

FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
OFFICE OF HEARING OFFICERS

RECEIVED
2009 OCT 27 P 6:48
REGISTRATION & DISCLOSURE

DEPARTMENT OF ENFORCEMENT,

COMPLAINANT,

v.

BRUCE E. HAMMONDS,
(CRD No. 5030215)

RESPONDENT.

DISCIPLINARY PROCEEDING
No. 20080139905

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Bruce E. Hammonds ("Hammonds"), a former registered representative at Merrill Lynch, Pierce, Fenner & Smith, Inc. (the "Firm" or "Merrill Lynch") fraudulently induced nine customers and two other individuals to invest in excess of \$1,000,000 in a Ponzi scheme. Numerous Firm customers funded their investments in the Ponzi scheme by liquidating positions in their Firm accounts in which Hammonds was the assigned broker.

2. Rather than invest the money in securities and/or futures contracts as he represented, Hammonds used the 11 customers' and investors' funds to pay for personal expenses as well as to pay investors in the Ponzi scheme under the guise that they were receiving returns on their investments. In furtherance of this scheme to defraud, Hammonds provided customers and investors with fictitious account statements reporting growth in their investments.

000085301 2009

3. Based on the foregoing, Respondent violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, NASD Conduct Rules 2120, 2330, and 2110.

RESPONDENT AND JURISDICTION

4. Hammonds entered the securities industry in September 2005 when he joined Merrill Lynch as a Financial Advisor trainee. In early 2006, Hammonds obtained his Series 7 and 66 securities licenses. In December 2007, Hammonds became a FA and remained in that position until his termination on June 13, 2008. Throughout Hammonds' employment with Merrill Lynch, Hammonds was assigned to the Firm's San Antonio branch office.

5. Hammonds is not employed in the securities industry but remains subject to FINRA jurisdiction pursuant to Article V, Section 4 of the NASD By-laws.

BACKGROUND

6. On or about April 20, 2007, Hammonds sought the Firm's approval to open a business account on behalf of the B&J Partnership (the "B&J Firm Account"). The B&J Partnership was established by Hammonds and another individual before Hammonds joined the Firm.

7. In connection with this request, Hammonds completed a new account fact sheet ("fact sheet"), which described B&J as a general partnership whose principal line of business was consulting. The fact sheet stated that B&J's source of wealth and assets for deposit would be from the sales of business or property.

8. The fact sheet stated that Hammonds was the President.

9. In addition, Hammonds completed a new account application in which he identified himself as the primary contact for the B&J Firm Account and requested check writing privileges, as well as a VISA debit card.

10. Supervisors of the Firm approved the opening of the account and Hammonds was directed to disclose the B&J Firm Account on the Firm's electronic compliance disclosure system as an account in which he had an interest.

11. Hammonds never disclosed the B&J Firm Account on the Firm's compliance disclosure system and as a result, no Firm supervisor monitored the activities in the account.

FIRST CAUSE OF ACTION

Hammonds Fraudulently Induced Several Customers of his Member Firm Employer and Two Others to Invest in a Ponzi Scheme in Violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, and NASD Conduct Rules 2120 and 2110

12. The allegations in paragraphs one through 11 above are realleged and incorporated by reference.

Customer AF

13. AF is a customer of Merrill Lynch, who had an individual retirement account ("IRA") at the Firm. Hammonds was the Financial Advisor assigned to the account.

14. In or about March 2008, Hammonds solicited AF to invest in the B&J Partnership ("B&J"), which Hammonds told AF was going to be managed by Merrill Lynch.

15. B&J has never been affiliated with Merrill Lynch, nor has Merrill Lynch ever had any ownership interest in B&J.

16. Hammonds misrepresented to AF that B&J traded in oil futures and that AF's investment would double in 30 days.

17. On or about April 1, 2008, AF wrote a check payable to B&J for \$5,000 from his personal bank account, which Hammonds deposited in the B&J account that he maintained at the Firm.

