

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Timothy Stephen Dembski
(CRD No. 2575882),

and

Walter Francis Grenda Jr.
(CRD No. 722911)

Respondents.

DISCIPLINARY PROCEEDING
NO. 2013036168701

COMPLAINT

The Department of Enforcement ("Enforcement") alleges:

SUMMARY

1. Between March 1, 2012 and September 1, 2012, Respondent Timothy Stephen Dembski ("Dembski") fraudulently induced two retail customers to invest in a hedge fund, the Prestige Wealth Management Fund, LP ("Prestige" or the "Fund"), and Respondent Walter Francis Grenda Jr. ("Grenda") fraudulently induced three retail customers to invest in the Fund. During this period, Dembski and Grenda (collectively, "Respondents"), were registered with FINRA through associations with member firm Mid Atlantic Capital Corporation (BD No. 10674) ("MACC").

2. Through misrepresentations and omissions, Respondents led investors to believe that Prestige was a "growth" fund that would be based on a computer algorithm that included

risk protections and stop-losses to limit losses in the Fund. In fact, the Fund was a speculative investment. SMS, the Fund's Chief Investment Officer, had complete control over the investments that the Fund made and, contrary to what Respondents told prospective investors, the Fund was not obligated to follow the computer algorithm. In December 2012, the last full month that the Fund traded, it lost over 80% of its value.

3. In connection with their marketing of the Fund, Respondents gave prospective investors the Prestige Wealth Management Fund, LP Confidential Private Placement Memorandum ("PPM") that they knew contained material misrepresentations about SMS's professional experience. The PPM stated that SMS had "co-managed a portfolio of over \$500 million" and was responsible for "portfolio management and analysis" as "Vice President of Investments for a New York based investment company," all of which was materially misleading. SMS had never managed any portfolio of securities, and was never a Vice President of an investment company.

4. Between in or around September 2009 and in or around March 2010, Grenda borrowed money from two customers while he was registered with FINRA through an association with Wall Street Financial Group ("WSFG") without seeking that firm's prior approval for the loans.

5. At an on-the-record interview, Grenda was asked by FINRA whether he had ever borrowed money from a customer. He lied and said that he had not. After he was shown documents related to one loan from customer AW, Grenda admitted that he borrowed money from AW, but falsely stated that the loan was repaid within days, when in fact the loan was not repaid for approximately six months. In addition, when shown documents about a \$200,000 loan provided by a trust that was an investor in the Fund, Grenda said that he had never borrowed

money from the trust, and had never spoken to the trustee of that trust about a loan. In fact, Grenda had borrowed \$200,000 from the trust, and that loan is still outstanding.

RESPONDENTS AND JURISDICTION

6. Dembski first became registered with FINRA as a General Securities Representative ("GS") on June 13, 1995. He was registered in that capacity through WSFG from October 13, 2006 through March 10, 2011. During his employment with WSFG, Dembski worked in Cheektowaga, New York. On September 2, 2011, Dembski became registered with FINRA through MACC as a GS. On August 1, 2013, MACC filed a Uniform Termination Notice for Securities Industry Registration (Form U5) which stated that his termination on July 31, 2013 was voluntary. During his employment with MACC, Dembski worked in Cheektowaga, New York.

7. Grenda first became registered with FINRA as a GS on January 17, 1981. On November 19, 1989, he also became a General Securities Principal ("GP"). He was registered in those two capacities through WSFG from October 11, 2006 through March 10, 2011. At WSFG he worked in Cheektowaga, NY and was Dembski's supervisor. On September 2, 2011, Grenda became registered with FINRA through MACC as a GS and GP. On July 25, 2013, MACC filed a Form U5 which stated that Grenda's termination on July 24, 2013 was voluntary. During his employment with MACC, Grenda worked in Cheektowaga, New York.

8. In or around November 2010, Respondents formed Reliance Financial Advisors, LLC (IARD No. 155826) ("Reliance"), an SEC-Registered Investment Advisor ("RIA"). Dembski was listed in the Uniform Application for Investment Adviser Registration (Form ADV) as Reliance's Managing Member, and Grenda was listed as Reliance's Chief Compliance Officer and President.

