

Illinois Securities Department
C0700550

Said hearing will be held to determine whether an Order shall be entered Finding Respondents Paul S. Shechter, Brian Sanders, Eric Arlt, and ItradeDirect.com, Corp., in violation of the Act and revoking their salesperson and brokerage registrations in the State of Illinois as well as granting other relief as may be authorized under the Act including but not limited to the imposition of a monetary fine in the maximum amount of \$10,000.00 per violation pursuant to Section 11.F of the Act, for each and every violation, payable within ten (10) business days of the entry of the Order.

The grounds for such proposed action are as follows:

Background Information

1. Respondent Paul S. Shechter ("Shechter") (CRD# 2589423) is a citizen of the State of New York, has his series 7 and 63 licensure, and has been a registered salesperson representative for ItradeDirect.com ("ITrade"), since June, 2005, to the present.
2. Shechter works out of the registered ITrade branch office at 701 Middle Country Road, in Selden New York, as well as the unregistered ITrade branch office at 300 Wheeler Road, 4th Floor, in Hauppauge, New York.
3. Shechter's last known residential address is 27 Littel Harbor Road, Mount Sinai, New York, 11766.
4. Respondent Brian Sanders ("Sanders") (CRD# 2743309) is a citizen of the State of New York, has his series 4, 7, 24, and 63 licensure, is a registered salesperson of ITrade, is the Chief Compliance Officer ("CCO") for ITrade, and is also the principal that is responsible for the supervision of Shechter.
5. Respondent Eric Arlt ("Arlt") (CRD# 2306499) is the President and Chief Executive Officer of ITrade, and he operates from Itrade's main office in Boca Raton, Florida.
6. ITrade (CRD# 18281) is a securities brokerage firm operating out of Boca Raton, Florida, and is registered as a securities dealer with the State of Illinois.
7. Investor is a citizen of Illinois and has some experience in investing, primarily in mutual funds.
8. In January 2007, Shechter "cold-called" Investor to solicit Investor for ITrade's securities brokerage services.
9. Shechter, after several telephone calls and assuring Investor of his ability as a securities broker, convinced Investor to open a brokerage account with ITrade.

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Facts Common to All Counts

10. In late January 2007, Shechter filed out a New Account Application (“Application”) for Investor. Shechter also filled out an account opening documents for Investor, including a contract to open a margin account.
11. Shechter, in the Application, stated that Investor’s investment objective was “speculation” and that his risk tolerance was “aggressive.” Furthermore, Shechter stated in the Application that Investor had “extensive” knowledge and experience in Stock/Bonds and Options.
12. Investor is not, nor ever was, interested in speculative investments, he did not have an aggressive risk tolerance, nor did Investor have “extensive” knowledge of stocks/bonds and options.
13. Investor, in his mid-thirties, married, and anticipating raising children, has a moderate risk tolerance.
14. On January 29, 2007, Investor, upon receiving the Application Shechter filled out, contacted Shechter by e-mail and later spoke with him by telephone about the misstatements in the Application
15. Investor was not comfortable moving his money and investments to Shechter in light of the misinformation Shechter had placed on the Application.
16. Shechter told Investor to not worry, explaining to Investor that the Application and the information placed on it was used for “marketing.”
17. During that conversation Shechter continued to alleviate Investor’s concerns by stating that most of ITrade clients are speculative and aggressive investors, but that Investor was not in a position to invest that aggressively, yet.
18. Investor, feeling comforted by Shechter’s explanation, proceeded to open up the ITrade account.
19. Nevertheless, as more fully described below, Shechter would institute a highly aggressive, extremely risky and speculative trading strategy in Investors account for the purpose of garnering commissions to the detriment of Investor.
20. Shechter never disclosed to Investor that the recommendations he would make to Investor, and ultimate purchases of securities, were speculative and aggressive.
21. On February 28, 2007, Investor made an initial deposit of \$13,556.00 into the account.

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22. Shechter would take three more payments from Investor: on March 31, 2007, for \$11,951.00; on June 30, 2007, for \$23,200.42; and on July 31, 2007 for \$46,148.03. for a total cash contribution of ninety-three thousand, eight hundred fifty-five dollars and fifty-seven cents (\$93,855.45).
23. Shechter would also obtain Investor's holdings of Oracle stock, and, as more fully described below, sell it against Investor's clear instructions for (\$190,811.73).

