

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9207 / May 13, 2011

SECURITIES EXCHANGE ACT OF 1934
Release No. 64493 / May 13, 2011

INVESTMENT ADVISERS ACT OF 1940
Release No. 3204 / May 13, 2011

INVESTMENT COMPANY ACT OF 1940
Release No. 29669 / May 13, 2011

ADMINISTRATIVE PROCEEDING
File No. 3-14383

In the Matter of

DANIEL M. HUGHES,

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTION 8A OF THE
SECURITIES ACT OF 1933, SECTION 21C
OF THE SECURITIES EXCHANGE ACT OF
1934, SECTIONS 203(f) AND 203(k) OF THE
INVESTMENT ADVISERS ACT OF 1940,
AND SECTION 9(b) OF THE INVESTMENT
COMPANY ACT OF 1940, MAKING
FINDINGS, AND IMPOSING REMEDIAL
SANCTIONS AND A CEASE-AND-DESIST
ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”), and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”) against Daniel Hughes (“Respondent” or “Hughes”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Section 21C of the Securities Exchange Act of 1934, Sections 203(f) and 203(k) of the Investment Advisers Act of 1940, and Section 9(b) of the Investment Company Act of 1940 Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds that

Summary

1. From May 2008 to April 2009, Hughes, a principal and director of a registered investment adviser, made oral misrepresentations to one of his investment advisory clients (the "Client") in order to conceal \$3.6 million in index options trading losses incurred by Hughes. During this same period, Hughes falsified several of the Client's brokerage account statements and delivered these falsified statements to the Client's private banker.

Respondent

2. Hughes, age 46, resides in Cincinnati, Ohio. From September 5, 2007 through April 20, 2009, Hughes served as one of the three principals of Anderson Hills Investment Advisors, Inc. ("Anderson Hills"), an investment adviser registered with the Commission during that time. Shortly after Hughes joined the firm and until his departure, client accounts attributable to Hughes comprised a majority of the firm's assets under management.

Other Relevant Entities

3. Anderson Hills is an Ohio corporation formerly headquartered in Cincinnati, Ohio that was registered with the Commission as an investment adviser under the name Anderson Hills Investment Advisors, Inc. At all times relevant, Anderson Hills was doing business under the name Fossett Hughes and Jabin Investment Advisors, Inc. As of May 1, 2008, Anderson Hills provided discretionary and non-discretionary investment management services to over 200 client accounts and managed approximately \$46.1 million of assets. On June 15, 2009, Anderson Hills withdrew its registration with the Commission and ceased providing investment advisory services.

Background

4. From February 2000 to September 2007, Hughes was a registered representative associated with a registered broker-dealer (the "Broker-Dealer"), which itself was associated with a large bank (the "Bank"), where the Client maintained a private banking relationship. In December 2004, the Client's Private Banker (the "Private Banker") introduced him to Hughes for the purpose of opening a securities account. The Client subsequently opened a securities account and, from 2005 to 2006, the Client's account with Hughes generated profits.

5. In September 2007, Hughes left the Broker-Dealer to join Anderson Hills. That same month, the Client closed his account at the Broker-Dealer to become a client of Hughes at Anderson Hills. The Client was Hughes's largest, most important client at Anderson Hills.

6. The Client transferred approximately \$12.2 million in funds and securities to his new account at Anderson Hills. The Client intended that this account would fund principal and interest payments, totaling \$350,000 per month, for a real estate development loan that he continued to maintain with the Bank, as well as construction costs associated with this real estate development project. Hughes understood that funding the loan and construction costs was the Client's investment objective. Hughes, the Client, and the Bank agreed that Hughes would send the Client's monthly account statements to the Client's Private Banker so that the Private Banker could continue to monitor the account's performance.

7. At the time the Client opened the account in September 2007, the Client executed various documents granting Anderson Hills and Hughes trading authority on the account and an application to open an account with the custodian for Anderson Hills, which was a registered broker-dealer (the "Custodian").

8. Pursuant to the firm's policy and practice, each client of Anderson Hills was to receive original account statements and trade confirmations directly from the Custodian. Notwithstanding this practice, in October 2007, Hughes permitted the Client to authorize Hughes to obtain the Client's online account statements and trade confirmations and to discontinue the delivery of paper statements to the Client. The Client did not possess an email account at the time and did not know how to access his account online. The Client relied on frequent conversations with Hughes and periodic discussions with his Private Banker to monitor the performance of his account. Hughes downloaded the Client's online statements and forwarded them to the Client's Private Banker to review.

9. Although Hughes's trading generated profits for the Client in 2005 and 2006, in 2007, Hughes's trading resulted in substantial losses. The Client first learned that he might have suffered losses as a result of Hughes' trading in November 2007, during a meeting with representatives of the Bank and the Broker-Dealer affiliated with the Bank. The Client subsequently questioned Hughes about these potential losses, and Hughes responded that the meeting attendees did not understand his trading strategy and that the losses were temporary and had been recouped.

