

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 67029 / May 18, 2012

ADMINISTRATIVE PROCEEDING
File No. 3-14720

In the Matter of

**Alchemy Ventures, Inc., KM
Capital Management, LLC,
Zanshin Enterprises, LLC,
Mark H. Rogers, Steven D.
Hotovec, Joshua A. Klein,
Yisroel M. Wachs, Frank K.
McDonald, and Douglas G.
Frederick,**

Respondents.

**ORDER MAKING FINDINGS AND
IMPOSING REMEDIAL SANCTIONS AND A
CEASE-AND-DESIST ORDER PURSUANT
TO SECTIONS 15(b) AND 21C OF THE
SECURITIES EXCHANGE ACT OF 1934 AS
TO DOUGLAS G. FREDERICK**

I.

In these proceedings, instituted on January 26, 2012 pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), Respondent Douglas G. Frederick (“Respondent”) has submitted an Offer of Settlement (“Offer”) which the Securities and Exchange Commission (“Commission”) has determined to accept.

II.

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 Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 as to Douglas G. Frederick (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

¹ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other persons or entities in this or any other proceeding.

Summary

1. These proceedings arise from trading access that Mercury Capital (“Mercury”), an unregistered firm, and Respondent extended to an individual who subsequently used that trading access to profit from an account intrusion and market manipulation scheme. On 77 occasions from April 2010 to July 2010, the individual made profitable trades through Mercury contemporaneous with unauthorized trading in the same securities in hijacked online brokerage accounts of innocent and unknowing account holders at multiple U.S. broker-dealers. The individual generated ill-gotten gains of \$433,816 from the scheme through Mercury.

2. By effecting securities transactions for the individual, Mercury, and Frederick, acting directly and through Mercury, acted as unregistered brokers in willful² violation of Section 15(a) of the Exchange Act. Frederick also willfully aided and abetted and caused Mercury’s violation of Section 15(a).

Respondent

3. From June 2009 until Mercury Capital ceased operations in November 2010 (the “relevant period”), Douglas G. Frederick provided management services to, and was associated with, Mercury. In that capacity, Frederick caused Mercury to extend market access to traders through Mercury. Frederick previously held Series 6, 7, 55 and 63 licenses but was permanently barred in 2008 from association with a broker or dealer. *See In re Frederick*, Admin. Proc. File No. 3-13004, Initial Decision (Sept. 9, 2008) and Notice that Initial Decision Has Become Final (Oct. 8, 2008). Frederick, age 42, is a resident of Brighton, Michigan.

Other Relevant Entity

4. Mercury Capital is a Nevada corporation that had its principal place of business in La Jolla, California during the relevant period. Mercury has never been registered with the Commission in any capacity. During the relevant period, approximately 600 individuals traded as many as 800 million shares per month on U.S. exchanges in an omnibus account held in Mercury’s name at a registered broker-dealer.³

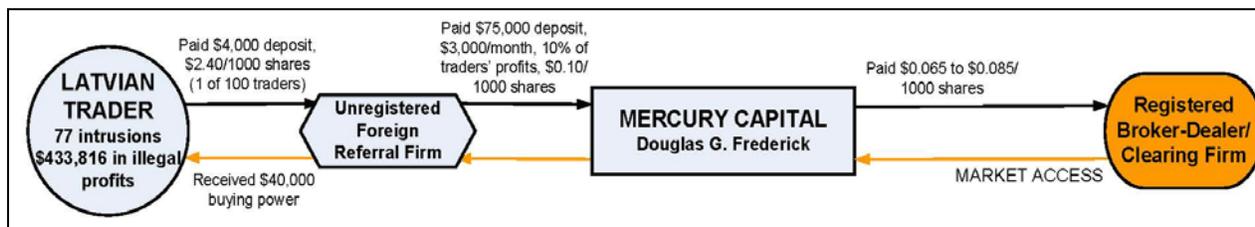
Sponsored Market Access

5. Sponsored market access is a form of trading access whereby a broker-dealer permits customers to enter orders into the public market without the orders first passing through the broker-dealer’s trading systems.

² A willful violation of the securities laws means merely “that the person charged with the duty knows what he is doing.” *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)).

³ The Commission previously issued an Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b)(4), 15(b)(6) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and Cease-and-Desist Orders against Mercury and its president Lisa R. Hyatt. Exchange Act Rel. No. 66248 (Jan. 26, 2012).

6. The following chart illustrates the relationships through which Mercury and Frederick extended market access to an individual identified as a citizen of Latvia (“the Latvian trader”) who conducted an account intrusion and market manipulation scheme.



7. During the relevant period, Mercury, and Frederick, through Mercury, received sponsored market access from a registered broker-dealer and passed the sponsored market access on to the Latvian trader and other traders through an unregistered Canadian entity that solicited traders through its website and referred them to Mercury.

8. In connection with extending sponsored market access to traders through the Canadian entity, Mercury and Frederick participated in the order-taking and order-routing process, extended credit to the traders in connection with securities transactions, and handled customer funds and securities.

9. During the relevant period, Mercury, at Frederick’s direction, maintained an independent contractor agreement with the Canadian entity. Approximately 100 traders who had been referred by the Canadian entity were trading through Mercury’s omnibus account via sponsored market access during the relevant period.