18. In or about May 2008, Hammonds solicited AF to invest an additional \$10,000 in B&J, promising a return of \$30,000.

19. On or about May 27, 2008, AF wrote a check from his Firm IRA to B&J for \$10,000, which Hammonds deposited at a B&J account maintained at F. Bank.

20. While his investment was with B&J, Hammonds provided AF with fictitious charts showing growth in his investments with B&J.

Customer BM and MW

21. BM and MW were customers of Merrill Lynch. BM and MW each had an IRA, as well as a joint Cash Management Account ("CMA"). Hammonds was the Financial Advisor assigned to these accounts.

22. In or about March 2008, Hammonds recommended that BM and MW each liquidate their annuities and invest in B&J.

23. Hammonds misrepresented to BM and MW that they would be investing in S&P Index 500 funds through B&J. Based upon their discussions with Hammonds, BM and MW believed that B&J was affiliated with Merrill Lynch.

24. Hammonds further misrepresented that BM and MW could expect a 50 percent return and that they would enjoy "big turnarounds." Hammonds also promised BM and MW that any surrender fees associated with the liquidation of their annuities would be paid back within a few years.

25. Based on Hammonds misrepresentations, BM and MW each surrendered an annuity and between March and May 2008, they invested a total of \$246,856.91 in B&J.

26. In or about March and June 2008, Hammonds provided checks to BM and MW totaling \$3,975.32 and indicated that these amounts represented a return on their B&J investments. These checks were issued from the B&J Firm account.

27. During the time in which BM and MW invested in B&J, Hammonds provided them with three fictitious account statements. Two account statements specifically identified B&J as the "B&J Merrill Lynch S&P WCMA Fund." When combined together, all three account statements provided the following information: fictitious net profits, earning distributions to be received from Merrill Lynch, and a representation that losses associated with the surrender of the annuities would be recouped in two years.

Customer KR

28. KR was a customer of Merrill Lynch who had a CMA and three IRAs at the Firm. Hammonds was the Financial Advisor assigned to the accounts.

29. Hammonds solicited KR to invest in B&J. Between August 2007 and May 2008, KR invested a total of \$523,400 in B&J. These funds were drawn from her accounts at the Firm.

30. During the time in which KR invested in B&J, Hammonds provided her with four fictitious account statements which reported her prior deposits and reflected fictitious net profits.

31. Two account statements included a graph, which plotted the monthly growth of profits that KR earned between October 2007 and May 2008.

32. Two account statements falsely stated that KR was receiving a five percent return on her B&J investments.

33. Between September 2007 and January 2008, KR received from Hammonds five checks totaling \$5,795, which Hammonds represented was a return on her B&J investment. These checks were all issued from the B&J Firm Account.

Customer CP

34. CP was a customer of Merrill Lynch, who had a business account with the Firm. Hammonds was the Financial Advisor assigned to the account.

35. In or about December 2007, Hammonds solicited CP to invest in B&J, which Hammonds falsely claimed was a part of Merrill Lynch. Hammonds misrepresented to CP that she would be investing in S&P 500 Index funds through B&J.

36. As a result of Hammonds' misrepresentation, CP invested approximately \$259,000 in B&J.

37. Pursuant to Hammonds' instructions, CP funded her investments in B&J by liquidating her mutual fund positions held in her Firm business account.

38. Hammonds misrepresented to CP that B&J was a means of maintaining liquidity so that she could get in and out of the stock market and that she could expect a monthly return of \$3,000 from her investment.

39. During the time in which CP invested in B&J, Hammonds provided her with six fictitious account statements which reported her prior deposits and reflected fictitious net profits.

40. Five account statements included a graph, which misrepresented the monthly growth of profits that were earned between December 2007 and May 2008.

41. Between March and May 2008, CP received four checks totaling \$55,349.50 from Hammonds, which he represented was a return on her investment. These checks were all issued from the B&J Firm Account.

