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UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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SECURITIES AND EXCHANGE COMMISSION,		:
		:
	Plaintiff,	:
		:
	-against-	:
		:
WILLIAM C. GENNITY and		:
ROCCO ROVECCIO,		:
		:
	Defendants.	:
<hr/>		:

17-CV-\_\_\_\_\_ ( )

Jury Trial Demanded

COMPLAINT

Plaintiff Securities and Exchange Commission, for its Complaint against defendants William C. Gennity (“Gennity”) and Rocco Roveccio (“Roveccio”) (together, the “Defendants”), alleges as follows:

SUMMARY

1. Gennity and Roveccio, as registered representatives from 2012 to 2014 at Alexander Capital, L.P. (“Alexander Capital”), a New York City broker-dealer, violated the antifraud provisions of the federal securities laws. First, Gennity and Roveccio had a duty to have a reasonable basis for recommendations that they made to their customers. In violation of

this duty, Gennity recommended to four customers, and Roveccio recommended to seven customers, a pattern of high cost, in-and-out trading without any reasonable basis to believe that their recommendations were suitable for anyone. These recommendations resulted in losses for the customers and ill-gotten gains for Gennity and Roveccio. Gennity and Roveccio knew or recklessly disregarded that their recommendations, for which they had no reasonable basis, were not suitable for anyone.

2. Second, Gennity's and Roveccio's recommendations were unsuitable for certain of their customers in light of those customers' financial needs, investment objectives and circumstances. Third, Gennity and Roveccio made material misrepresentations and omissions to customers. Fourth, they churned customer accounts. Finally, Gennity and Roveccio engaged in unauthorized trading.

3. As a result of these violations, Gennity and Roveccio received approximately \$280,000 and \$206,000, respectively, in commissions. The eleven customers suffered losses totaling \$683,038.

### VIOLATIONS

4. By virtue of the conduct alleged herein, the Defendants, directly or indirectly, singly or in concert, violated and are otherwise liable for violations of 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].

5. Unless the Defendants, who continue to be employed as registered representatives, are permanently restrained and enjoined, they will again engage in the acts, practices, transactions, and courses of business set forth in this complaint and in acts, practices,

transactions, and courses of business of similar type and object.

**JURISDICTION AND VENUE**

6. The Commission brings this action pursuant to authority conferred by Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)] and Section 21(d)(1) of the Exchange Act [15 U.S.C. § 78u(d)(1)], seeking a final judgment: (1) restraining and permanently enjoining each of the Defendants from engaging in the acts, practices and courses of business alleged against them herein; (b) ordering each of the Defendants to disgorge all ill-gotten gains and to pay prejudgment interest on those amounts; and (c) imposing civil money penalties on each of the Defendants pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

7. This Court has jurisdiction over this action pursuant to 28 U.S.C. §1331, Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], and Sections 21(d), 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), and 78aa]. The Defendants, either directly or indirectly, have made use of the means or instrumentalities of interstate commerce, of the mails, of the facilities of national securities exchanges, and/or the means or instruments of transportation or communication in interstate commerce in connection with the acts, practices, and courses of business alleged herein.

8. Venue lies in the Southern District of New York pursuant to 28 U.S.C. §1391(b)(2), Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], and Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Certain of the acts, practices, transactions, and courses of business alleged in this complaint occurred within the Southern District of New York, including the execution of trades on exchanges based in the Southern District of New York, and were effected, directly or indirectly, by making use of means or instrumentalities of transportation or

communication in interstate commerce, or the mails, or the facilities of a national securities exchange.

#### DEFENDANTS

9. **Gennity**, age 30, a resident of Staten Island, NY, was employed by Alexander Capital from April 2012 through October 2014. Gennity has worked at eight different firms during his thirteen years in the securities industry, and holds Series 7 and 63 licenses. In November 2016, Gennity paid \$12,029 to settle unauthorized trading allegations and, in September 2014, he paid \$10,199 to settle allegations of churning and unsuitability brought by an Alexander Capital customer (Customer 4).

