

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF GEORGIA

SECURITIES AND EXCHANGE
COMMISSION,

PLAINTIFF,

v.

William J. Reid, Algorithmic Trading Advisors,
LLC, an Idaho limited liability company and
World Stock Fund, L.P., a Texas limited
Partnership,

DEFENDANTS.

Civil Action No. **CV 411 - 016**

COMPLAINT

Plaintiff, Securities and Exchange Commission (the "Commission"), for its Complaint against Defendants alleges as follows:

INTRODUCTION

1. This matter involves the fraudulent offering of the securities of World Stock Fund, L.P. ("WSF"), by its adviser, Algorithmic Trading Advisors LLC ("ATA") and William J. Reid ("Reid"), ATA's alter ego.

2. Through ATA and WSF, Reid offered WSF's securities online and through direct contact with investors. In an effort to promote WSF, Reid established accounts for WSF with well-known investment reporting services and provided those services with materially false information concerning WSF's investment returns and the size of the fund.

3. That information included representations that WSF had positive returns in 30 out of 37 months from the period of January 2007 through January 2010, and that WSF had up to

\$13 million in assets under management. In fact, WSF did not exist until June 2008, and had less than \$400,000 in assets under management.

JURISDICTION AND VENUE

4. This Court has subject matter jurisdiction by authority of Sections 20 and 22 of the Securities Act of 1933 (the "Securities Act") [15 U.S.C. §§ 77t and 77v], Sections 21 and Section 27 of the Securities Exchange Act of 1934 (the "Exchange Act") [15 U.S.C. §§ 78u and 78aa], Sections 42 and 44 of the Investment Company Act of 1940 ("Investment Company Act") [15 U.S.C. §§ 80a-41 and 80a-43]; and Sections 209 and 214 of the Investment Advisers Act of 1940 ("Advisers Act") [15 U.S.C. §§ 80b-9 and 80b-14].

5. Defendants, directly and indirectly, singly and in concert, have made use of the means and instrumentalities of interstate commerce and the mails in connection with the transactions, acts and courses of business alleged herein, certain of which have occurred within the District of Georgia.

6. Venue for this action is proper in the District of Georgia under Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and under Section 27 of the Exchange Act [15 U.S.C. § 78aa], Section 44 of the Investment Company Act [15 U.S.C. § 80a-43] and Section 214 of the Advisers Act [15 U.S.C. § 80b-14] because certain of the transactions, acts, practices, and courses of business alleged in this Complaint took place in this district and because certain of the defendants reside in and transact business in this district.

7. Defendants, unless restrained and enjoined by this Court, will continue to engage in the transactions, acts, practices, and course of business alleged herein and in transactions, acts, practices, and courses of business of similar purport and object.

8. Defendants' conduct took place in connection with the offer, purchase and/or sale of securities in the form of units in WSF.

DEFENDANTS

9. **William J. Reid**, age 70, a resident of Savannah, Georgia, formed ATA and is its sole founder, member and employee. Reid also formed WSF and is solely responsible for its management and activities. Reid is not registered with the Commission in any capacity.

10. **Algorithmic Trading Advisers, LLC**, is registered in Idaho and Texas as a limited liability company. ATA is the general partner and investment adviser of WSF and is not registered as an investment adviser with the Commission or with any state. ATA is owned by Reid, directly and through a corporation owned by Reid and his wife.

11. **World Stock Fund, L.P.** is a Texas limited partnership formed in about 2008 as an unregistered investment fund. WSF's general partner is ATA, and has five investors, including Reid, with assets under management of under \$400,000.

FACTS

Background

12. Reid formed ATA as a limited liability company in 2003, purportedly to trade in commodities and foreign exchange markets for other investors.

13. Reid represented to investors he was involved in the development of artificial intelligence software from 1994 through 2004.

14. Reid represented to investors that he used his expertise in artificial intelligence to develop artificial intelligence software for use in the investment of hedge funds.

15. Reid formed WSF in 2008 as a hedge fund that would invest in equities and options, with ATA acting as WSF's investment adviser.

16. At all times relevant to this complaint, WSF held itself out as, and was, an investment company.

17. At all times relevant to this complaint, ATA was Reid's alter ego, and was the sole founder, member and employee of ATA.

18. ATA was WSF's sole investment adviser.

19. At all times relevant to this complaint, Reid completely controlled WSF and its trading activities.

20. Reid established websites for ATA and WSF ("Websites"), touting ATA's investment strategy for WSF. Reid included WSF's offering memorandum in the Websites.

21. Reid offered securities in WSF to the general public via the Websites and by other means, including telephone and email.

22. During the period of August 2008 through June 2010, WSF had five investors with maximum assets under management of less than \$400,000.

23. On or about November 6, 2008, Reid established an account with bivio, Inc. ("bivio"), on behalf of WSF.

24. bivio is an online service that provides investment clubs with, among other things, an ability to generate various accounting reports for investment club members, and to communicate with each other via email and message boards.

