

**FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

COMPLAINANT,

v.

**CHARLES W. WANNEN III,
(CRD No. 2453110)**

RESPONDENT.

**Disciplinary Proceeding
No. ELI2004035403**

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Between November 2002 through June 2003, Charles W. Wannen III ("Wannen"), while registered with member firm GunnAllen Financial, Inc. (BD No.17609) ("GunnAllen"), as a General Securities Representative ("GSR"), engaged in a pattern of unsuitable and excessive trading in three accounts, two of which were Individual Retirement Accounts ("IRAs") of a married couple, customers SB and AB, in violation of NASD Conduct Rules 2310 and 2110.
2. In connection with two of the accounts, Wannen filled in false and inaccurate information on the new account forms for the customers, causing GunnAllen's books and records to be inaccurate, in violation of NASD Conduct Rules 2110 and 3110, and Section 17(a) of the Securities Exchange Act of 1934 and Rules 17a-3 and 17a-4 thereunder.

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JURISDICTION

3. Wannen first became registered with FINRA as a GSR on or about August 31, 1994 through a prior member firm. Wannen also became registered as a General Securities Principal ("GSP") on or about December 11, 1995.
4. Wannen was registered solely as a GSR with GunnAllen from on or about August 19, 2002 through February 23, 2004.
5. On February 24, 2004, GunnAllen filed a Uniform Termination Notice for Securities Industry Registration ("Form U5") on behalf of Wannen.
6. Since May 11, 2007, Wannen has been registered with another FINRA member firm.

FIRST CAUSE OF ACTION EXCESSIVE TRADING/SUITABILITY (VIOLATION OF NASD CONDUCT RULES 2310 AND 2110)

7. The Department realleges and incorporates by reference paragraphs 1 through 6 above.
8. From November 2002 through June 2003, the trading activity in customers SB's and AB's accounts at GunnAllen was unsuitable and excessive in size and frequency in view of SB's and AB's financial situation and needs.
9. SB and AB met Wannen in 2002. After being solicited for their business, SB and AB agreed to transfer their existing accounts at another member firm to Wannen.
10. SB and AB opened three accounts at GunnAllen. Two of the three accounts were the individual IRA accounts of SB and AB. Wannen was the broker on all three accounts.

11. SB owned a sports-collectible business and AB was employed as a secretary for a cable television company. SB's and AB's combined adjusted gross income in 2002 was \$48,405 and in 2003 it was \$51,970. Their risk tolerance and investment objective were moderate and their three GunnAllen accounts, including the two IRA accounts, constituted their retirement funds. SB and AB were conservative investors without a lot of investment experience and their primary investment objective was to save for retirement.

Account A – AB's IRA

12. SB and AB opened Account A in the name of AB's IRA ("Acct A"). The new account form is signed by AB on December 2, 2002 and by Wannan on December 4, 2002. When this account was transferred to GunnAllen, it contained approximately \$98,007.
13. During the period from December 2002 through June 2003, Wannan executed approximately 51 purchases in Acct A. The average days held of these stocks was about 17.98 days.
14. The trading in Acct A generated total commissions and fees of \$49,512 while the average monthly equity from December 2002 through June 2003 was \$86,498.
15. The activity resulted in a cost-to-equity ratio of 57%, or 98% annualized. The commission-to-equity ratio was approximately 57%, or 98% annualized. In other words, Acct A would have had to achieve a 57% return during the approximately six month period in order to break even based solely on commissions charged to the account. The turnover rate was 12, annualized at 21.

16. SB and AB requested that Wannan cease trading in the account in June 2003 and the account was closed by December 2003.
17. The new account form for this account shows an annual income of \$75,000 and states the investment objective as trading and speculation with a moderate risk tolerance. It also indicates that AB had extensive stock investment experience and net worth of \$300,000.
18. AB signed the new account form in blank based on Wannan's representation that he would complete the information on the new account form at the office and send her a completed copy. SB and AB did not receive a copy of the completed new account form until October 2003 at which time they learned of the inaccurate information contained in it.
19. As a result of Wannan's trading in Acct A, the account had losses of approximately \$9,726. This was due to the approximately \$49,512 in commissions charged to the account being offset with \$39,786 in gains for the account during the period, which resulted in the loss.
20. Acct A was a retirement account. The level of trading in the account was unsuitable for the customers in light of their financial situation, investment objectives and risk tolerance.

Account B – SB's IRA

21. SB and AB opened Account B in the name of SB's IRA ("Acct B"). The new account form is signed by SB on December 2, 2002 and by Wannan on December 4, 2002. When this account was transferred to GunnAllen, it contained approximately \$70,980.