10. **Roveccio**, age 42, a resident of Freehold, NJ, was employed by Alexander Capital from June 2012 through October 2014. Roveccio has worked at fifteen different firms during his twenty-two years in the securities industry, and holds Series 7 and 63 licenses. In 2002, a NASD Dispute Resolution panel found Roveccio liable, jointly and severally with two others, to pay a customer \$216,275, plus interest, to resolve allegations of unauthorized trading and suitability. In 2006, an unauthorized trading complaint was settled for \$8,011. And in 2013, Roveccio paid \$87,500 to settle a FINRA customer arbitration relating to Roveccio's firm before Alexander Capital.

#### RELATED ENTITY

11. **Alexander Capital**, a Delaware limited partnership with its main office in New York, NY, has been registered with the Commission as a broker-dealer since 1996. From mid-2012 to late 2014, Alexander Capital had a branch office in Staten Island, NY.

FACTS

**Gennity and Roveccio Made Recommendations With No Reasonable Basis**

12. Gennity and Roveccio were required to have a reasonable basis to believe that their recommendations were suitable for at least some customers. This meant that they needed to do due diligence and have an understanding of the recommendations' risks and rewards, and potential consequences. And given that Gennity and Roveccio recommended a pattern of in-and-out trading, they had a duty to determine whether their recommendations, which imposed exceedingly high costs on the customer, were suitable and in their customers' interests.

13. Alexander Capital reminded its registered representatives of this duty. For example, in December 2013, Alexander Capital registered representatives were given compliance materials stating that "a broker [must] have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable. . . . Bottom line: You must be able to explain: How does this investment work? How will the client make money?"

14. As Gennity and Roveccio knew or were reckless in not knowing, the recommendations they made were almost certain to lose money and, despite their duty, Gennity and Roveccio had no reasonable basis for the recommendations they made. In particular, they had no basis to believe that the frequency with which they recommended that their customers buy and sell securities, combined with the per-trade costs imposed on customers, would be suitable for anyone.

15. Gennity and Roveccio determined, on a trade-by-trade basis, the amount to charge the customer in commissions on agency trades and mark-ups and mark-downs on principal trades. The commissions, mark-ups, and mark-downs charged to customers on individual trades

were typically between 1% and 5%. Customers were also charged a fixed per-trade “commission/handling” fee of \$39 and, later, \$49 per trade. Gennity and Roveccio received the majority of the commissions, mark-ups and mark-downs as compensation.

16. Gennity and Roveccio recommended all aspects of the trading, including the selection of issuers and the timing of purchases and sales, and the customers followed their recommendations. Gennity and Roveccio also unilaterally decided the amount of the commissions or mark-ups/mark-downs on each transaction.

17. Since the customers incurred costs with every transaction, making a profit depended upon the price of the security increasing during the brief period the security was held in the customer accounts. The increase in price had to exceed the combined costs for even a minimal profit to be realized. The impact of the costs that arose from the excessive trading, however, doomed any possibility of even a minimal profit.

18. Gennity and Roveccio knew, or were reckless in not knowing, that repeated short-term buying and selling of securities was not in the best interests of their customers because the transaction costs outstrip any potential gains.

19. Attachment A lists the customer losses and other data regarding Gennity’s four accounts and Roveccio’s seven accounts. On average, Gennity held each security for 13.1 days before selling, and Roveccio held each position 20.2 days before selling.

20. Gennity’s four customers paid a total of \$405,142 in commissions, mark-ups, mark-down, and other costs, and Roveccio’s seven customers paid a total of \$331,499 in commissions, mark-ups, mark-down, and other costs. For eight of the eleven customers the total costs they paid exceeded the average equity in their accounts.

21. The annualized turnover and cost-to-equity ratios for the eleven customer

accounts were extremely high. Turnover and cost-to-equity ratios are used to evaluate activity in brokerage accounts. Turnover is the number of times per year a customer's securities are replaced by new securities. The cost-to-equity ratio, also referred to as the break-even ratio, measures the amount an account has to appreciate annually just to cover commissions and other expenses. A turnover of 6, or a cost-to-equity ratio in excess of 20%, is considered to be indicative of excessive trading.