**Shechter Ignored Investor's Clear and Unambiguous Instruction
To Not Sell Investor's Oracle Stock.**

24. Shortly after Shechter initiated contact with Investor in January, 2007, Shechter had discovered that Investor held a significant number of shares of Oracle stock.
25. Investor had acquired the Oracle stock through an employee compensation program, and the stock constituted a significant portion of Investor's retirement savings.
26. Shechter continually urged Investor to transfer the Oracle stock to the ITrade account.
27. Investor, however, had no intention of selling the Oracle stock, and stated such to Shechter numerous times.
28. In early July Shechter, once again urging Investor to transfer his Oracle stock, assured Investor that he would not sell the Oracle stock because, as Shechter predicted, the Fourth Quarter of 2007 would be "big" for technology stock.
29. Shechter told Investor that the Oracle stock would not be sold, if at all, until after the Fourth Quarter so Investor would not suffer a large capital gains tax, and even so, no more than one quarter of the Oracle stock would be sold.
30. In late July, after months of Shechter's continued insistence and assurances, Investor authorized the transfer of the stock to the ITrade account.
31. On July 27, 2007, Shechter had obtained Investor's 9,613 shares of Oracle Stock in Investor's ITrade account.
32. Soon after the Oracle stock was transferred to Investor's ITrade account Shechter called Investor.
33. Shechter, now deviating from his previous assurances to Investor that the Oracle stock would not be traded until later, began telling Investor how he was going to trade the stock into various investments.

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34. When Investor attempted to protest and reiterate what Shechter had told him previously regarding the Oracle stock, Shechter interrupted Investor and spoke over Investor, telling Investor that he was the expert and that he had the knowledge and experience to invest Investor's money.
35. Investor immediately e-mailed Shechter telling him specifically not to touch the Oracle Stock.
36. Despite explicit, clear, unambiguous and repeated instructions by Investor to Shechter to not sell the Oracle stock, on August 6, 2007, Shechter sold all of the Oracle stock for one hundred ninety thousand, eight hundred eleven dollars and seventy-three cents (\$190,811.73).
37. The proceeds of the unauthorized Oracle sale was used by Shechter to purchase and sell stock, almost exclusively, on margin, until Investor closed his account in October.
38. Shechter derived commissions from his unauthorized sale of the Oracle stock , and obtained additional commissions with the unauthorized margin trading activity he initiated with the proceeds of that sale.

**Shechter Ignored Investor's Clear and Unambiguous Instructions
To Not Trade On Margin**

39. During the course of Shechter's management of Investor's ITrade account, Investor had suffered losses.
40. By July 2007, Shechter's trading had caused approximately \$12,856.06 in losses to Investor.
41. On or about August 17, 2007, Investor, having received his account statement for July, and being concerned about the losses his account suffered as well Shechter's recent mishandling of the Oracle stock, contacted Shechter.
42. Shechter informed Investor that many of the losses occurred with margin trading.
43. Investor was not fully apprised of what trading on margin was.
44. Shechter explained what a margin account was, and how it was used for investing.
45. Investor instructed Shechter to stop trading on margin.
46. On August 17, 2007, after speaking with Shechter, Investor reiterated his instruction to Shechter to no longer trade on margin in an e-mail.

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47. Despite Investor's clear and explicit instructions to stop trading on margin, Shechter continued to enact unauthorized trades in the margin account, initiating at least one hundred and forty-six (146) margin trades after the August 17, 2007, explicit instruction not to.
48. In late September of 2007, Investor received a "general account margin call bill" from the clearing firm of Sterne Agee & Leech, Inc. dated September 9, 2007, demanding \$59,849.00 for a "recent order."
49. In late October Investor received a second bill for \$29,015.00 to be paid to ITrade's clearing firm, Sterne Agee & Leech, Inc. to cover the purchase of 5000 shares of LJ International, Inc. that Shechter had initiated on October 11, 2007.
50. Shechter's margin trading in Investor's account was designed to increase his commissions to the detriment of Investor.
51. From August 17, 2007, through October, 2007, when Investor closed the account Shechter took \$22,403.17 in commissions from Investor through the unauthorized margin trades.
52. At the beginning of August, 2007, before the unauthorized Oracle sale and before the instruction to cease all margin trading, Shechter had caused \$12,856.06 in losses to Investor, and the turnover ratio of the account was 8.84.
53. However, with the proceeds of the unauthorized Oracle sale, Shechter's trading activity in August had caused an additional \$61,371.02 in losses, garnered an additional \$8,604.45 in commissions, and increased the turnover ratio to 19.45.
54. In mid-September of 2007, after receiving the bills for the unauthorized margin trades as well as his August statement, Investor became aware of the massive losses Shechter caused the previous month, Investor told Shechter that he was considering leaving ITrade.
55. In response to Investor, Shechter increased his aggressive trading behavior in Investor's account, continued his unauthorized margin trading, and caused \$125,634.87 in losses to Investor and garnering \$13,126.80 in commissions in September and October alone.

