

STATE OF NEW JERSEY
BUREAU OF SECURITIES
153 Halsey Street
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(973) 504-3600

In the Matter of:

JEFFREY DEAN SCHRADER
CRD # 3092638

**SUMMARY REVOCATION AND
PENALTY ORDER**

Respondent.

Pursuant to the authority granted to the Chief of the Bureau of Securities (“Bureau Chief”) by the Uniform Securities Law (1997), N.J.S.A. 49:3-47 et seq. (“Securities Law”), more specifically, N.J.S.A. 49:3-58 and N.J.S.A. 49:3-70.1, and after investigation, careful review and due consideration of the facts and documents obtained by the New Jersey Bureau of Securities (“Bureau”) including an Order Accepting Offer of Settlement, Disciplinary Proceeding No. 201102992870, by the Financial Industry Regulatory Authority (“FINRA”), the Bureau Chief has determined that the agent and investment adviser representative registrations of Jeffrey Dean Schrader (“Schrader”) shall be **REVOKED** and a **CIVIL MONETARY PENALTY** assessed against him for the reasons that follow:

Findings of Fact

The Bureau Chief makes the following findings of fact:

1. Schrader, Central Registration Depository (“CRD”) No. 3092638, a resident of Philadelphia, Pennsylvania, has been registered with the Bureau as an agent of a broker-dealer since October 13, 1998. He was most currently registered as an agent and investment adviser

representative of Western International Securities, Inc. (“Western”), CRD No. 39262, since on or about March 19, 2009.

2. Western has been registered with the Bureau as a broker-dealer since September 19, 1996 and maintains its corporate headquarters in Pasadena, California.
3. At all relevant times, Schrader operated a Western branch office at 1650 Market Street, Philadelphia, Pennsylvania doing business as Schrader Wealth Management and maintained an office at his home in Philadelphia, Pennsylvania.
4. Schrader has held various securities licenses -- Series 7, 24, 63 and 65 -- since August 1998. By his own admission, Schrader is “fairly well-experienced in dealing in securities.”

Sale of Liberty State Benefits of Pennsylvania, Inc. Notes.

5. From in or about April 2009 to in or about December 2009 (“Relevant Time Period”), Schrader and Michael William Kwasnik (“M-Kwasnik”) offered and sold securities in the form of 3-year “secured” notes paying 12% interest per year (“LSBPA Note”) issued by Liberty State Benefits of Pennsylvania, Inc. (“LSBPA”).
6. The LSBPA Notes were offered and sold through a Private Placement Memorandum (“PPM”). The PPM provided the capital raised from the sale of the LSBPA Notes would be used to purchase life insurance policies from third-parties and beneficial interests of life insurance policies owned by Irrevocable Life Insurance Trusts (“ILIT”), among other things.
7. Schrader first met M-Kwasnik in or about 2004 when Schrader worked at Ryan Beck & Co. and M-Kwasnik came to Ryan Beck seeking to raise funds for a new bank he was starting. A few months after meeting, Schrader and M-Kwasnik entered into an informal agreement to refer clients to each other. From in or about late 2006 to early 2007, Schrader and M-Kwasnik conducted joint seminars to attract clients for each other.

8. During the Relevant Time Period, M-Kwasnik was an attorney licensed in New Jersey and Pennsylvania and maintained a private law practice. M-Kwasnik was also corporate counsel to LSBPA. M-Kwasnik has never been registered with the Bureau in any capacity.
9. M-Kwasnik asked Schrader whether Schrader wanted to become involved in offering the LSBPA Notes for sale.
10. Schrader was provided with a copy of the PPM and articles which Schrader reviewed.
11. Schrader was familiar with PPMs and was aware that PPMs were used to inform investors about investments.
12. The PPM clearly provides in numerous places or explains that the LSBPA Notes are securities.
13. For example, the front page of the PPM states “CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM FOR ACCREDITED INVESTORS ONLY.”
14. Further, on page ii of the PPM it states “THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED...”
15. The LSBPA Notes were neither registered with the Bureau nor exempt from registration.
16. M-Kwasnik set up meetings with prospective LSBPA Note investors at his law office in Cherry Hill, New Jersey. Schrader attended these meetings and facilitated the sale of the LSBPA Notes.
17. At the meetings with prospective investors, M-Kwasnik explained the LSBPA Note investment opportunity, and Schrader’s role was to answer questions directed to him by the prospective investors.