9. Although Dembski is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because (1) the Complaint was filed within two years after the effective date of termination of Dembski's registration with MACC, namely, August 1, 2013; and (2) the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member.

10. Although Grenda is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because (1) the Complaint was filed within two years after the effective date of termination of Grenda's registration with MACC, namely, July 25, 2013; and (2) the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member.

BACKGROUND

11. In or around 2009 or 2010, Grenda, Dembski and SMS began discussing the idea of creating a hedge fund.

12. In or around 2010, Grenda, Dembski and SMS consulted with a company to help them establish the Fund; sought counsel from attorneys; and hired a Fund Administrator and auditors.

13. Interactive Brokers, LLC (BD No. 36418) ("Interactive Brokers") was the Fund's custodian.

14. Dembski and Grenda told customers that the Fund was supposed to be run based on a trading algorithm developed by SMS and AC, a "financial engineer."

15. The purported idea behind the Fund was to:

- a. Purchase certain large cap, high volume volatile stocks early in the trading day, and
- b. Sell (a) when the individual stock prices increased by 3% or decreased by 1%, or (b) at 3:30 p.m., if neither of the strike prices had been hit.

16. According to Respondents, SMS back-tested the formula and showed high returns.

17. The actual results of the Fund did not achieve anywhere near the returns that the back-testing purportedly demonstrated.

18. Respondents recommended the Fund to retail investors with limited investment experience, who had never invested in hedge funds before, and who used retirement assets or surrendered variable annuities in order to invest in the Fund. Many of these individuals were unaccredited investors.

19. In or about December 2012, the Fund suffered dramatic losses: the Fund lost approximately 80% of its value that month.

20. The end of the month values of the Fund from October through December 2012 were as follows:

Date	Stated Fund Value
October 31, 2012	\$3,248,366.86
November 30, 2012	\$3,480,916.26
December 31, 2012	\$644,150.68

**FIRST CAUSE OF ACTION – DEMBSKI AND GREDA
FRAUDULENT MISREPRESENTATIONS AND OMISSIONS
(VIOLATION OF SECTION 10(b) OF THE SECURITIES EXCHANGE ACT OF
1934, RULE 10b-5 PROMULGATED THEREUNDER, AND FINRA RULES 2020
AND 2010)**

21. The Department realleges and incorporates by reference paragraphs 1 through 20 above.

22. Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder are broad anti-fraud provisions. Exchange Act Rule 10b-5 makes it unlawful, among other things, “for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange,” to “make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading” in connection with the purchase or sale of any security.

23. FINRA Rule 2020 states that “[n]o member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.”

24. Between March 1, 2012 and September 1, 2012, in connection with sales of the Fund, Respondents, directly or indirectly, by the use of the means of instrumentalities of interstate commerce (including by telephone), or of the mails, each knowingly or recklessly made untrue statements of material fact or omitted to state a fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. Respondents also effected transactions in, or induced the purchase or sale of, securities by means of a PPM that was materially misleading.

25. Dembski's material misrepresentations to investors AB and GT included, but were not limited to, the following:

- a. Statements to investors regarding how the Fund actually worked.

Dembski told customers that the Fund's trading would be based on a computer algorithm. He used sample stocks to show customers how the Fund would trade on any given day, and explained to them that the Fund would be long or short based on the direction of the market in the first 15 minutes of trading. Dembski told customers that the Fund would be entirely in cash at the end of the trading day, after either profiting 3% or losing 1%. In fact, the Fund was not traded in this manner. The Fund's Chief Investment Officer (SMS) had complete discretion over the trading strategy of the Fund, was not obligated to follow the computer algorithm, and did not, in fact, follow the algorithm;

- b. Statements to investors regarding how the Fund had been tested. Dembski told customers that the back-testing of the Fund showed that the formula would achieve growth. Dembski did not tell customers that the Fund's fees and trading costs were not taken into consideration during the back-testing of the Fund. Dembski also did not explain to customers that the Fund's formula had never been used in practice, and therefore, SMS might be unable to replicate the results demonstrated by the purported back-testing; and

- c. Statements to investors regarding the Fund's investment risks. Dembski told customers that the Fund used a "growth strategy" and the Fund's

losses were limited to 1%. Dembski explained to customers that the Fund had a 1% "stop-loss" that was a "safeguard" and "protection" against risk.