Shechter's Made Unsuitable Recommendations To Investor, and Indulged In Excessive Trading For The Purpose Of Obtaining More Commissions

56. By the end of October, 2007, when Investor closed his ITrade account, Shechter had caused \$199,861.95 in losses to Investor and took \$41,203.63 from Investor in commissions.

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57. Shechter's trading in Investor's account over a period of ten months resulted in a rate of return of -346.54%, a turnover ratio of 43.97%, and an expense to equity ratio of 58.81%.
58. Shechter's recommendations to Investor, and the subsequent trades Shechter made in Investor's account, constituted a highly aggressive, risky, and speculative trade strategy, in contravention of Investor's true investment objectives and risk tolerance.
59. Shechter never disclosed to Investor that Shechter was instituting an aggressive, highly risky, and speculative trading strategy in Investor's account.
60. Not only were the recommendations and trades Shechter initiated in Investor's account devoid of a reasonable basis in light of Investor's true investment objectives and risk tolerance, but they were also initiated for the purpose of garnering commissions at the detriment of Investor.
61. Shechter initiated short-term holding of securities in Investor's account, buying securities only to sell, usually at a loss for Investor, on the same day they were purchased or within a few days thereafter.
62. For example, on each day of August 6, 7, and 15, 2007, Shechter purchased 1000 shares of NYMEX Holdings, Inc., garnering \$3,975.80 in commissions, but sold all 3000 shares on August 16, 2007, at a loss of \$38,327.58 to investor.

VIOLATIONS

PAUL S. SHECHTER

SECURITIES FRAUD

63. Shechter recommended, offered to sell and sold stock to Investor. Stock is a security as defined by Section 2.1 of the Illinois Securities Law of 1953, and Shechter's recommending, offering and selling stock constitutes the activities of a salesperson as defined by Sections 2.5a, 2.5 and 2.9 of the Illinois Securities Law of 1953. (815 ILCS 5/1 et seq.) (the "Act").
64. Section 12. A. of the Act states that it shall be a violation of the provisions of the Act for any person to offer or sell any security except in accordance with the provisions of the Act.
65. Section 12. F. of the Act states that it shall be a violation of the provisions of the Act for any person to engage in any transaction, practice or course of business in connection with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof.

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66. Section 12. G. of the Act states that it shall be a violation of the provisions of the Act for any person to obtain money or property through the sale of securities by means of any untrue statement of fact or any omission 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.
67. 12. I. Of the Act states that it shall be a violation of the provisions of the Act for any person to employ any device, scheme or artifice to defraud in connection with the sale or purchase of any security, directly, or indirectly.
68. Section 130.850 of the Rules and Regulations Under the Illinois Securities Law of 1953 (the "Rules") states that no dealer or salesperson shall effect transactions for any customer's account which are excessive in size or frequency or unsuitable in view of the financial resources of the customer.
69. Shechter, by ignoring Investor's instructions to not sell the Oracle stock, violated Sections 12. F, G and I of the Act and Section 130.850 of the Rules for the wrongful sale of Investor's Oracle stock.
70. Shechter, by ignoring Investor's instructions to not trade on margin, violated Sections 12. F, G and I of the Act and Section 130.850 of the Rules for each of the 146 margin trades Shechter initiated in Investor's account after August 17, 2007.
71. Shechter, by providing false information on Investor's account application and by lying to Investor about the purpose of the application violated Sections 12. F, G and I of the Act.
72. Shechter, by making unsuitable recommendations to Investor, and initiating unsuitable purchases in Investor's account, violated Sections 12. F, G and I of the Act and Section 130.850 of the Rules for each recommendation and purchase of securities in Investor's account.
73. Shechter, by excessively trading in Investor's account for the purpose of obtaining commissions, violated Sections 12. F, G and I of the Act and Section 130.850 of the Rules for each of the recommendations, purchase and sale of securities in investor's account.