Customer RJ

42. RJ is a customer of Merrill Lynch who had two IRAs, two joint accounts and an individual account at the Firm. Hammonds was the Financial Advisor assigned to these accounts.

43. In or about May 2008, Hammonds solicited RJ to invest in B&J, falsely promising a return of 12 percent if she invested \$10,000.

44. As a result of that solicitation, on or about May 13, 2008, RJ invested \$12,000 in B&J, which Hammonds deposited into the B&J Firm Account.

Customer AS

45. AS is a customer of Merrill Lynch, who had an individual account at the Firm. Hammonds was the Financial Advisor assigned to the account.

46. On or about September 2007, Hammonds solicited AS to invest in B&J. Hammonds misrepresented to AS that she would be investing in S&P 500 Index funds through B&J.

47. As a result of Hammonds' solicitation, between September and October 2007, AS invested a total of \$6,000 in B&J. AS funded her B&J investment by selling mutual fund shares and issuing checks against her Firm account, made payable to B&J. Hammonds deposited the checks issued by AS into the B&J Firm Account.

48. Between September 2007 and April 2008, AS received seven checks from Hammonds totaling \$4,249, which he represented was a return on her B&J investment. These checks were all issued from the B&J Firm Account.

Customers LT and DT

49. LT and DT are customers of Merrill Lynch and had two IRA accounts at the Firm. Hammonds was the Financial Advisor assigned to these accounts.

50. In or about August 2006, Hammonds solicited both LT and DT to invest in B&J. Hammonds told LT that B&J was outside Merrill Lynch, but falsely represented that LT could earn more money with B&J in comparison with conventional brokerage accounts. Hammonds also misrepresented to LT that B&J traded in the futures market and that it would make purchases in the morning of trading days and sell short in the afternoon.

51. In addition, Hammonds falsely told LT that he too invested in B&J and that LT was guaranteed to not lose any of his investment principal.

52. As a result of Hammonds' solicitation, between August 2006 and February 2008, LT and DT invested a total of \$10,500 in B&J. Hammonds deposited these checks into the B&J Firm Account. Also included in the B&J Investment was a check for \$3,000 that was issued by LT from, which was made payable to Hammonds personally. Hammonds subsequently deposited the check into his personal bank account.

53. During the time in which LT and DT invested in B&J, Hammonds provided them with an account statement which reported prior deposits and reflected fictitious net profits. The account statement also included a graph which misrepresented the monthly growth of profits earned between December 2007 and March 2008.

Investor SA

54. SA is an owner of a gas station and Hammonds has been his customer for approximately five years. SA is not a customer of Merrill Lynch.

55. Hammonds solicited SA to invest in B&J, which based upon his discussion with Hammonds, SA believed was a part of Merrill Lynch. Hammonds misrepresented to SA that he would be investing in Brazil, Russia, India and China ("BRIC") exchange traded funds ("ETFs"), S&P 500 index funds and oil futures through B&J.

56. As a result of Hammonds' solicitation, between April 2007 and May 2008, SA invested a total of \$304,295 in B&J, which Hammonds deposited in the Firm B&J Account.

57. During the time in which SA invested in B&J, Hammonds provided him with several fictitious account statement, which provided purchase dates, corresponding futures contract symbols, amount of futures contracts held long or short, purchase price, sales price, as well as profits and losses. All of the account statements provided to SA falsely represented that SA was making a profit.

58. Between April 2007 and May 2008, SA received six checks totaling \$381,641.50 from Hammonds, which was represented as a return on his B&J investment. These checks were all issued from the B&J Firm Account.

Investor SC

59. SC is the sole proprietor of a house renovation business. She is not a customer of Merrill Lynch. Hammonds hired SC to renovate his condominium.

60. In or about March 2008, Hammonds told SC that he worked for Merrill Lynch and that if she invested with B&J, which he falsely claimed was a Merrill Lynch account, SC could earn a 50 percent return.