26. In connection with his sales of the Fund to AB and GT, Dembski's material omissions included, but were not limited to, the following:

- a. The fact that SMS had complete discretion over the investment strategy of the Fund, and was not obligated to follow the algorithm;
- b. The Fund was a speculative, aggressive investment;
- c. The back-testing results had not been achieved under actual conditions because, among other things, those numbers did not take into account the Fund's fees and trading costs; and
- d. There was no limit on the Fund's potential losses.

27. Grenda's material misrepresentations to investors RH, SS, and SA included, but were not limited to, the following:

- a. Statements to investors regarding the liquidity of an investment in the Fund. Grenda told customers that they could withdraw their money from the Fund at any time, despite the fact that the PPM contained several restrictions concerning investor withdrawals. Grenda told his customers that the sections of the PPM that related to investor withdrawals did not apply to them because they were an "exception." Grenda explained that those parts of the PPM only related to individuals who were not customers of Reliance.
- b. Statements to investors regarding how the Fund actually worked. Grenda told customers that the Fund worked on an "automated system" that was

based on a "formula." He explained to customers that the Fund was "100% mechanical" and SMS's role was merely "triggering the formula." Grenda told customers that the Fund's losses were limited to 1% per day, and the Fund's gains would be capped at 3% per day. He said that the Fund would be 100% in cash at the end of the trading day. In fact, SMS had complete control over trading in the Fund and did not follow the formula;

- c. Statements to investors regarding how the Fund had been tested. Grenda told customers that the purported back-testing showed that the "formula worked, and worked well." These statements were made without providing customers with any explanation that the back-testing did not take into account fees, trading costs, or the difficulties that SMS might encounter when trying to replicating the formula using actual trades;
- d. Statements to investors regarding the Fund's investment risks. Grenda told customers that the Fund was for investors who were looking for "growth" and that it had safeguards built into it. Grenda told investors that the Fund was not speculative because it had a 1% stop-loss built into it.

28. In connection with his sales of the Fund to RH, SS, and SA, Grenda's material omissions included but were not limited to, the following:

- a. The fact that SMS had complete discretion over the investment strategy of the Fund, and was not obligated to follow the algorithm;
- b. The Fund was a speculative, aggressive investment;

- c. The back-testing results had not been achieved under actual conditions because, among other things, those numbers did not take into account the Fund's fees and trading costs; and
- d. There was no limit on the Fund's potential losses.

29. Dembski and Grenda sold the Fund through a PPM that they knew contained numerous material misrepresentations and omissions about SMS's background. The PPM stated that:

- a. "[SMS] has worked in the financial services industry for over 14 years;"
- b. SMS "co-managed a portfolio of over \$500 million for First Investors Financial Services;" and
- c. SMS "took a position as a Vice President of Investments for a New York based investment company in which he was responsible for portfolio management and analysis."

30. Respondents had worked with SMS and were well-aware of SMS's lack of experience.

31. Respondents knew that SMS was only registered to sell securities for less than three years over the course of his entire career.

32. Respondents knew that SMS had not worked in the financial services industry for over 14 years.

33. Respondents knew that SMS had never managed any portfolio of securities.

34. Respondents knew that SMS was not the Vice President of any company.

35. Respondents knew that SMS was not responsible for managing any portfolios at a New York based investment company.

36. The PPM's statements about the business experience of SMS, the Fund's Chief Investment Officer, who had exclusive authority over the Fund's investment decisions, were material.

37. By reason of the foregoing conduct, each Respondent willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and also violated FINRA Rules 2020 and 2010.

**SECOND CAUSE OF ACTION – DEMBSKI AND GREND
(ALTERNATIVE TO THE FIRST CAUSE OF ACTION)
MISREPRESENTATIONS AND OMISSIONS BY RESPONDENTS IN
CONTRAVENTION OF SECTION 17(a) OF THE SECURITIES ACT OF 1933
(VIOLATION OF FINRA RULE 2010)**

38. The Department realleges and incorporates by reference paragraphs 1 through 37 above.

39. Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 prohibit, by the use of interstate commerce, "in the offer of sale of any securities ... , (1) material misstatements or omissions to obtain money or property" (Section 17(a)(2)); or (2) engaging in "any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchase." (Section 17(a)(3)).