BRIAN SANDERS, ERIC ARLT, AND ITRADEDIRECT.COM:

I: Failure to Supervise: Investor's Account Application

74. ITrade's policies and procedures make the Chief Compliance Officer ("CCO"), Sanders, responsible for undertaking appropriate reviews to determine that all customers have verified their new account information.

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75. ITrade's policies and procedures also require, on an ongoing basis, its designated supervisory principals to be responsible for overseeing all new account opening procedures undertaken by the individuals under their direct supervision.
76. Sanders, as the CCO and as the supervisory principal to Shechter, was responsible for the review of Investor's new account application to determine the veracity of information thereon.
77. Section 8. E.(1)(e)(i) of the Act states in pertinent part that the registration of a dealer, salesperson, investment advisor or investment advisor representative may be denied, suspended or revoked if it is found that the dealer, salesperson, investment advisor, investment advisor representative, or any principal officer, director, partner, member or manager, "has failed reasonably to supervise the securities activities of any of its salespersons or other employees and the failure has facilitated a violation of section 12 of this Act."
78. Sanders, Arlt and ITrade failed to reasonably supervise the procedures used by Shechter in opening Investor's account, and failed to verify the information Shechter placed on the application, especially in light of the January 29, 2007, e-mail Investor sent to Shechter questioning the information Shechter placed on the application.
79. Section 8. E. (1)(e)(iv) of the Act states in pertinent part that the registration of a dealer, salesperson, investment advisor or investment advisor representative may be denied, suspended or revoked if it is found that the dealer, salesperson, investment advisor, investment advisor representative, or any principal officer, director, partner, member or manager, "has failed to maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of its salespersons that are reasonable designed to achieve compliance with applicable securities laws and regulations."
80. Respondents Sanders, Arlt and ITrade failed to maintain and enforce written procedures as they pertain to Investor's new account application, especially in light of the January 29, 2007, e-mail Investor sent to Shechter questioning the information Shechter placed on the application.

II. Failure To Supervise: Business Correspondence

81. Investor sent several e-mails to Shechter's ITrade e-mail address complaining about Shechter's activities or raising questions about Shechter's conduct in managing Investor's account, including:
 - a. A January 29, 2007 e-mail regarding the misinformation Shechter placed on the Application;

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- b. February 15, March 23, March 26, April 4, and April 9, 2007, e-mails complaining about Shechter's recommendation to purchase stock in Aerovironment Inc., a stock that Shechter incorrectly predicted would increase in value, and asking Shechter if he is still Investor's broker;
 - c. The July 27, 2007, e-mail reiterating Investor's instruction for Shechter to not sell the Oracle stock;
 - d. E-mails of September 25, and October 3, 2007, complaining about being overcharged commissions;
 - e. An August 17, 2007, e-mail complaining about the losses Shechter caused in the Account and questioning why Shechter ignored Investor's instructions not to sell the Oracle stock.
82. During the course of Investor's relationship with ITrade Shechter corresponded with Investor through text-messaging on his personal cellular phone.
83. ITrade's policies and procedures require that the principal for its representatives review all incoming correspondence, including e-mails, from a client, and any that raise concerns be addressed.
84. Sanders failed to review Investor's e-mail correspondence to Shechter, and Sanders failed to address the concerns raised by Investor in the above-referenced e-mail correspondence.
85. The above-referenced correspondence involved concerns related to Shechter's violations of Section 12 of the Act, detailed above.
86. Sanders also failed to review the text-messaging correspondence from, and to, Investor.
87. Section 8. E.(1)(e)(i) of the Act states in pertinent part that the registration of a dealer, salesperson, investment advisor or investment advisor representative may be denied, suspended or revoked if it is found that the dealer, salesperson, investment advisor, investment advisor representative, or any principal officer, director, partner, member or manager, "has failed reasonably to supervise the securities activities of any of its salespersons or other employees and the failure has facilitated a violation of section 12 of this Act."
88. Respondents Sanders, Arlt and ITrade failed to reasonably supervise the activities of Shechter by failing to review Investor's correspondence, in particular, that which raised concerns with Shechter's salesperson activities.

