

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF WISCONSIN**

UNITED STATES SECURITIES AND
EXCHANGE COMMISSION,

Plaintiff,

Case No:

v.

(Jury Demanded)

RONALD A. PALLEK,

Defendant.

COMPLAINT

Plaintiff, United States Securities and Exchange Commission (“SEC” or the “Commission”), files this Complaint and alleges as follows:

NATURE OF THE ACTION

1. Defendant Ronald A. Pallek conducted a fraudulent securities offering by making false promises to double investors’ money in only a year using an “Iron Condor” options trading strategy. By virtue of his lies, between February 2021 and September 2023, Pallek raised more than \$1.54 million from at least 87 investors.

2. Throughout the course of the scheme, Pallek misrepresented the risks of his options-trading strategy, lied to investors about how he would use their funds, and falsely told investors he had sufficient reserve funds to cover any potential losses. Pallek also sent investors false account statements purporting to show highly successful trading.

3. In reality, Pallek lost approximately \$991,000 trading options and other securities. Pallek also used some investor funds to make Ponzi-like payments to early investors.

4. In the fall of 2023, after some investors requested the return of their funds, Pallek falsely told them the bank had frozen his accounts. Pallek also showed investors fabricated

documents he had created that purported to show both that his bank accounts had been frozen and that they contained more than \$1.25 million.

5. On March 10, 2025, Pallek was criminally charged by the filing of an Information in this District, for conduct similar to that alleged herein. *See United States v. Pallek*, No. 25-CR-43.

6. Through his conduct, Pallek violated, and unless restrained will continue to violate, Section 17(a) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. § 77q(a)], Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5], and Section 206(4) of the Investment Advisers Act of 1940 (“Advisers Act”) [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

7. To hold Pallek accountable, to return funds to his victims, and to prevent him from harming future investors, the SEC seeks a permanent injunction prohibiting securities fraud, disgorgement and prejudgment interest, and civil penalties.

JURISDICTION AND VENUE

8. The Commission brings this action to restrain Pallek from engaging in the transactions, acts, practices and courses of business alleged in this Complaint, and transactions, acts, practices and courses of business of similar purport and object, for disgorgement of illegally obtained funds, civil money penalties, and other equitable relief.

9. This Court has jurisdiction over this action pursuant to Sections 20(b)-(d) and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b)-(d) and 77v(a)], Sections 21(d)-(e) and 27(a) of the Exchange Act [15 U.S.C. §§ 78u(d)-(e) and 78aa], and Sections 209(d)-(e) and 214(a) of the Advisers Act [15 U.S.C. §§ 80b-9(d)-(e) and 80b-14(a)].

10. Venue lies in this district pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], Section 27(a) of the Exchange Act [15 U.S.C. § 78aa(a)], and Section 214(a) of the Advisers Act [15 U.S.C. § 80b-14(a)], because transactions, acts, practices and courses of business constituting

violations of the federal securities laws occurred, and Defendant transacted business, within the Eastern District of Wisconsin and elsewhere.

11. Defendant, directly and indirectly, made use of the means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange in connection with the transactions, acts, practices and courses of business alleged in this Complaint.

12. There is a reasonable likelihood that Defendant will, unless enjoined, continue to engage in the transactions, acts, practices and courses of business set forth in this complaint, and transactions, acts, practices and courses of business of similar purport and object.

DEFENDANT

13. **Ronald A. Pallek**, age 54, lives in Lakemoor, Illinois. Pallek is the sole member of RAP Enterprises LLC.

RELATED ENTITY

14. **RAP Enterprises LLC (“RAP”)** is an Illinois limited liability company established by Pallek and based at Pallek’s home. RAP was a co-owner of one of Pallek’s bank accounts, and Pallek told one investor to make her check payable to RAP.

FACTS

A. Background

15. Between February 2021 and September 2023, Pallek raised at least \$1.54 million from approximately 87 investors in Illinois and Wisconsin, including residents of the Eastern District of Wisconsin. The investors included friends, acquaintances, and family members of friends of Pallek.

16. Pallek was a one-person operation. He raised all of the funds, placed all of the trades, and prepared all of the account statements and correspondence with investors.

17. Pallek deposited all of the investor funds into his personal bank accounts, including one account on which RAP was a co-owner. Pallek used those pooled investor funds to make transfers to his brokerage account, to make Ponzi-like payments to investors, and to pay various personal expenses.

18. In addition to investor funds, Pallek also deposited his own personal funds obtained from unrelated sources into the same bank accounts.