22. Many of the accounts had cost-to-equity ratios in excess of 100%, and the average annualized cost-to-equity ratio for the Gennity accounts was 98.77%, and 74.18% for the Roveccio accounts. In other words, due to the costs imposed on the customers, the accounts handled by Gennity and Roveccio had to increase in value an average of, respectively, 98.77% and 74.18%, on a yearly basis, before the customer would see a single dollar of profit.

23. Frequently stocks were sold at a loss; nevertheless, Gennity and Roveccio often charged commissions on losing trades as well as profitable trades. Since Gennity and Roveccio set the commission, Gennity and Roveccio had every incentive to keep buying and selling.

24. Attachment B illustrates the devastating impact of the costs paid by the customers on the overall performance of these eleven accounts. Customer losses were significantly increased by the costs, and accounts that experienced a slight profit before costs ended up as unprofitable after fees.

25. In August 2014, Customer 4 wrote a letter to Alexander Capital to complain that Gennity was using his account as his "personal piggy bank" and that the trading was designed "to generate commissions in the beginning, middle and end of each month, regardless if I made money in the trades."

**Gennity and Roveccio Made Customer-Specific Recommendations That Were Unsuitable**

26. Gennity and Roveccio were required to make customer-specific suitability determinations. In other words, they had a duty to determine that their recommendations were suitable for their customers in light of their customers' financial needs, investment objectives, risk tolerance, and circumstances.

27. Gennity (as to Customers 1 and 2) and Roveccio (as to Customers 5, 6 and 10) made recommendations that were not suitable for these customers, and were incompatible with each of each of these customers' financial needs, investment objectives, risk tolerance and circumstances. Each of these customers had conservative investment objectives and risk tolerances.

28. Gennity and Roveccio had only limited discussions with these customers regarding the customer's financial condition and needs. The account opening documents sent to the customers, moreover, were uniformly pre-populated to show "speculation" as the investment objective and "maximum risk" as the risk tolerance.

29. Gennity and Roveccio knew or were reckless in not knowing that their recommendation of a high-cost, in-and-out trading strategy was unsuitable for Customers 1, 2, 5, 6 and 10. *See infra* ¶ 35 (age, occupations and investment history of Customers 1, 2, 5, 6 and 10).

**Gennity and Roveccio Made Material Misrepresentations and Omissions to Their Customers**

30. Gennity and Roveccio concealed material information from their customers and made material misrepresentations.

31. The recommendations made by Gennity and Roveccio to engage in high cost, in-and-out trading were misrepresentations. In making a recommendation, Gennity and Roveccio implicitly represented to each customer that they had a reasonable basis for that recommendation. Without a reasonable basis, their recommendations were misrepresentations, and their failure to disclose their lack of a reasonable basis was a material omission.

32. In their initial phone calls with customers, Gennity and Roveccio touted their ability to make money for customers and to outperform the market. Gennity and Roveccio did not tell customers that the transaction costs associated with their recommendations – in the form of commissions, markups, markdowns, postage fees and margin interest – would almost certainly outstrip any potential gains in the accounts.

33. When Gennity and Roveccio spoke to customers, they discussed particular issuers or market conditions, and told customers that their recommendations would be profitable for the customers. They concealed from their customers, however, the most important factor that doomed any realistic possibility of making a profit: the negative impact of the frequency of the buys and sells, combined with the high per-trade costs, including the high commissions that Gennity and Roveccio unilaterally imposed.

#### **Gennity and Roveccio Churned Customer Accounts**

34. Gennity churned the accounts of Customers 1 and 2, and Roveccio churned the accounts of Customers 5, 6, and 10, by engaging in excessive trading in disregard of their customers' trading objectives and risk tolerance for the purpose of generating commissions.