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89. Section 8. E. (1)(e)(iv) of the Act states in pertinent part that the registration of a dealer, salesperson, investment advisor or investment advisor representative may be denied, suspended or revoked if it is found that the dealer, salesperson, investment advisor, investment advisor representative, or any principal officer, director, partner, member or manager, "has failed to maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of its salespersons that are reasonable designed to achieve compliance with applicable securities laws and regulations."
90. Respondents Sanders, Arlt and ITrade failed to maintain and enforce written procedures by failing to review Investor's correspondence that raised concerns with Shechter's salesperson activities.

III. Failure to Supervise: Unauthorized Margin Trading

91. ITrade's written supervisory policies and procedures state that ITrade's CCO is responsible for ensuring that all registered personnel are fully aware of their obligations when handling a margin account and that appropriate surveillance activities are undertaken to ensure compliance, including initial and annual delivery of margin disclosure statements.
92. The policies and procedures also state that ITrade's designated supervising principals are responsible for overseeing, on an ongoing basis, all margin account transactions being dealt with by the individuals under their direct supervision and for ensuring that all appropriate compliance and disclosure requirements are adhered to.
93. Furthermore, ITrade requires "Clear Consent" to be obtained from the customer before opening a margin account.
94. Section 8. E.(1)(e)(i) of the Act states in pertinent part that the registration of a dealer, salesperson, investment advisor or investment advisor representative may be denied, suspended or revoked if it is found that the dealer, salesperson, investment advisor, investment advisor representative, or any principal officer, director, partner, member or manager, "has failed reasonably to supervise the securities activities of any of its salespersons or other employees and the failure has facilitated a violation of section 12 of this Act."
95. Respondents Sanders, Arlt and ITrade failed to reasonably supervise the activities of Shechter by failing to review the margin trades Shechter instituted in Investor's account, especially after Investor's August 17, 2007, instruction to cease all margin trading.
96. Section 8. E. (1)(e)(iv) of the Act states in pertinent part that the registration of a dealer, salesperson, investment advisor or investment advisor representative may be denied, suspended or revoked if it is found that the dealer, salesperson,

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investment advisor, investment advisor representative, or any principal officer, director, partner, member or manager, "has failed to maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of its salespersons that are reasonable designed to achieve compliance with applicable securities laws and regulations."

97. Respondents Sanders, Arlt and ITrade failed to maintain and enforce written procedures by failing to review the margin trades Shechter instituted in Investor's account, especially after Investor's August 17, 2007, instruction to cease all margin trading.
98. Respondents Sanders, Arlt and ITrade also failed to maintain and enforce written procedures by failing to ensure that Investor had given clear consent to trade on margin, especially after Investor's August 17, 2007, instruction to cease all margin trading.

IV. Failure to Supervise: Suitability

99. ITrade's policies and procedures relating to its representatives making suitable recommendations to its clients states that all investment recommendations made to a client must be suitable for the client, based on information disclosed to the registered representative upon opening of the account.
100. ITrade's policies and procedures require the supervising principal to oversee the suitability requirements and documentation relating to recommended transactions by those individuals under their immediate supervision.
101. Shechter's recommendations to Investor, and subsequent purchases, constituted a speculative investment objective for an investor with a high risk tolerance.
102. In reality Investor was not looking for speculative investments and has a moderate risk tolerance.
103. Section 8. E.(1)(e)(i) of the Act states in pertinent part that the registration of a dealer, salesperson, investment advisor or investment advisor representative may be denied, suspended or revoked if it is found that the dealer, salesperson, investment advisor, investment advisor representative, or any principal officer, director, partner, member or manager, "has failed reasonably to supervise the securities activities of any of its salespersons or other employees and the failure has facilitated a violation of section 12 of this Act."
104. Respondents Sanders, Arlt and ITrade failed to reasonably supervise the activities of Shechter by failing to review trades Shechter instituted in Investor's account, especially in light of Investor's January 29, 2007, correspondence complaining of the misinformation Shechter placed on Investor's account application as it related to Investor's investment objectives, risk tolerance and investment experience.