22. The new account form for this account lists annual income as \$100,000 and states the investment objective as trading and speculation with a moderate risk tolerance. It also indicates that SB had extensive investment experience and net worth of \$500,000.
23. SB signed the new account form for Acct B in blank based on Wannen's representation that he would complete the information on the new account form at the office and send him a completed copy. SB and AB did not receive a copy of the completed new account form until October 2003 at which time they learned of the inaccurate information contained in it.
24. During the period from December 2002 through June 2003, Wannen executed approximately 47 purchases in Acct B. The average days held of these stocks was about 13.79 days.
25. The trading in Acct B generated total commissions of \$41,257 while the average monthly equity from December 2002 through June 2003 was \$61,265.
26. The activity resulted in a cost-to-equity ratio of 67%, or 115% annualized. The commission-to-equity ratio was approximately 67%, or 115% annualized. In other words, Acct B would have had to achieve a 67% return during the approximately six month period in order to break even based solely on commissions charged to the account. The turnover rate was 14, annualized at 25.
27. SB and AB requested that Wannen cease trading in the account in June 2003 and the account was closed by December 2003.
28. As a result of Wannen's trading in Acct B, the account had losses of approximately \$2,314. Again, of the approximately \$38,943 in gains for the

account during the period, about \$41,257 was consumed in commissions charged to the account.

29. Acct B was a retirement account. The level of trading in the account was unsuitable for the customers in light of their financial situation, investment objectives and risk tolerance.

Account C – SB's Individual Account

30. SB and AB opened Account C in SB's individual name ("Acct C"). The new account form is signed by SB on November 11, 2002 and by Wannan on November 8, 2002. When this account was transferred to GunnAllen, it contained approximately \$8,276.
31. The new account form for this account lists annual income as \$50,000 and states the investment objectives as trading and speculation. The form also indicates that SB had moderate investment experience and net worth of \$250,000.
32. During the period from November 2002 through June 2003, Wannan executed, or caused to be executed approximately 25 purchases in Acct C. The average days held of these stocks was about 17.85 days.
33. The trading in Acct C generated total commissions of \$10,929 while the average monthly equity from November 2002 through June 2003 was \$16,465.
34. This activity resulted in a cost-to-equity ratio of 68%, or 102% annualized. The commission-to-equity ratio was approximately 66%, or 100% annualized. In other words, Acct C would have had to achieve a 66% return during the approximately seven month period in order to break even based solely on commissions charged to the account. The turnover rate was 16, annualized at 24.

35. SB and AB requested that Wannen cease trading in the account in June 2003 and the account was closed by December 2003.
36. Acct C realized approximately \$4,319 in profit between November 2002 and June 2003. However, of the approximately \$15,208 in gains for the account during the period, about \$10,929 was consumed in commissions charged to the account.
37. Wannen recommended the trades in Accts A, B and C. SB and AB relied upon and routinely followed Wannen's recommendations for the trades in their accounts.
38. The trading strategy employed by Wannen was not appropriate for SB and AB. Wannen's trading activity involved frequent short-term buying and selling of securities. This activity was excessive in size and frequency in view of SB's and AB's financial circumstances and investment objectives. The accounts contained SB's and AB's retirement funds and, in fact, two of the accounts were IRAs.

By reason of the foregoing, Wannen violated NASD Conduct Rules 2110 and 2310.

**SECOND CAUSE OF ACTION
FALSIFYING BOOKS AND RECORDS
VIOLATIONS OF NASD CONDUCT RULES 2110, 3110, SECTION 17(A) OF
THE SECURITIES EXCHANGE ACT OF 1934 AND RULES 17A-3 AND 17A-4 THEREUNDER**

39. The Department realleges and incorporates by reference paragraphs 1 through 38 above.
40. AB signed the new account form for Acct A in blank. Wannen later filled in the blanks on the new account form, including among other items, AB's occupation, annual income and investment experience. Without AB's knowledge,

authorization or consent, Wannen filled in false information on the new account form. For example, AB's income is listed as \$75,000 when, in fact, in 2002, SB's and AB's combined adjusted gross income was \$48,405. At no time did AB represent to Wannen that her income exceeded \$50,000.

41. SB signed the new account form for Acct B in blank. Wannen later filled in the blanks on the new account form, including among other items, SB's annual income and investment experience. Without SB's knowledge, authorization or consent, Wannen filled in false information on the new account form. For example, SB's income is listed as \$100,000 when, in fact, in 2002, SB's and AB's combined adjusted gross income was \$48,405. At no time did SB represent to Wannen that his income exceeded \$50,000.
42. Inputting false information onto the new account forms for Accts A and B caused the books and records of the firm to be false in violation of Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-3 thereunder.

By reason of the foregoing, Wannen violated NASD Conduct Rules 2110 and 3110.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. order that one or more of the sanctions provided under NASD Rule 8310(a), including monetary sanctions, restitution and/or disgorgement, be imposed.

B. order that the Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with NASD Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: April 10, 2008

Vaishali S. Shetty

Vaishali S. Shetty, Senior Regional Counsel
David Jaffe, Regional Chief Counsel
Jon Batterman, Deputy Regional Chief Counsel
FINRA Department of Enforcement
Two Jericho Plaza
Jericho, New York 11753
(516) 949-4237; Fax No. (516) 949-4201