18. Schrader and M-Kwasnik met with approximately five (5) prospective investors. At least one (1) of the prospective investors became a client of Schrader at Western subsequent to the meeting about the LSBPA Notes.
19. Schrader, without M-Kwasnik, also met with two (2) of Schrader's long-time clients, a husband and a wife, and offered the LSBPA Note for sale to them.
20. Schrader received commissions for offering and/or selling the LSBPA Notes. For each investor who purchased an LSBPA Note, Schrader earned a commission payment equal to 10% of the total amount the investor invested in the LSBPA Note. Schrader has admitted that he received at least \$41,000 in commissions from the sale of LSBPA Notes.
21. Commission payments were made to Schrader by check or wire transfers, which were either deposited or transferred into Schrader's personal bank accounts.
22. During the Relevant Time Period, Schrader was only registered to sell securities as an agent of Western.
23. The sale of the LSBPA Notes was outside of Schrader's regular course or scope of his employment with Western. Western's Written Supervisory Procedures ("Procedures") during the Relevant Time Period required pre-approval in writing by Western. Schrader did not seek approval or notify Western that he was selling and earning a commission for the sale of the LSPBA Notes.
24. Further, the Procedures required Schrader to disclose in writing to Western "any outside business activities [('OBA')] prior to engaging in such activity." The information required to be disclosed to Western included, among other things, the: (a) name of the outside employer; (b) nature of the activity; and (c) type of compensation. Upon disclosure, Western would approve or disapprove the OBA.

25. The Procedures also required that Schrader receive pre-approval and disclose in writing sales of LSBPA Notes due to the fact that they were private securities transactions.

26. On March 19, 2009, Schrader signed his 2008 Annual Certification, which included the following question regarding OBA:

Are you engaged in any outside business activity, and/or do you serve as an officer, director, or employee of another business organization? Outside activities include outside employment, acting as a general partner, finder, director, referrer, or any activity outside your usual responsibilities at the Firm. Compensation includes salaries, director's fees, referral fees, stock options, finder's fees, and anything of present or future value.

The 2008 Annual Certification's instructions stated: "If your response changes at any time in the future, it will be necessary for you to advise the Firm immediately."

27. Schrader did not disclose any outside business activity until December 26, 2009, when he provided Western with his 2009 Annual Certification where he answered "yes" in response to whether he was engaged in OBA, and an Outside Business Activities Disclosure Letter, which stated that: (a) he was engaged as a life and disability insurance agent doing life insurance sales with an entity known as Liberty State Financial ("LSF"); (b) he started doing so on May 1, 2009; (c) the business was not investment-related; and (4) he did not plan to contact any of Western's clients regarding his OBA.

28. On January 13, 2010, Western approved Schrader acting as a life and disability agent for LSF.

29. Neither Western nor Schrader provided the Bureau with evidence that Schrader's OBA or private securities transactions concerning the LSBPA Notes were disclosed or approved prior to December 26, 2009.

FINRA Bar

30. On December 12, 2013, FINRA filed Disciplinary Proceeding Number 201129928701 against Schrader.
31. In that Disciplinary Proceeding, FINRA alleged, among other things, that Schrader had participated in private securities transactions without prior written approval from Western, and had provided false statements to FINRA and Western in connection with the sale of the LSBPA Notes.
32. An Order Accepting Offer of Settlement was entered on March 25, 2014 (“FINRA Order”).
33. The FINRA Order contained findings, that Schrader consented to without admitting or denying, that included the following:
 - a. Schrader had engaged in private securities transactions while an agent at Western for which he never sought Western’s permission as required by Western’s written supervisory procedures in violation of NASD Rule 3040 and FINRA Rule 2010; and
 - b. Schrader failed to conduct reasonable due diligence into the LSBPA Notes to determine whether the product was suitable prior to making recommendations to clients in violation of NASD Rule 2310 and FINRA Rule 2010;
 - c. Schrader failed to disclose the LSBPA Notes where securities to Western and falsely represented to Western that the checks received by Liberty were for his approved outside life insurance business in violation of FINRA Rule 2010; and
 - d. Schrader provided false and misleading testimony to FINRA in violation of FINRA Rules 8210 and 2010.
34. Based on the foregoing, Schrader was permanently barred from associating with any FINRA-registered firm in any and all capacities.