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105. Section 8. E. (1)(e)(iv) of the Act states in pertinent part that the registration of a dealer, salesperson, investment advisor or investment advisor representative may be denied, suspended or revoked if it is found that the dealer, salesperson, investment advisor, investment advisor representative, or any principal officer, director, partner, member or manager, "has failed to maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of its salespersons that are reasonable designed to achieve compliance with applicable securities laws and regulations."
106. Respondents Sanders, Arlt and ITrade failed to reasonably supervise the activities of Shechter by failing to review trades Shechter instituted in Investor's account, especially in light of Investor's January 29, 2007, correspondence complaining of the misinformation Shechter placed on Investor's account application as it related to Investor's investment objectives, risk tolerance and investment experience.

V. Failure to Supervise: "Churning"

107. ITrade's policies and procedures regarding excessive trading, also known as churning, acknowledges that:

Churning generally occurs when a representative has direct or indirect control over a customer's account. Direct control exists in discretionary accounts (prohibited for broker/dealers not also registered as investment advisers). Indirect control exists in situations where customers have a high degree of reliance on a representative, generally allowing the representative to transact whatever business the customer feels most appropriate. Such customers are generally unsophisticated and, not understanding the securities market in any depth, rely heavily on their representative's expertise.
108. ITrade's supervisory principals are responsible for ensuring that all transactions undertaken by individuals under their direct supervision are reviewed in such a manner as to reasonably deter and detect any instances of illegal churning in a customer account.
109. Accounts with high trading activity, or that generate a high amount of commissions relative to the size of the account, are 'red-flags' for potential churning activity.
110. Investor's account had a turnover ratio of 43.97%, and an expense to equity ratio of 58.81%.
111. In the month of July, 2007, Investor's account had a turnover ratio of 392.98% and an expense ratio of 15.6%.

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112. In the month of August, 2007, when Shechter obtained and sold Investor's Oracle stock, Investor's account had a turnover ratio of 1304.86% and an expense ratio of 14.92%.
113. The high amount of trades Shechter initiated in Investor's account, and the amount of commissions he was generating from the trading activity, should have alerted Sanders that Shechter was churning Investor's account.
114. Section 8. E.(1)(e)(i) of the Act states in pertinent part that the registration of a dealer, salesperson, investment advisor or investment advisor representative may be denied, suspended or revoked if it is found that the dealer, salesperson, investment advisor, investment advisor representative, or any principal officer, director, partner, member or manager, "has failed reasonably to supervise the securities activities of any of its salespersons or other employees and the failure has facilitated a violation of section 12 of this Act."
115. Respondents Sanders, Arlt and ITrade failed to reasonably supervise the activities of Shechter by failing to review the trades Shechter instituted in Investor's account in light of the high trading activity and disproportionate commissions charged to the account to ensure that Shechter was not churning Investor's account.
116. Section 8. E. (1)(e)(iv) of the Act states in pertinent part that the registration of a dealer, salesperson, investment advisor or investment advisor representative may be denied, suspended or revoked if it is found that the dealer, salesperson, investment advisor, investment advisor representative, or any principal officer, director, partner, member or manager, "has failed to maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of its salespersons that are reasonable designed to achieve compliance with applicable securities laws and regulations."
117. Respondents Sanders, Arlt and ITrade failed to maintain and enforce written procedures regarding churning by failing to review the trades Shechter instituted in Investor's account in light of the high trading activity and disproportionate commissions charged to the account.

Respondents' Regulatory and Litigation History is Extensive and Supports the Imposition of the Maximum Fine for Each Violation, as Well as Revocation of their Licensure and Permanent Prohibition

118. Respondents Shechter, Sanders, Arlt and Itrade have extensive and concerning regulatory histories that evidence their inability to conduct business in the securities industry.

