirement planning.

19. Between 2001 and 2006, Clients A and B used Dang as their broker and/or adviser, and moved their funds to the various firms where Dang was associated. Shortly after 2006, when Dang was no longer affiliated with any registered firm, Dang arranged for one of his former colleagues (Mr. Y) to be named as the new registered representative on Client A's and B's retirement accounts.

20. When Clients A and B asked Dang why Mr. Y's name now appeared on their account statements at that registered broker-dealer instead of Dang's name, Dang told them that he continued to work with or for Mr. Y at that firm and that he, Dang, would continue to service their accounts.

21. Clients A and B continued to interact only with Dang after 2006, and never with Mr. Y. Dang entered into an arrangement with Mr. Y whereby Dang provided trading instructions for Mr. Y to make trades in Client A's and B's brokerage accounts at Mr. Y's firm.

22. Mr. Y moved to a different registered entity in 2010 and again in 2015. Each time, Client A's and B's accounts were transferred to Mr. Y's new firm.

23. Each year through 2017, Dang spoke with Clients A and B multiple times a year to review their retirement accounts and to provide investment advice. Some of these meetings occurred in the clients' home, some occurred over the telephone, and some occurred via email or text message.

24. In December 2009, Clients A and B agreed to loan Dang \$100,000. Dang did not inform them that he had failed to repay the \$180,000 he had borrowed from another client in 2006. Dang has never repaid any of the \$100,000 to Clients A and B.

25. After his last affiliation with a registered entity ended in 2006, Dang never informed Clients A and B that he was not affiliated with any registered broker-dealer or investment adviser entity; that he had let all his securities licenses and registrations lapse; that he had an arrangement with Mr. Y to place trades in their accounts; or that he had been sanctioned by the State of Connecticut for engaging in dishonest or unethical practices in the securities business. As a result, Dang concealed, and misled Clients A and B about, material facts that would have been important to a reasonable investor.

26. In late 2017, Dang's arrangement with Mr. Y was about to end and, as a result, Dang would thereafter no longer be able to service Client A's and B's accounts through Mr. Y or Mr. Y's firm.

C. Dang Misleads Client A and B About Causes and Amounts of Trading Losses

27. In order to avoid any break in his dealings with Clients A and B or alert them to his longstanding deception, Dang met in person with Clients A and B on one or more occasions in late 2017 to discuss their retirement planning. During these meetings, Dang recommended that Clients A and B open self-managed accounts at an online discount brokerage firm ("Online Brokerage") and transfer their retirement funds to the self-managed accounts at Online Brokerage. Dang stated that he would thereafter continue to serve as their independent investment adviser and would continue to manage their retirement money.

28. Self-managed brokerage accounts are trading accounts in which retail investors directly control how and where to invest their money. Through such accounts investors can purchase and sell investments in a wide array of investment vehicles including mutual funds, exchange-traded funds, individual stocks and bonds, real estate ventures, and stock options.¹

29. Online Brokerage did not allow independent advisers to act on behalf of a customer's self-managed accounts. Online Brokerage also did not allow advisory fees to be paid from self-managed accounts. Dang did not inform Clients A or B of these restrictions. Instead, he advised the

¹ An option is, in substance, a contract that gives the option's owner the right to buy or sell shares of an underlying stock at a set price per share. Options can be purchased like most other asset classes with brokerage investment accounts. Options are not suitable for everyone because options trading can be speculative in nature and carry substantial risk of loss.

couple that they should provide him with their personal usernames and passwords to the self-managed accounts so that he could access their Online Brokerage accounts and make trades in their names. He also advised them that they should pay him a 1% adviser fee directly in cash.

30. Clients A and B asked Dang on more than one occasion during these in-person meetings if he had the necessary supervision and certifications to manage their retirement funds in this manner. Each time, Dang assured them that he did, willfully concealing that he had let all his securities licenses and registrations lapse, that he was not registered as an investment adviser in the State of Connecticut, and that Online Brokerage's self-managed accounts prohibited an adviser from acting on a client's behalf.

31. At this time, Dang also recommended that Clients A and B authorize him to engage in a different trading strategy than he had in the past. Specifically, he recommended that a small portion of their overall retirement portfolio be allocated to trading stock options.

32. Clients A and B agreed to this arrangement, having received Dang's assurances that he would continue to invest the bulk of their retirement portfolio conservatively, prioritizing the preservation of capital. Emphasizing their desire to preserve their retirement savings, they instructed Dang to retain a minimum of \$250,000 in cash equivalents in their account to weather any potential downturn in the markets.

33. In February 2018, Dang completed online account opening documents for four individual self-managed accounts at Online Brokerage (two retirement accounts for Client A and two retirement accounts for Client B). Without the clients' knowledge or informed consent, Dang elected on all four account forms "aggressive growth" as the investment objective. Dang noted

“speculative” as the risk tolerance on three forms and “aggressive” on one form, and “options” as a type of allowed transaction on all four forms. Dang then caused the couple to add their electronic signatures to the account opening forms without making them aware of his elections.