25. Reid instructed investors that they could track WSF's trading activity and their investment in WSF through accessing WSF's account with bivio.

26. In an effort to promote WSF, Reid established accounts on behalf of WSF with investment reporting services, including Morningstar, BarclayHedge and Hedge Fund Research, Inc., (the "Services").

27. In July 2008, those Services began to publish information Reid provided them about WSF, including on their websites. The information published by the Services included WSF's purported performance returns, assets under management and other material information.

Reid's Misrepresentations to Investors

28. Reid provided fictitious, false and misleading information to the Services which was published by the Services, including on their websites.

29. The false information Reid provided to the Services which was published by the Services included the following:

- a. that WSF had been in existence since January 2007;
- b. that WSF had performance returns from January 2007 through August 2008;
- c. that WSF's performance returns from January 2007 through August 2008 were all positive returns, except for two or three months;
- d. that WSF's performance returns included several monthly returns in excess of 20%, and a high monthly return of 37.65%; and
- e. that WSF's assets under management grew from approximately \$1.3 million in January 2007 to assets under management of almost \$13 million.

30. Reid knew this information was false because Reid was the sole founder, member and employee of ATA and thus controlled all aspects of ATA's operations.

31. The misrepresentations described in paragraph 29 above were material.

32. In fact, from the period of January 2007 through June 2008, WSF did not exist and had no investors until August 2008.

33. Reid provided each of the Services with different information regarding WSF's performance returns and assets under management for the same monthly periods.

34. In addition to providing false information to the Services, Reid also misled investors and potential investors directly, via the telephone and email.

35. Reid represented to investors that the returns ATA was generating for WSF were derived from proprietary software Reid had created that utilized artificial intelligence developed by Reid.

36. Reid represented to the Services and investors that WSF had retained the services of auditors and/or accountants and had been audited. In fact, WSF has never been audited by a certified public accountant.

37. Reid told an investor that WSF had approximately forty investors.

38. Reid told investors that ATA employed additional people besides just Reid.

39. Reid provided an investor with a bogus opinion letter related to an audit of WSF by an accounting firm.

40. Reid represented to investors that WSF was uniquely transparent and that investors would be able to monitor WSF's trading activity on a daily basis by accessing WSF's account with bivio.

41. Reid further told investors that the trading activity reflected in WSF's bivio account was generated through an automatic transfer function from WSF's brokerage account to bivio, and would thus be an accurate and unaltered reflection of WSF's trading activity.

42. In fact, bivio did not have an automated transfer function with WSF's brokerage firm. Instead, Reid manually entered all of WSF's purported trading activity into WSF's bivio account and thus controlled all the data input into WSF's account with bivio.

43. Reid included false trading activity and information in WSF's bivio account and hid information pertaining to WSF's actual assets under management from WSF's investors.

44. WSF investors had no way of accessing WSF's actual brokerage account statements, and WSF did not independently provide account statements to investors. As a result, investors relied exclusively on the false information and statements generated by Reid through bivio to review WSF's alleged trading activity and performance.

**FIRST CAUSE OF ACTION
EMPLOYMENT OF A DEVICE, SCHEME OR ARTIFICE TO DEFRAUD
Violation of Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)]**

45. The Commission realleges and incorporates by reference the allegations contained in the above paragraphs.

46. Reid and ATA, and each of them, by engaging in conduct described above, directly or indirectly, in the offer or sale of securities, by the use of the means or instruments of transportation or communication in interstate commerce or by use of the mails, have employed devices, schemes or artifices to defraud.

47. By reason of the foregoing, Reid and ATA, and each of them, directly or indirectly, violated, and unless restrained and enjoined by this Court, will continue to violate Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

**SECOND CAUSE OF ACTION
FRAUD IN THE OFFER AND SALE OF SECURITIES
Violations of Section 17(a)(2) and (3) of the Securities Act
[15 U.S.C. § 77q(a)(2) and (3)]**

48. The Commission realleges and incorporates by reference the allegations contained in the above paragraphs.

49. Reid and ATA, and each of them, by engaging in the conduct described above, directly and indirectly, in the offer and sale of securities, by the use of the means or instruments of transportation or communication in interstate commerce or by use of the mails, obtained money or property by means of untrue statements of material fact or by omitting to state a

material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, and engaged in transactions, practices, or courses of business which operate or would operate as a fraud or deceit upon the purchaser.

50. By reason of the foregoing, Reid and ATA, and each of them, directly or indirectly, violated, and unless restrained and enjoined will continue to violate, Section 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(2) and 77q(a)(3)].