35. The trading in these account was excessive in light of the investment objectives and experiences, age and financial needs of Customers 1, 2, 5, 6, and 10:

- a. Customer 1, age 51, had no education after high school and worked as an

iron worker and in construction. In 2009, Customer 1 broke his back in a work accident, and received a monetary settlement which was supposed to last for the remainder of his life. Customer 1 had no prior investing experience before receiving the settlement;

- b. Customer 2, age 60, is the president of a small machine tool company. Before Alexander Capital, Customer 2 had almost no experience with investing;
- c. Customer 5, age 64, had no education past high school and is a self-employed farmer. Customer 5's only experience with investing in the stock market was with Roveccio, both at Alexander Capital and Roveccio's prior firm;
- d. Customer 6, age 42, has an associate's degree in diesel mechanics and is a self-employed installer and servicer of water wells. Customer 6, who had limited investing experience prior to the Alexander Capital account, told Roveccio that the money invested in the Alexander Capital account was needed to finance a home he was building; and
- e. Customer 10, age 64, has a degree in geology, and works as a consultant to the oil and gas industry. The Alexander Capital account was Customer 10's first experience investing in the stock market.

36. Gennity exercised *de facto* control over Customer 1 and 2's accounts, and Roveccio exercised *de facto* control over the accounts of Customers 5, 6 and 10. Customers 1, 2, 5, 6 and 10 were unsophisticated and had insufficient financial acumen to be able to independently evaluate the broker's recommendations. Gennity and Roveccio made all the

investment decisions, including the timing of purchases and sales, and the selection of securities.

37. The churned customers of Gennity (1 and 2) and Roveccio (5, 6 and 10) relied almost exclusively on Gennity and Roveccio for investment recommendations, and Gennity and Roveccio were responsible for the volume and frequency of the trading. Due to their lack of investment knowledge and expertise, they did not question or independently evaluate the broker's recommendations.

38. These customers, despite what was reflected on their pre-filled account documents, had low or moderate risk tolerance; and the trading in the accounts was excessive in light of these customers' investment objectives.

39. The turnover and cost-to-equity ratio numbers are extremely high and are indicative of excessive trading. Customers 1 and 2 had cost-to-equity ratios of 180.59% and 200.40%, and annualized turnover of 56.94 and 51.02. Customers 5, 6 and 10 had cost-to-equity ratios of 100.76%, 87.09% and 128.62%, and annualized turnover of 22.76, 37.70 and 42.34.

**Gennity and Roveccio  
Engaged In Unauthorized Trading**

40. All of the accounts managed by Gennity and Roveccio were non-discretionary; as a result, the RRs were required to seek and obtain customer authorization prior to each transaction.

41. Gennity and Roveccio never met their customers face to face and their communications were almost entirely by telephone. As a result, a phone call between the customer and his RR needed to occur before any trade, and phone records provide an indicator of whether a trade was authorized or not.

42. The table below, based on phone and trading records, reveals that Gennity conducted unauthorized trades in the accounts of Customers 1, 2, 3 and 4; and Roveccio

conducted unauthorized trading in the accounts of Customers 5, 6 and 10.

<b>Broker</b>	<b>Customer</b>	<b>Trades</b>	<b>Trades w/ No Call</b>	<b>% of Trades w/ No Call</b>
Gennity	1	17	14	82%
Gennity	2	27	14	52%
Gennity	3	207	29	14%
Gennity	4	25	6	24%
Roveccio	5	62	53	85%
Roveccio	6	160	127	79%
Roveccio	10	41	32	78%

43. Customer 1 complained about Gennity's unauthorized trading in a December 2012 letter to Alexander Capital, which described "excessive trading and unauthorized transactions . . . by my Financial Advisor William Gennity."

44. Customer 2 also complained about the unauthorized trading, but when he called Alexander Capital he was told that the account's performance would improve.

**FIRST CLAIM FOR RELIEF**  
**Violations of Section 17(a) of the Securities Act**  
**(Both Defendants)**

45. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 44, as if fully set forth herein.