40. During the course of the conduct described in paragraphs 1 through 36 above, each Respondent, in connection with the offer or sale of securities, by the use of the means of instruments of transportation or communication in interstate commerce or by use of the mails: (a) made material misrepresentations and omitted to disclose material information, all to obtain money or property; and/or (b) engaged in transaction(s), practice(s), or courses of business which operated as a fraud or deceit upon the purchaser.

41. As a result of the foregoing conduct in connection with the offer or sale of the Fund, Respondents acted in contravention of Section 17(a) of the Securities Act of 1933, thereby violating FINRA Rule 2010, and independently violating FINRA Rule 2010.

**THIRD CAUSE OF ACTION – GRENDA
IMPROPER LOANS FROM CUSTOMERS
(VIOLATION OF NASD CONDUCT RULE 2370 AND FINRA RULE 2010)**

42. The Department realleges and incorporates by reference paragraphs 1 through 41 above.

Loan from AW

43. In or about September 2009, while he was registered with FINRA through WSFG, Grenda borrowed \$100,000 from AW, a customer of his at the Firm.

44. In or about December 2009, while he was registered with FINRA through WSFG, Grenda borrowed an additional \$75,000 from AW.

45. At the time that the loans were made, AW was approximately 90-years-old, and her daughter had power of attorney over her accounts.

46. The loans were purportedly secured by an interest in Grenda's property where Reliance is located.

47. AW's family became concerned about the fact that Grenda was not repaying the loan, and consulted an attorney.

48. AW's attorney demanded that Grenda return the money to AW.

49. Grenda repaid the loans from AW by borrowing, on or about March 1, 2010, \$175,000 from another WSFG customer.

50. In 2009, WSFG's procedures stated that the firm did not permit representatives to borrow from, or lend money to, customers.

51. Grenda did not seek or obtain the firm's approval for the loan.

Loan from MM

52. In or around February 2010, Grenda borrowed approximately \$175,000 from his customer MM, who is his mother-in-law.

53. MM, a WSFG customer, surrendered a variable annuity in order to loan Grenda the money.

54. MM incurred an \$18,303.31 surrender charge in order to loan the money to Grenda.

55. The MM loan is still outstanding.

56. Grenda never asked for approval from WSFG to take the loan, nor did he receive it.

57. By borrowing money from firm customers without approval from his member firm, Grenda violated NASD Conduct Rule 2370 and FINRA Rule 2010.

**FOURTH CAUSE OF ACTION – GREENDA
PROVIDING FALSE TESTIMONY TO FINRA
(FINRA RULES 8210 AND 2010)**

58. The Department realleges and incorporates by reference paragraphs 1 through 57 above.

59. In July 2013, when asked during his on-the-record testimony ("OTR") whether he had ever borrowed money from a customer, Grenda falsely said that he had not.

60. During that same OTR, after confronted with documents related to the loan from AW, Grenda admitted that he had borrowed money from AW, but falsely stated that the AW loan had been repaid within days, when in fact, he repaid the loan some six months after he first received a loan from AW.

61. In response to a question from FINRA Staff at his July 2013 OTR, Grenda also denied that he had taken any loan from the TF Trust, an investor in the Fund. Grenda denied that he had ever spoken to the trustee of the TF Trust regarding a loan.

62. In August 2011, however, Grenda took a \$200,000 loan from the TF Trust. That loan is still outstanding.

63. By making false statements to FINRA in testimony, Grenda violated FINRA Rules 8210 and 2010.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make specific findings of fact and conclusions of law that Respondents committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that Respondents be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest;
- C. order that Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330; and
- D. make specific findings that Respondents Dembski and Grenda willfully violated Section 10(b) of the Exchange Act.

FINRA DEPARTMENT OF ENFORCEMENT

Date: Dec. 10, 2014


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Index to Initials

Initials	Name
AB	[REDACTED]
AW	[REDACTED]
GT	[REDACTED]
MM	[REDACTED]
RH	[REDACTED]
SA	[REDACTED]
SS	[REDACTED]
SMS	[REDACTED]
TF Trust	[REDACTED]