19. Pallek was an “investment adviser”, as that term is defined in Section 202(a)(11) of the Advisers Act [15 U.S.C. § 80b-2(a)(11)]. Pallek, for compensation, engaged in the business of advising others as to the value of securities or as to the advisability of investing in, purchasing, or selling securities.

20. Pallek provided investment advice to a “pooled investment vehicle”, as that term is defined in Rule 206(4)-8(b) under the Advisers Act [17 C.F.R. § 275.206(4)-8(b)], which consisted of funds provided by Pallek’s investors.

B. Pallek Lied About the Safety, Profitability, and Performance of the Securities he Offered and Sold Investors

21. In meetings and on phone calls, Pallek told investors that he had been extremely successful trading stocks and that 90% of his investment choices were profitable. Pallek told investors he had a “can’t lose opportunity” that he promised would double their money within a year.

22. Pallek told investors he would pool their money and invest it using an “Iron Condor” trading strategy. Pallek represented to investors that he would pay them a pro rata share of the trading profits, up to a maximum return of 100%.

23. The Iron Condor is an options trading strategy consisting of two put options (one long and one short) and two call options (one long and one short). The options have four different strike prices and the same expiration date. The strategy earns maximum profit when the underlying

asset price closes between the two middle strike prices at expiration. In other words, the trader profits from low volatility in the underlying asset. But the strategy can cause substantial losses during times of market volatility.

24. Pallek told investors that he would be compensated for his services by retaining trading profits that exceeded 100% per year. Pallek further told investors that all of their funds would be used solely for investment purposes.

25. Pallek lied to investors when he told them he would use all of their funds for investment purposes. Pallek used at least \$324,000 of investor funds to make Ponzi-like payments to other investors.

26. Pallek assured investors his trading strategy was safe and they would get their money back. To create the illusion of safety, Pallek falsely told investors he had \$3 million in cash reserves available to cover any potential trading losses. Pallek told some investors the source of the “reserve” fund was money he had received from a death in the family, and he told other investors the money came from a settlement he received due to a work injury.

27. Pallek lied when he told investors there was a \$3 million reserve fund. During the course of the scheme, the combined balance of Pallek’s bank and brokerage accounts never exceeded \$400,000, even including investor deposits.

28. Pallek also lied to investors when he told them the Iron Condor strategy was safe. Pallek knew or was reckless in not knowing that the Iron Condor strategy can cause substantial losses during times of market volatility.

29. Pallek’s misrepresentations to investors regarding the use of their funds, the purported existence of a reserve fund, and the safety of his trading strategy were material. Reasonable investors would find it important that Pallek was not engaging in a safe trading strategy backed by a multi-million dollar reserve fund, but rather was undertaking a risky trading strategy

without a reserve fund. Reasonable investors would also find it important that, rather than investing all of their funds, Pallek was instead using some of their money to make Ponzi-like payments to other investors.

30. Each of Pallek's investors signed a note entitled "Loan Agreement" in connection with the investment. The notes provided that Pallek would pay the investors twice the investment amount at the end of one year, with no interim interest payments. Pallek told investors the return on their funds would come from profits generated by trading with the Iron Condor strategy.

31. The notes were form documents. No investor negotiated the terms of the Loan Agreements with Pallek. No investor had any input into Pallek's trading strategies.

32. The Loan Agreements were "securities", as that term is defined in Section 2(a)(1) of the Securities Act [15 U.S.C. § 77b(a)(1)] and Section 3(a)(10) of the Exchange Act [15 U.S.C. § 78c(a)(10)].

33. Pallek used the pooled investor funds he transferred to his brokerage account to make trades employing the Iron Condor strategy, as well as other trading strategies. Between February 2021 and February 2024, Pallek lost approximately \$870,000 in trades using the Iron Condor strategy and approximately \$121,000 in non-Iron Condor trades. In total, Pallek sustained trading losses of approximately \$991,000.

34. From the beginning, Pallek's trading results never lived up to his representations. Although some individual securities trades were profitable, Pallek generally lost money on his trading throughout the duration of the scheme.

35. Rather than disclose his trading failures to investors, Pallek instead created and sent false periodic account statements to investors. In those statements, Pallek falsely informed investors that they had earned substantial profits.

36. The periodic statements reported profits even when Pallek had, in reality, suffered substantial trading losses. For example, Pallek provided Investor 1 with an account statement showing that a \$10,000 investment by Investor 1 had grown to \$12,480—an increase of 24.8%—as a result of purported trades between October 14, 2021 and November 30, 2021. But in reality, during that time period, Pallek’s trading resulted in losses of approximately \$127,000.