10. Shortly thereafter, in late January or early February 2008, the Client received a call from the Custodian notifying him that his account had lost approximately \$4.5 million in January 2008. The Client called Hughes and told him to stop trading the account. Hughes called the Client back within a week and told him that he had designed an options trading strategy pursuant to which the Client could expect to achieve the positive returns that he had been receiving previously and under which the most the Client could lose was \$500,000. Based upon these representations, the Client agreed to continue trading with Hughes. The Client communicated his agreement with Hughes regarding the new trading strategy and the loss limitation to the Bank, which had requested assurances that the Client could continue to meet his loan obligations. Hughes was directed to continue to send the Client's monthly account statements to the Private Banker so that the Private Banker could monitor the performance of the account.

11. Thereafter, during the period from March 2008 through April 2009, the Client continued to monitor the performance of his account with Hughes through frequent phone calls with Hughes, and on occasion, he spoke with his Private Banker about his account balances. Throughout this period, Hughes repeatedly told the Client that the account was not incurring losses and assured him that the account balances either remained constant or that the account was profitable. The Client relied upon Hughes's representations and his conversations with his Private Banker, who had received the account statements.

12. The account lost approximately \$200,000 in February 2008 but gained approximately \$460,000 and \$100,000 in March and April 2008, respectively. However, during May 2008, the account suffered a \$1 million loss as a result of Hughes's trading. Upon this loss, Hughes began falsifying the account statements that he downloaded from the Custodian's website to conceal the investment-related losses suffered by the account and to make the account appear profitable. Hughes forwarded the falsified statements to the Private Banker at the Bank. Thereafter, Hughes's trading continued to result in substantial losses, and Hughes continued to create and deliver falsified accounting statements.

13. In total, Hughes, through his oral misrepresentations and falsified account statements, concealed \$3.6 million in trading losses.

14. As of March 31, 2009, the Client's account held less than \$50,000, far less than the amount needed to cover the customary \$350,000 monthly withdrawal. On April 16, 2009, Hughes called the Client to inform him that the value of his account was substantially less than what Hughes had orally represented to him and the amounts that were shown on the statements that Hughes had provided to the Client's Private Banker at the Bank. During this call, Hughes admitted to the Client that he falsified the Client's account statements and that the losses in the account were attributable to options trading.

15. As a result of the conduct described above, Hughes willfully violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase, offer, or sale of securities.

16. As a result of the conduct described above, Hughes willfully violated Sections 206(1) and 206(2) of the Advisers Act, which prohibit fraudulent conduct by an investment adviser.

Disgorgement and Civil Penalties

17. Respondent submitted a sworn Statement of Financial Condition dated December 9, 2010 and other evidence and has asserted his inability to pay disgorgement plus prejudgment interest or a civil penalty.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Hughes's Offer.

Accordingly, pursuant to Section 8A of the Securities Act, Section 21C of the Exchange Act, Sections 203(f) and 203(k) of the Advisers Act, and Section 9(b) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent Hughes shall cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 206(1) and 206(2) of the Advisers Act.

B. Respondent Hughes shall be, and hereby is, barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization and prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter.

C. Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

D. Respondent shall pay disgorgement of \$8,475 and prejudgment interest of \$604, but that payment of such amount is waived based upon Respondent's sworn representations in his Statement of Financial Condition dated December 9, 2010 and other documents submitted to the Commission. Based upon those same representations, the Commission also is not imposing a penalty against Respondent.

E. The Division of Enforcement (“Division”) may, at any time following the entry of this Order, petition the Commission (1) to reopen this matter to consider whether Respondent provided accurate and complete financial information at the time such representations were made; and (2) to seek an order directing payment of disgorgement, pre-judgment interest, and the maximum civil penalty allowable under the law. No other issue shall be considered in connection with this petition other than whether the financial information provided by Respondent was fraudulent, misleading, inaccurate, or incomplete in any material respect. Respondent may not, by way of defense to any such petition (1) contest the findings in this Order; (2) assert that payment of disgorgement, interest, or a penalty should not be ordered; (3) contest the amount of disgorgement, interest, or penalty to be ordered; or (4) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Elizabeth M. Murphy
Secretary

Service List

Rule 141 of the Commission's Rules of Practice provides that the Secretary, or another duly authorized officer of the Commission, shall serve a copy of Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Section 8A of the Securities Act of 1933, Section 21C of the Securities Exchange Act of 1934, Sections 203(f) and 203(k) of the Investment Advisers Act of 1940, and Section 9(b) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), on the Respondent and his legal agent.

The attached Order has been sent to the following parties and other persons entitled to notice:

Honorable Brenda P. Murray
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