**THIRD CAUSE OF ACTION
FRAUD IN CONNECTION WITH THE PURCHASE AND
SALE OF SECURITIES
Violations of 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]**

51. The Commission realleges and incorporates by reference the allegations contained in the above paragraphs.

52. Reid and ATA, and each of them, by engaging in the conduct described above, directly or indirectly, by the use of means or instrumentalities of interstate commerce or use of the mails, in connection with the purchase or sale of securities, with scienter, (1) employed devices, schemes, or artifices to defraud; (2) made untrue statements of material fact or omitted to state a material fact necessary in order to make statements made, in light of the circumstances under which they were made not misleading; or (3) engaged in acts, practices, or courses of business that operated or would operate as a fraud and deceit upon other persons.

53. By reason of the foregoing, Defendants, and each of them, violated, and unless restrained and enjoined will continue to violate 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].

**FOURTH CAUSE OF ACTION
FRAUD BY INVESTMENT ADVISERS AND
IN ADVISING POOLED INVESTMENT VEHICLES
Violations of Section 206(4) [15 U.S.C. § 80b-6(4)] of the Advisers Act and
Rule 206(4)-8 [17 C.F.R. § 275.206(4)-8] thereunder**

54. The Commission realleges and incorporates by reference the allegations contained in the above paragraphs.

55. Reid and ATA, and each of them, by engaging in the conduct described above, directly or indirectly, by the use of means or instrumentalities of interstate commerce or use of the mails, while acting as investment advisers, engaged in acts, practices or courses of business that were fraudulent, deceptive and manipulative.

56. Reid and ATA, while acting as investment advisers to pooled investment vehicles: (a) made untrue statements of material facts or omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading, to investors or prospective investors in the pooled investment vehicle; or (b) engaged in acts, practices, or courses of business that were fraudulent, deceptive, or manipulative with respect to investors or prospective investors in the pooled investment vehicle.

57. By reason of the foregoing, Reid and ATA, and each of them, violated, and unless restrained and enjoined will continue to violate Section 206(4) of the Advisers Act [15 U.S.C. §80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

**FIFTH CAUSE OF ACTION
OFFER AND SALE OF UNREGISTERED SECURITIES
Violation of Sections 5(a) and (c) of the Securities Act [15 U.S.C. § 77e(a) and (c)]**

58. The Commission realleges and incorporates by reference the allegations contained in the above paragraphs.

59. WSF, Reid and ATA, and each of them, by engaging in the conduct described above, directly or indirectly, through use of the means or instruments of transportation or

communication in interstate commerce or the mails, offered to sell or sold securities or, directly or indirectly, carried such securities through the mails or in interstate commerce, for the purpose of sale or delivery after sale.

60. No registration statement has been filed with the Commission or has been in effect with respect to WSF's securities.

61. By reason of the foregoing, Defendants, directly or indirectly violated, and unless enjoined will continue to violate Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

SIXTH CAUSE OF ACTION
OFFER AND SALE OF SECURITIES BY UNREGISTERED INVESTMENT COMPANY
Violation of Section 7(a) of the Investment Company Act [15 U.S.C. § 80a-7(a)]

62. The Commission realleges and incorporates by reference the allegations contained in the above paragraphs.

63. WSF, by engaging in the conduct described above, directly or indirectly, through use of the means or instruments of transportation or communication in interstate commerce or the mails, offered to sell or sold securities or, directly or indirectly, carried such securities through the mails or in interstate commerce, for the purpose of sale or delivery after sale.

64. No registration statement has been filed with the Commission or has been in effect with respect to WSF.

65. By reason of the foregoing, WSF violated, and unless enjoined will continue to violate, Section 7(a) of the Investment Company Act [15 U.S.C. § 80a-7(a)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

I

Issue findings of fact and conclusions of law that the Defendants committed the violations charged herein.

II

Issue in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure orders that preliminarily and permanently enjoin Defendants Reid and ATA, their officers, agents, servants, employees, attorneys, and accountants, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from engaging in transactions, acts, practices, and courses of business described herein, and from engaging in conduct of similar purport and object in violation of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder.

III

Issue in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure orders that preliminarily and permanently enjoin Defendants Reid, ATA and WSF, their officers, agents, servants, employees, attorneys, and accountants, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from engaging in transactions, acts, practices, and courses of business described herein, and from engaging in conduct of similar purport and object in violation of Sections 5(a) and 5(c) of the Securities Act.

IV

Issue in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure orders that preliminarily and permanently enjoin, Defendant WSF, their officers, agents, servants, employees, attorneys, and accountants, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from engaging in transactions, acts, practices, and courses of business described herein, and from engaging in conduct of similar purport and object in violation of Section 7(a) of the Investment Company Act.

IV

Enter an order directing Defendants Reid and ATA, and each of them, to pay civil money penalties pursuant to Section 20(d) of the Securities Act and Section 21(d)(3) of the Exchange Act.

V

Enter an order directing Defendants to disgorge all ill-gotten gains received during the period of violative conduct and pay prejudgment interest on such ill-gotten gains.

VI

Grant such further equitable relief as this Court deems just, appropriate and necessary.

VII

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.

Respectfully submitted,

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