37. The periodic statements contained detailed information about Pallek’s purported trades. But much of the purported trading information Pallek reported was false. Pallek reported non-existent trades and reported false price, quantity, and profit information. For example, Pallek provided Investor 2 with an account statement showing that Investor 2 earned \$7,452 as a result of positions in 276 options contracts on an oil and gas company’s stock that Pallek opened on May 11, 2022 and closed on May 12, 2022. But in reality, Pallek opened positions on only 12 options contracts—3 long calls, 3 short calls, 3 long puts, and 3 short puts—on May 10, 2022 for that company’s stock. When he closed those positions the following day, Pallek’s total profit on them was approximately \$78.

38. The false account statements succeeded in convincing some investors that Pallek’s investment strategy was profitable. At least three investors invested additional money with Pallek after receiving an account statement falsely reporting successful returns. For example, Pallek provided Investor 3 with an account statement showing that her initial \$60,000 investment had grown to \$169,962—an increase of 183%—as a result of purported trades between January 2022 and August 2022. In September 2023, Investor 3 gave Pallek additional money to invest. Additionally, Investor 3’s father and husband invested money with Pallek in November 2022 and June 2023, respectively. But Pallek lied to Investor 3 when he reported those investment returns in the statement. In reality, between January 2022 and August 2022, Pallek’s trading resulted in losses of approximately \$43,000.

39. The false statements Pallek made regarding his trading performance were material. Reasonable investors would find it important that—rather than generating profits as he represented—Pallek was in fact losing substantial amounts of money on an on-going basis.

C. Pallek Lied to Investors and Created Fake Documents to Avoid Paying Redemptions

40. In the fall of 2023, several investors sought to redeem their investments, plus the promised 100% interest. Pallek had no way to satisfy those requests. Pallek did not receive any new investor funds after September 2023. By that time, his bank and brokerage accounts held a combined balance of less than \$2,000.

41. In an effort to buy himself some time, Pallek told the investors seeking to redeem that he was unable to pay them because his bank accounts had been frozen. Pallek told some of those investors that he had retained an attorney who specialized in resolving issues with banks, and the attorney had succeeded in convincing the bank to release funds only for Pallek's living expenses. All of these statements by Pallek were lies. In reality, no bank froze any of Pallek's accounts.

42. To back up his false story about his bank accounts being frozen, Pallek showed some investors a fabricated letter he had created on Bank 1 letterhead. The fake letter was dated September 22, 2023 and stated that Bank 1 had frozen both of Pallek's accounts pending an audit.

43. Pallek later created a second fake letter on Bank 1 letterhead. The second letter, which was dated December 4, 2023, purported to provide an update regarding the frozen accounts. The second letter falsely stated that the accounts held a collective balance of more than \$1.25 million and further stated that Bank 1 anticipated initiating a phased release of the funds by March 1, 2024, assuming no fraudulent activity was detected in the audit. As he had done with the first fake letter, Pallek showed the fake December 4, 2023 letter to some investors to support his lie that he could not pay redemptions because the bank had frozen his accounts.

44. The misrepresentations Pallek made to investors between September and December 2023 regarding his purportedly frozen bank accounts were material. Reasonable investors would have considered it important that Pallek lacked funds to honor redemption requests and created fake bank documents to conceal his true financial condition.

D. Pallek Violated the Federal Securities Laws

45. Beginning in January 2024, Pallek admitted to several investors that he had lost their money trading. In a phone call with one investor, Pallek admitted that he had made up the story about his bank accounts being frozen so he would have more time to recoup his prior trading losses before the investors took legal action against him. Pallek told that same investor he would need three years just to repay her principal, and that he was working at an outside job and also trying to raise money through a purported online fundraising campaign and by marketing a board game he claimed to have invented.

46. Pallek acted with *scienter*. At the time he offered and sold the securities, Pallek knew or recklessly disregarded that the representations he made to investors regarding the use of their proceeds were false, misleading, and omitted material information. Pallek knew or recklessly disregarded that the representations he made to investors regarding the risks of his trading strategy and the existence of a reserve fund were false, misleading, and omitted material information. Pallek knew or recklessly disregarded that the representations he made to investors regarding the profits, and losses of his securities trading were false, misleading, and omitted material information. Pallek also knew or recklessly disregarded that the representations he made to investors regarding the purported freezing of his bank accounts and his inability to make redemption payments were false, misleading, and omitted material information.

47. In making these representations and omissions, Pallek also acted negligently.

48. Pallek made the false and misleading statements to investors to entice them to enter into the Loan Agreements and provide him with funds for investment purposes. Investors in fact entered into the Loan Agreements with Pallek and provided him with funds for investment purposes.