61. On or about April 27, 2008, SC invested \$20,000 in B&J, which Hammonds deposited into the B&J Firm Account.

62. In or about May 2008, SC spoke with Hammonds about the status of her investment. Hammonds misrepresented to SC that she earned \$7,500 on her investment.

Use of Customer/Investor Funds

63. From April 2007 to June 2008 (the "relevant period"), over \$1,000,000 was deposited into the B&J Firm Account, most of which came from Firm customers and investors described in paragraphs 13 through 62.

64. Throughout the relevant period, no securities trading occurred in the B&J Firm Account. Instead, account activity primarily consisted of check writing, ATM withdrawals and VISA debit charges.

65. Hammonds primarily used the B&J Firm Account to pay for personal expenses, including various retail purchases, as well as the purchase of automobiles.

66. The monthly VISA debit charges made to the B&J Firm Account exceeded \$5,000, while the average monthly ATM withdrawals from the B&J Firm Account was approximately \$3,000.

67. Hammonds also wrote checks against the B&J Firm Account, that were made payable to Hammonds personally, Hammond's wife, as well as to certain investors in B&J, under the guise that they were receiving returns on their B&J investment.

68. The average monthly amount for the checks issued from the B&J Firm Account exceeded \$70,000.

69. In connection with the sale of securities through B&J, Hammonds directly or indirectly, by the use of means or instrumentalities of interstate commerce, or the mails, knowingly or recklessly, (i) employed devices, schemes, or artifices to defraud, (ii) made untrue statements of a material fact or omitted 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, concerning B&J and the investment of funds, or (iii) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon the customers and investors described in paragraphs 13 through 62. Hammonds also induced customers and investors to purchase securities by means of any manipulative, deceptive or other fraudulent device or contrivance.

70. The acts, practices and conduct described above constitute a violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder and NASD Conduct Rules 2120 and 2110.

SECOND CAUSE OF ACTION

Hammonds Misappropriated and Improperly Used the Funds of Several Customers of His Member Firm Employer and Two Others For His Own Personal Use in violation of NASD Conduct Rules 2330 and 2110

71. The allegations in paragraphs one through 70 above are realleged and incorporated herein by reference.

72. In soliciting Firm customers AF, BM, MW, KR, CP, RJ, AS, LT, DT, as well as investors SA and SC, Hammonds represented that their monies would be invested in S&P 500 indexed funds, oil futures or BRIC ETFs.

73. Hammonds took the monies given to him by Firm customers and investors for investment purposes and improperly used the funds to pay for personal expenses.

74. Hammonds misappropriated customer and investor funds entrusted to him by using these monies for a purpose that was not directed by either the customers or the investors.

75. As a result of Hammonds' actions, the Firm reimbursed Firm customers AF, BM, MW, KR, CP, RJ, AS, LT, DT, as well as investor SC for their investments, for investing in B&J.

76. The acts, practices and conduct described above constitute a violation of NASD Conduct Rules 2330 and 2110.

RELIEF REQUESTED

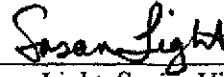
WHEREFORE, the Department respectfully requests that the Panel:

- A. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that the Respondent be required to disgorge fully any and all ill-gotten gains.
- B. order that the Respondent bear such costs of proceedings as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

- C. make specific findings that Respondent Bruce E. Hammonds willfully violated Section 10(b) of the Exchange Act of 1934 and Rule 10b-5 thereunder.

FINRA DEPARTMENT OF ENFORCEMENT

Date: September 21, 2009



Susan Light, Senior Vice President
& Chief Counsel
Richard Chin, Enforcement Director
Kevin E. Pogue, Senior Counsel
FINRA Department of Enforcement
14 Wall Street, 14th Floor
New York, NY 10005
Phone: (646) 315-7390
Fax: (202) 689-3463
kevin.pogue@finra.org