

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 67889 / September 19, 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 YISROEL M. WACHS**

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 Yisroel M. Wachs (“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 Yisroel M. Wachs (“Order”), as set forth below.

III.

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

Summary

1. These proceedings arise from trading access that KM Capital Management, LLC ("KM"), an unregistered firm, and Wachs extended to an individual who subsequently used that trading access to profit from an account intrusion and market manipulation scheme. On 26 occasions from January to August 2010, the individual made profitable trades through KM 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.

2. By effecting securities transactions for the individual, Wachs, acting directly and through KM, acted as an unregistered broker in willful² violation of Section 15(a) of the Exchange Act. Wachs also willfully aided and abetted and caused KM's violation of Section 15(a).

Respondent

3. From January to August 2010 (the "relevant period"), Yisroel M. Wachs was a principal of, and associated with, KM. In that capacity, Wachs caused KM to extend market access to traders through KM. Wachs has never held securities licenses or been registered with the Commission in any capacity. Wachs, age 30, is a resident of Philadelphia, Pennsylvania and Jerusalem, Israel.

Other Relevant Parties

4. KM Capital Management, LLC is a Pennsylvania limited liability company with its principal place of business in Philadelphia, Pennsylvania. KM has never been registered with the Commission in any capacity. During the relevant period, approximately 10 individuals traded as many as two million shares per month on U.S. exchanges in omnibus accounts held in KM's name at a registered broker-dealer.

5. Joshua A. Klein is a principal of, and associated with, KM. In that capacity, Klein caused KM to extend market access to traders through KM. Klein has never held securities licenses or been registered with the Commission in any capacity. Klein, age 29, is a resident of Philadelphia, Pennsylvania.

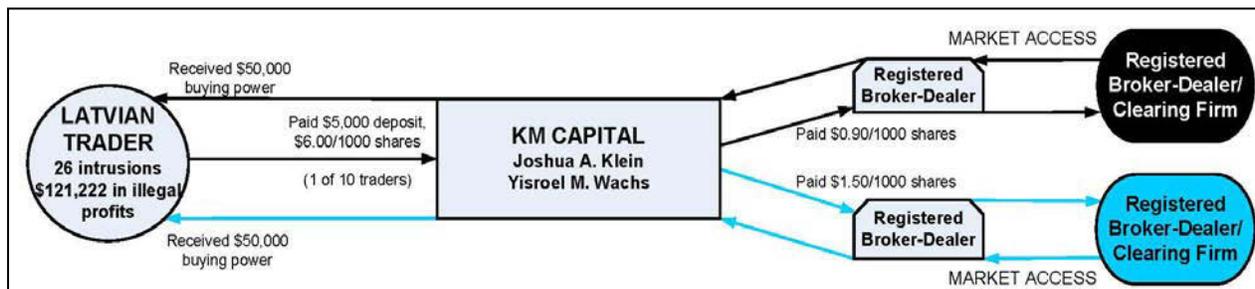
Sponsored Market Access

6. 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.

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.

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)).

7. The following chart illustrates the relationships through which KM, Klein, and Wachs extended market access to an individual identified as a citizen of Latvia (“the Latvian trader”) who conducted an account intrusion and market manipulation scheme:



8. During the relevant period, KM, and Klein and Wachs through KM, received sponsored market access from registered broker-dealers and passed the sponsored market access on to KM’s traders.

9. In connection with extending sponsored market access to traders, KM, Klein, and Wachs 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.

10. During the relevant period, KM, at the direction of Klein and Wachs, maintained a website and made postings on internet message boards soliciting traders to trade through KM. Approximately 10 traders were trading through KM’s omnibus accounts via sponsored market access during the relevant period.

11. In November 2009, the Latvian trader requested to receive market access through KM. KM, at the direction of Klein and Wachs, entered into an independent contractor agreement with the Latvian trader.

12. The independent contractor agreement stated that the Latvian trader was responsible for 100% of any trading losses that he incurred through KM’s account and required the Latvian trader to contribute \$5,000 of his own money as a risk deposit.

13. Pursuant to the independent contractor agreement, KM, at the direction of Klein and Wachs, 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 KM’s account. In so doing, KM, at the direction of Klein and Wachs, provided order-taking and order-routing services and controlled an electronic trading system for the Latvian trader to trade in the public market.

14. Klein and Wachs were ultimately responsible for authorizing traders to trade through KM’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. KM used the trading software to extend the trader \$50,000 in “buying power” through KM’s account, which was a portion of the trading margin that KM received from its registered broker-dealer. Although KM extended credit to the Latvian trader to purchase securities, KM’s capital was not ultimately at risk because it was entitled to recoup losses from the Latvian trader and

the trading software allowed KM's principals to review his trading in real time and would automatically cut off his trading access if trading losses caused his deposit balance to fall below \$1,000, effectively allowing KM to ensure that he would never lose money in excess of his deposit balance.

16. In March 2010, KM opened an omnibus account with a different registered broker-dealer and provided the Latvian trader with sponsored access trading software and a user ID and password so that he also could trade online through the new KM account. KM extended the Latvian trader the same level of buying power in the new KM account.

17. KM charged the Latvian trader a commission of \$6.00 per thousand shares traded, which exceeded the commissions ranging from \$0.90 to \$1.50 per thousand shares traded that KM paid its registered broker-dealers. Klein and Wachs were responsible for setting the commission rate and directed KM to charge transaction-based compensation for extending the market access.

18. During the relevant period, Klein and Wachs directed KM to maintain documentation tracking the Latvian trader's deposit balance against all commissions, fees, and profits or losses from his trading activity through KM's accounts.

Account Intrusions

19. On 26 occasions between January and August 2010, the Latvian trader made profitable trades through KM's account contemporaneous with unauthorized trading in the same securities in hijacked online brokerage accounts at multiple U.S. broker-dealers.

20. On each occasion, the Latvian trader first established a long or short position in a security through KM'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 KM at the artificial market price to generate a profit.

21. The Latvian trader generated ill-gotten gains of \$121,222 from the scheme through the electronic trading system provided by KM. 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.

22. By extending market access to traders 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 their deposits, KM, and Wachs, directly and through KM, engaged in the business of effecting transactions in securities for the account of others.

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

Violations

24. As a result of the conduct described above, Wachs 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.

25. As a result of the conduct described above, Wachs willfully aided and abetted and caused KM'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 is censured.
- C. 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. Payment must be made in one of the following ways:
 - (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
 - (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
 - (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Yisroel M. Wachs as a Respondent in these proceedings, and the file number of these proceedings; a

copy of the cover letter and check or money order must be sent to Jina L. Choi, Market Abuse Unit, Division of Enforcement, Securities and Exchange Commission, 44 Montgomery St, 28th Floor, San Francisco, CA 94104.

By the Commission.

Elizabeth M. Murphy
Secretary