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119. Recently, in January of 2008, Respondents ItradeDirect and Sanders, along with Eric Arlt, were fined and sanctioned by FINRA in relation to the sale of preferred shares of ItradeDirect's parent company. The Private Placement Memorandum contained several falsehoods, including failing to distinguish between ITrade and its parent company, failing to disclose the company's financial information and failing to disclose the parent company's products, services, goals, and strategies. Arlt was found to have violated FINRA rules for telling an IRA custodian that the price of preferred shares of ItradeDirect had increased in value since their initial offering, when, in fact, that valuation was arbitrary and without foundation. Sanders was found to have violated FINRA rules for failing to conduct an adequate due diligence investigation in connection with the company's private placement to ensure that accurate information was provided to investors. ItradeDirect was fined \$45,000.00, Arlt was fined \$25,000.00 and suspended for 60 days, Sanders was fined \$10,000.00 and suspended for 10 days.
120. Shechter's propensity of wild, unauthorized trading is not unique to the matter complained about in this Notice of Hearing. In 2003, while employed at Milestone Financial Services Shechter and his employer settled an arbitration claim against them for \$66,000.00 in which the complainants alleged unauthorized trading in a client's account during a volatile market in which Shechter aggressively traded against the best interests of the client. (FINRA occurrence 1126878- 3/10/2003)
121. Sander's history of failing to supervise representatives under his purview is not limited to this matter.
122. In 2007 FINRA took an action against Sanders, for activities, or lack thereof, that occurred while he was employed at Gunn Allen Financial, Inc. FINRA found that Sanders failed to supervise a Gunn Allen Investment Advisor Representative that resulted massive financial losses to a client. Sanders was fined \$17,500.00 and was suspended from associating with any brokerage firm for ten days. (FINRA Case E072004006101).
123. Sanders is also the defendant in an proceeding initiated against him, Eric Arlt, and another ITrade Direct Investment Advisor Representative, Clayton Sontag. The allegations against the ItradeDirect's Representative are nearly identical to the above-described activities of Shechter, and the claim against Sanders is for failing to supervise that Representative's improper trading activities resulted in massive losses, in excess of \$150,000.00 to the complainant. (FINRA Arbitration Case Number 07-2403).
124. Another failure to supervise claim made against Sanders and ItradeDirect related to the activities of ItradeDirect Representative Kenneth Dwyer in which the allegations are near-identical to the above-described activities of Shechter. In that matter, ItradeDirect settled with the claimant for \$64,500.00.

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125. Again, in February of 2007, Sanders, along with ITrade and ITrade Representative Clayton Sontag, were named Respondents in a FINRA arbitration proceeding wherein the complainants alleged negligence on the part of Sontag and failure to supervise on the part of Sanders. (FINRA Arbitration Case Number 07-00567).
126. Eric Arlt, President and CEO of ItradeDirect, and ITrade itself, have a customer complaint regulatory history that further questions Itrade's qualifications to operate as a Brokerage/Advisory firm in the State of Illinois.
127. Eric Arlt has no less than six disclosures on his CRD, not including his felony larceny charge, reduced to a misdemeanor, for breaking into an automobile.
128. Eric Arlt is a named defendant in FINRA Arbitration case number 07-2403, mentioned in paragraph 122, above. In that matter the complainant alleges that Arlt failed to supervise his representatives, resulting in losses in excess of \$150,000.00.
129. Eric Arlt is also a named Respondent in FINRA Arbitration Case Number 06-04388 in which the complainant alleges that Arlt failed to supervise one of his representatives who churned her account resulting in losses over \$330,000.00.
130. In December of 2004 FINRA suspended Eric Arlt for 30 days and fined ItradeDirect \$20,000.00 due to ItradeDirect's failure to supervise, establish, maintain and enforce an adequate supervisory system and for failing to supervise its representative Lazar Kauderer, the subject of a criminal fraud investigation. Arlt was also fined \$7,500.00 for the massive infractions. (FINRA Enforcement Case Number 07-30979).
131. In 2007 ItradeDirect and Eric Arlt surrendered their license to offer and sell securities, as well as provide investment advice, in the State of Ohio due to Itrade's Lack of Good Business Repute. (Ohio Division of Securities Case Number 07-106).
132. In 2000 FINRA found Eric Arlt liable for \$10,000.00 in losses to a complainant that was sold unregistered and unapproved securities by one of Eric Arlt's representatives at Salem Securities. (FINRA Arbitration Case Number 98-03699). Salem Securities was the pre-cursor to ItradeDirect.
133. In 1998 the Ohio Division of Securities found that Salem Securities had sold securities to Ohioans without being registered to sell securities in Ohio. Salem Securities made rescission offers to the customers. (Ohio Division of Securities Case Number 98-357).
134. In 2002 ItradeDirect was fined and its licensure revoked by the Maryland Division of Securities when ItradeDirect refused to follow the laws of Maryland

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by failing to maintain a registered agent in the State. ITrade was fined \$1,500.00 and allowed to reinstate its registration subject to following the laws of the State of Maryland. (Maryland Division of Securities Case Number 2000-0072).