COUNT I
Fraud in the Offer or Sale of Securities
[Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a)]

49. Paragraphs 1-48 are hereby realleged and incorporated herein by reference.

50. By engaging in the acts and conduct described in this Complaint, Defendant Pallek, directly or indirectly, in the offer or sale of securities, by use of the means or instruments of transportation or communication in interstate commerce or by use of the mails, used and employed devices, schemes, or artifices to defraud; obtained money or property by means of untrue statements of a material fact or an omission to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and engaged in transactions, practices, or courses of business which operated or would operate as a fraud and deceit upon the purchaser.

51. Pallek engaged in the fraudulent conduct described above intentionally, recklessly, and/or negligently.

52. By reason of the foregoing, Defendant Pallek, directly or indirectly, violated, and, unless enjoined, will continue to violate Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

COUNT II
Fraud in Connection with the Purchase or Sale of Securities
[Exchange Section 10(b), 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5]

53. Paragraphs 1-48 are hereby realleged and incorporated herein by reference.

54. By reason of the acts and conduct described in this Complaint, Defendant Pallek directly or indirectly, in connection with the purchase or sale of securities, by the use of means or

instrumentalities of interstate commerce or of the mails or any facility of a national securities exchange: (a) used and employed devices, schemes, or artifices to defraud; (b) made untrue statements of a material fact or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices, or courses of business which operated or would operate as a fraud and deceit upon any person.

55. Pallek engaged in the fraudulent conduct described above intentionally or recklessly.

56. By reason of the foregoing, Pallek, directly or indirectly, violated, and, unless enjoined, will continue to violate Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5, promulgated thereunder.

COUNT III

Fraudulent, Deceptive, or Manipulative Conduct by an Investment Advisor **[Advisers Act Section 206(4), 15 U.S.C. § 80b-6(4), and Rule 206(4)-8 thereunder, 17 C.F.R. § 275.206(4)-8]**

57. Paragraphs 1-48 are hereby realleged and incorporated herein by reference.

58. By reason of the acts and conduct described in this Complaint, Defendant Pallek, an investment adviser, directly or indirectly, engaged in acts, practices, and/or courses of business which were fraudulent, deceptive, and/or manipulative.

59. By reason of the acts and conduct described in this Complaint, Defendant Pallek made untrue statements of fact and/or omitted to state material facts necessary to make the statements made not misleading to investors or prospective investors in a pooled investment vehicle.

60. By reason of the acts and conduct described in this Complaint, Defendant Pallek engaged in fraudulent, deceptive, or manipulative conduct with respect to investors and/or prospective investors in a pooled investment vehicle.

61. Pallek engaged in the conduct described above intentionally, recklessly, and/or negligently.

62. By reason of the foregoing, Pallek, directly or indirectly, violated, and unless enjoined, will continue to violate Section 206(4) of the Advisers Act, 15 U.S.C. § 80b-6(4), and Rule 206(4)-8, 17 C.F.R. § 275-6(4)-8, promulgated thereunder.

PRAYER FOR RELIEF

WHEREFORE, the SEC respectfully requests that this Court:

I.

Issue a judgment, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, permanently enjoining Defendant Pallek, and his officers, agents, servants, employees and attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the judgment by personal service or otherwise, and each of them, from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

II.

Issue a judgment, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, permanently enjoining Defendant Pallek, and his officers, agents, servants, employees and attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the judgment by personal service or otherwise, and each of them, from violating Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §§ 240.10b-5].

III.

Issue a judgment, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, permanently enjoining Defendant Pallek, and his officers, agents, servants, employees and attorneys, and those persons in active concert or participation with any of them, who receive

actual notice of the judgment by personal service or otherwise, and each of them, from violating Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 [17 C.F.R. § 275-6(4)-8] thereunder.

IV.

Order Defendant Pallek to pay disgorgement of any unjust enrichment he received as a result of the misconduct alleged, together with prejudgment interest thereon, under Sections 21(d)(3), 21(d)(5) and 21(d)(7) of the Exchange Act, 15 U.S.C. §§ 78u(d)(3), 78u(d)(5), 78u(d)(7).

V.

Order Defendant Pallek to pay civil monetary penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)], and Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)].

VI.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered, or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

VII.

Grant such other and further relief as this Court may determine to be just and necessary.

JURY DEMAND

The SEC demands a trial by jury on all claims so triable.

Dated: March 10, 2025.

UNITED STATES SECURITIES AND
EXCHANGE COMMISSION

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