34. After the accounts were opened, Clients A and B transferred more than \$2.2 million in combined retirement savings from accounts held at Mr. Y’s firm to five self-managed Online Brokerage accounts: the four individual accounts Dang had just opened for them plus a pre-existing self-managed joint account. The joint account allowed for options trading, but it had been dormant for years with minimal assets and no trading activity since at least January 2015.

35. At this time, Clients A and B provided Dang with their personal usernames and passwords for the Online Brokerage accounts. Dang began online trading in Client A’s and B’s five self-managed Online Brokerage accounts in February 2018 using their personal usernames and passwords.

36. Contrary to Client A’s and B’s instructions, Dang deviated sharply from the strategy had had proposed to his clients, which was an overall conservative investment strategy under which only a small amount of funds would be allocated to options trading. Dang applied his risky options trading to the entirety of their five accounts, not just a small portion as they had consented.

37. Dang’s aggressive—and unauthorized—options trading was disastrously unprofitable and quickly depleted the clients’ accounts. From February through December 2018, Dang caused their five retirement accounts to plummet from more than \$2.2 million combined to approximately \$145,000 (a loss of approximately 93%). By November 2019, only \$27,000 in total remained (a 99% drop).

38. Dang did not need to elect options trading in Client A's and B's four individual accounts in order to allocate a small portion of their retirement funds to an options trading strategy. For example, he could have conducted all the options trading solely in Client A's and B's joint account, which already allowed for options trading.

39. Dang never communicated to his clients the degree to which he engaged in aggressive options trading or the degree to which his trading failed.

40. Although they themselves never made any trades in their self-managed accounts at Online Brokerage—only Dang made the trades—Clients A and B did periodically monitor their account balances and monthly statements. On numerous occasions throughout 2018 and 2019, the couple expressed their concern to Dang, both on the telephone and via text messaging, and asked him to explain the loss in value. Each time, Dang reassured them and fabricated different excuses.

41. On some occasions, Dang told his clients their losses were a result of the current political climate. On other occasions, Dang stated that the balances they saw on paper did not reflect the actual value of their holdings. Dang falsely represented that there was hidden value in the options that was not reflected in their reported balances, and he further claimed that this was the primary reason the couple were seeing losses.

42. None of Dang's explanations were true. The losses were real and they were attributable to Dang's unauthorized options trading. As Client A's and B's investment adviser with full access to their retirement accounts, Dang knew, was reckless in not knowing, or should have known, that he was giving falsely inflated information about account values and made-up reasons for apparent losses.

43. Dang lied to Clients A and B about the value of their accounts so that they would continue to believe that their money was safe and that he was trustworthy.

44. The value of the assets in the accounts held by Clients A and B, and the cause of their losses, were material facts that would have been important to a reasonable investor.

CLAIM FOR RELIEF

Violation of Sections 206(1) and 206(2) of the Advisers Act

45. The Commission repeats and incorporates by reference the allegations in paragraphs 1-44 above.

46. At all relevant times, Dang operated as an “investment adviser” within the meaning of Section 202(a)(11) of the Advisers Act [15 U.S.C. §80b-2(a)(11)], and served in that capacity with respect to his clients.

47. As set forth above, Dang misled his advisory clients through a scheme to defraud and through transactions, practices, and courses of business which operated as a fraud or deceit upon his advisory clients.

48. The Defendant, by use of the mails or any means or instrumentality of interstate commerce, directly or indirectly:

(a) acting intentionally, knowingly or recklessly, has employed or is employing devices, schemes, or artifices to defraud clients; or

(b) acting intentionally, knowingly, recklessly, or negligently, (b) has engaged or is engaging in transactions, practices, or courses of business which operate as a fraud or deceit upon clients.

49. Accordingly, Dang has violated and, unless enjoined, will continue to violate Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§80b-6(1) & (2)].

PRAYER FOR RELIEF

WHEREFORE, the Commission requests that this Court:

- A. Enter a permanent injunction restraining Dang and each of his agents, servants, employees, and attorneys, and those persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, from directly or indirectly engaging in the conduct described above, or in conduct of similar purport and effect, in violation of Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§80b-6(1), 80b-6(2)];
- B. Require Dang to disgorge his ill-gotten gains, plus pre-judgment interest;
- C. Order Dang to each pay an appropriate civil penalty pursuant to Section 209(e) of the Advisers Act [15 U.S.C. §80b-9(e)];
- D. Retain jurisdiction over this action to implement and carry out the terms of all orders and decrees that may be entered; and
- E. Award such other and further relief as the Court deems just and proper.

Respectfully submitted,



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