10. Under the independent contractor agreement, Mercury charged the Canadian entity a monthly fee of \$3,000 plus a “clearing fee” of \$0.10 per thousand shares traded, which exceeded the commission of \$0.065 to \$0.085 that Mercury paid its registered broker-dealer. Frederick was one of the individuals responsible for setting the fee and commission rate and directing Mercury to charge transaction-based compensation for extending the market access.

11. Mercury, at Frederick’s direction, required the Canadian entity to make an initial risk deposit of \$75,000 and made the Canadian entity responsible for 100% of any trading losses that its traders incurred through Mercury’s account.

12. During the relevant period, Frederick directed Mercury to maintain documentation tracking the Canadian entity’s deposit balance against all commissions, fees, and profits or losses for all trading activity through Mercury’s account by traders referred by the Canadian entity.

13. In April 2010, the Canadian entity notified Mercury that the Latvian trader had requested market access. Mercury provided the Latvian trader with sponsored access trading software and instructed the software provider to assign the Latvian trader a user ID and password so that he could use the software to trade online through Mercury’s account. In so doing, Mercury, at Frederick’s direction, provided order-taking and order-routing services and controlled an electronic trading system for the Latvian trader to trade in the public market. The Canadian entity agreed that Mercury could retain 10% of any trading profits generated by the Latvian trader through Mercury’s account.

14. Frederick was one of the individuals responsible for authorizing traders referred by the Canadian entity to trade through Mercury's account, for determining whether to terminate a trader's access, and for controlling the trading parameters in the trading software, including the amount of margin each trader received.

15. The Latvian trader wired \$4,000 of his own money to the Canadian entity as a risk deposit. Mercury then used the trading software to extend the Latvian trader \$40,000 in "buying power" through Mercury's account, which was a portion of the trading margin that Mercury received from the registered broker-dealer. Although Mercury extended credit to the Latvian trader to purchase securities, Mercury's capital was not ultimately at risk because it was entitled to recoup losses from the Canadian entity and the trading software allowed Mercury to see the Latvian trader's trading in real time and automatically cut off his trading access if he or other traders referred by the Canadian entity incurred losses greater than the Canadian entity's deposit balance.

Account Intrusions

16. On 77 occasions between April 2010 and July 2010, the Latvian trader made profitable trades through Mercury's account contemporaneous with unauthorized trading in the same securities in hijacked online brokerage accounts at multiple U.S. broker-dealers.

17. On each occasion, the Latvian trader first established a long or short position in a security through Mercury's account. Then the Latvian trader surreptitiously gained access to an online brokerage account and made large unauthorized trades in the same security to manipulate the stock price in his favor. Finally, during or shortly after the manipulative trading in the intruded account, the Latvian trader closed out his position through Mercury at the artificial market price to generate a profit.

18. The Latvian trader generated ill-gotten gains of \$433,816 from the scheme through the electronic trading system provided by Mercury. The Latvian trader engaged in similar manipulative trading through other unregistered firms, and generated total profits of more than \$850,000 from 159 account intrusions between June 2009 and August 2010.

19. As a result of providing electronic order-taking and order-routing services that the Latvian trader used to conduct an illegal market manipulation scheme, Mercury retained 10% of the Latvian trader's illegal trading profits, or \$43,382, and also received trading commissions and fees.

20. By extending market access to traders through the Canadian entity in the manner described above, including through participating in the order-taking and order-routing process, extending credit in connection with securities transactions, handling customer funds and securities, and allocating trades conducted by the traders against deposits provided by the Canadian entity, Mercury, and Frederick, directly and through Mercury, engaged in the business of effecting transactions in securities for the account of others.

21. As described above, Frederick was aware of his role in furthering improper or illegal activity by Mercury and provided substantial assistance to Mercury in connection with conduct that constituted a violation of the federal securities laws.

Violations

22. As a result of the conduct described above, Frederick willfully violated Section 15(a) of the Exchange Act, which prohibits certain persons and entities, while acting as brokers, from effecting transactions in securities when such person or entity is not registered with the Commission as a broker.

23. As a result of the conduct described above, Frederick willfully aided and abetted and caused Mercury's violation of Section 15(a) of the Exchange Act, which prohibits certain persons and entities, while acting as brokers, from effecting transactions in securities when such person or entity is not registered with the Commission as a broker.

IV.

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

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent shall cease and desist from committing or causing any violations and any future violations of Section 15(a) of the Exchange Act.

B. Respondent 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

barred from participating in any offering of a penny stock, including: acting as a promoter, finder, consultant, agent or other person who engages in activities with a broker, dealer or issuer for purposes of the issuance or trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock.

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, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$35,000 to the United States Treasury. If timely payment is not made, interest shall accrue pursuant to 31 U.S.C. Section 3717. Such payment shall be: (A) made by wire transfer, United States postal money order, certified check, bank cashier's check, or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Securities and Exchange Commission, Office of Financial Management, 100 F St., NE, Stop 6042,

Washington, DC 20549; and (D) submitted under cover letter that identifies Douglas G. Frederick as a Respondent in these proceedings and the file number of these proceedings, a copy of which cover letter and check, money order, or wire transfer confirmation shall be sent to Jina L. Choi, Market Abuse Unit, Division of Enforcement, Securities and Exchange Commission, 44 Montgomery St, 26th Floor, San Francisco, CA 94104.

By the Commission.

Elizabeth M. Murphy
Secretary