135. In 2003 the State of Wisconsin sought prohibition against ItradeDirect for failure to supervise its representatives. ItradeDirect consented to censure and was required to file written supervisory procedures within 30 days of the entry of consent. (Wisconsin Division of Securities Case Number S-03165(LX)).
136. In 2007 FINRA Censured and Fined ItradeDirect \$25,000.00 for failing to retain business e-mails and failing to maintain a system for e-mail retention. (FINRA Enforcement Case Number 05-1025901).
137. In 2007 FINRA found ItradeDirect in violation of numerous FINRA rules for charging customers commissions and mark-ups that were not fair and reasonable, failing to disclose customer complaints and disciplinary actions, failing to maintain and preserve customer complaints, failing to maintain a blotter showing customer checks received and forwarded, and failing to maintain a supervisory system reasonably designed to achieve compliance with applicable securities laws and regulations. ItradeDirect was fined \$60,000.00, censured, and ordered to disgorge charges to certain customers. (FINRA Enforcement Case Number 06-3853701).
138. Section 11. E (4) of the Act states in pertinent part that, after a finding that any provision of the Act has been violated, may impose a fine not to exceed \$10,000.00 for each violation of the Act, as well as charge as costs of investigation all reasonable expenses.
139. The conduct described above, when proven, justify the imposition of the maximum \$10,000.00 fine against Shechter for:
 - a. Shechter's unauthorized sale of Investor's Oracle stock;
 - b. Each unauthorized margin trade in Investor's account;
 - c. Each unsuitable recommendation and purchase of securities in Investor's account;
 - d. Shechter's placement of misinformation on Investor's Account Application; and
 - e. Shechter's churning of Investor's account.
140. The conduct described above, when proven, justify the imposition of the maximum \$10,000.00 fine against Sanders for each violation of the Act by Shechter, due to Sander's failure to supervise.

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141. The conduct described above, when proven, justify the imposition of the maximum \$10,000.00 fine against Arlt for each violation of the Act by Shechter, due to Arlt's failure to supervise.
142. The conduct described above, when proven, justify the imposition of the maximum \$10,000.00 fine against ITRADE for each violation of the Act by its representative, Shechter.
143. Section 8. E.(1)(g) states in pertinent part that the registration of a salesperson may be denied, suspended or revoked if that salesperson has violated any provisions of the Act.
144. Shechter's registration as a salesperson in the State of Illinois is subject to revocation.
145. Section 11. E. (2) states in pertinent part that if the Secretary of State finds, after a Hearing, that any person has violated subsection C, D, E, F, G, H, I, J, or K of Section 12 of the Act, that person may be permanently prohibited from offering or selling any securities in Illinois.
146. Shechter is subject to permanent prohibition.
147. Section 8. E.(1)(e)(i) of the Act states in pertinent part that the registration of a dealer, salesperson, investment advisor or investment advisor representative may be denied, suspended or revoked if it is found that the dealer, salesperson, investment advisor, investment advisor representative, or any principal officer, director, partner, member or manager, "has failed reasonably to supervise the securities activities of any of its salespersons or other employees and the failure has facilitated a violation of section 12 of this Act."
148. Section 8. E. (1)(e)(iv) of the Act states in pertinent part that the registration of a dealer, salesperson, investment advisor or investment advisor representative may be denied, suspended or revoked if it is found that the dealer, salesperson, investment advisor, investment advisor representative, or any principal officer, director, partner, member or manager, "has failed to maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of its salespersons that are reasonable designed to achieve compliance with applicable securities laws and regulations."
149. ITrade's registration as a dealer in the State of Illinois is subject to revocation.

You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130) (the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure

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to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

DATED: This 8th day of May, 2009.

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JESSE WHITE
Secretary of State
State of Illinois

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