46. The Defendants, directly or indirectly, singly or in concert, in the offer or sale of securities and by the use of the means or instruments of transportation or communication in interstate commerce or by use of the mails, have: (a) employed devices, schemes, or artifices to defraud; (b) obtained money or property by means of untrue statements of a material fact or omissions of a material fact necessary in order to make the statement made, in light of the circumstances under which they were made, not misleading; and/or (c) engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon purchasers of securities and upon other persons.

47. By reason of the foregoing, the Defendants, directly or indirectly, singly or in concert, have violated, and unless enjoined, will again violate Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

**SECOND CLAIM FOR RELIEF**  
**Violation of Section 10(b) of the Exchange Act and Rule 10b-5**  
**(Both Defendants)**

48. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 44, as if fully set forth herein.

49. The Defendants, directly or indirectly, singly or in concert, in connection with the purchase or sale of securities and by the use of the means or instrumentalities of interstate commerce or of the mails, or of the facilities of a national securities exchange, have: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of a material fact or omitted to state a material fact necessary in order to make the statement made, in light of the circumstances under which they were made, not misleading; and/or (c) engaged in acts, transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon other persons.

50. By reason of the foregoing, the Defendants, directly or indirectly, singly or in concert, have violated, and unless enjoined, will again 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].

**PRAYER FOR RELIEF**

**WHEREFORE**, the Commission respectfully requests that this Court enter a Final Judgment:

**I.**

Permanently enjoining each of the Defendants from committing, aiding and abetting or otherwise engaging in conduct that would make them liable for the violations of the federal securities laws alleged in this complaint.

**II.**

Ordering each of the Defendants to disgorge any ill-gotten gains and to pay prejudgment interest on those amounts, jointly and severally.

**III.**

Ordering each of the Defendants to pay civil monetary penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

IV.

Granting such other and further relief as the Court may deem just and proper.

**JURY DEMAND**

Pursuant to Rule 38 of the Federal Rules of Civil Procedure, Plaintiff demands trial by jury in this action of all issues so triable.

Dated: New York, NY  
September 28, 2017

Respectfully submitted,

By:  \_\_\_\_\_

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**Attachment A to Complaint filed September 28, 2017**  
***SEC v. William C. Gennity and Rocco Roveccio***

Customer	Total Loss	Annualized	Annualized Turnover	Average Equity	Total Purchases	Total	Weighted Days Held	Account Period
		Cost-to-Equity Ratio				Costs to Customer		
1	\$ (10,007)	180.59%	56.94	\$ 23,631	\$ 788,935	\$ 25,020	10.3	7/1/2012-1/31/2013
2	(21,859)	200.40%	51.02	24,261	824,145	32,369	14.6	4/1/2013-11/30/2013
3	(250,885)	112.26%	57.75	206,463	16,888,894	328,308	13.1	4/1/2013-8/31/2014
4	(41,463)	68.04%	23.27	57,003	664,958	19,445	16.2	3/1/2014-8/31/2014
Total	\$(324,214)				\$ 19,166,932	\$ 405,142		
Average		98.77%	46.73	\$ 189,279			13.1	
5	\$ (48,860)	100.76%	22.76	\$ 37,735	\$ 1,002,295	\$ 44,377	19.2	7/1/2012-8/31/2013
6	(108,357)	87.09%	37.70	51,019	3,357,197	77,541	18.1	1/1/2013-9/30/2014
7	(94,315)	61.43%	27.81	71,358	3,963,470	87,551	16.7	11/1/2012-10/31/2014
8	(8,750)	71.86%	20.14	10,626	409,215	14,602	26.0	11/1/2012-9/30/2014
9	(57,573)	38.85%	15.30	100,411	2,294,485	58,249	29.5	11/1/2012-4/30/2014
10	(23,496)	128.62%	42.34	30,721	759,138	23,058	14.8	4/1/2013-10/31/2013
11	(17,473)	96.93%	24.84	12,451	669,461	26,121	24.5	9/1/2012-10/31/2014
Total	\$(358,824)				\$ 12,455,261	\$ 331,499		
Average		74.18%	27.87	\$ 191,457			20.2	