Conclusions of Law

The Bureau Chief makes the following conclusions of law:

SCHRADER ACTED AS AN AGENT WITHOUT REGISTRATION N.J.S.A. 49:3-56(a)

35. The preceding paragraphs are incorporated into this conclusion of law as if fully set forth herein.
36. The LSBPA Notes were securities as defined in N.J.S.A. 49:3-49(m).
37. Schrader acted as an agent as defined in N.J.S.A. 49:3-49 (b) by assisting M-Kwasnik in effecting and/or attempting to effect purchases and/or sales of the LSBPA Notes, without being registered with the Bureau to sell the LSBPA Notes, or qualifying for an exemption.
38. Schrader violated N.J.S.A. 49:3-56(a) which requires, among other things, that only persons properly registered with the Bureau may lawfully act as agents.
39. Each offer and sale of the LSBPA Notes is a separate violation of N.J.S.A. 49:3-56(a) and is cause for the imposition of a civil monetary penalty pursuant to N.J.S.A. 49:3-70.1.

SCHRADER OFFERED AND SOLD UNREGISTERED SECURITIES N.J.S.A. 49:3-60

40. The preceding paragraphs are incorporated into this conclusion of law as if fully set forth herein.
41. The LSBPA Notes were securities as defined in N.J.S.A. 49:3-49(m) of the Securities Law.
42. The LSBPA Notes were not registered with the Bureau nor were they exempt from registration with the Bureau or federally covered securities.
43. Each offer and sale by Schrader of the unregistered securities is a separate violation of N.J.S.A. 49:3-60 and is a basis for the imposition of a penalty under N.J.S.A. 49:3-70.1.

SCHRADER ENGAGED IN DISHONEST OR UNETHICAL PRACTICES
N.J.S.A. 49:3-58(a)(1) and (a)(2)(vii)

44. The preceding paragraphs are incorporated into this conclusion of law as if fully set forth herein.
45. Schrader engaged in dishonest or unethical practices by the aforementioned conduct. Schrader's dishonest and unethical practices include, but were not limited to, effecting or attempting to effect the sale of securities not offered by Western for compensation, misrepresenting the nature of his OBA and effecting and/or attempting to effect the sale of unregistered securities.
46. The foregoing conduct by Schrader as described above constitutes dishonest or unethical practices in the securities business, which is good cause, pursuant to N.J.S.A. 49:3-58(a)(2)(vii), to revoke Schrader's agent and investment adviser representative registrations.
47. Based upon the foregoing and pursuant to N.J.S.A. 49:3-58(a)(1), the revocation of Schrader's registrations is in the public interest.

SCHRADER WILLFULLY VIOLATED OR WILLFULLY FAILED TO
COMPLY WITH ANY PROVISION OF THE SECURITIES LAW
N.J.S.A. 49:3-58(a)(1) and (a)(2)(ii)

48. The preceding paragraphs are incorporated into this conclusion of law as if fully set forth herein.
49. Schrader willfully violated or willfully failed to comply with any provision of the Securities Law by the aforementioned conduct. This includes, but is not limited to, misrepresenting the nature of his OBA and effecting and/or attempting to effect the sale of unregistered securities.
50. The foregoing conduct by Schrader as described above constitutes willful violations or willfully failing to comply with any provision of the Securities Law, which is good cause, pursuant

to N.J.S.A. 49:3-58 (a)(2)(ii), to revoke Schrader's agent and investment adviser representative registrations.

51. Based upon the foregoing and pursuant to N.J.S.A. 49:3-58(a)(1), the revocation of Schrader's registrations is in the public interest.

SCHRADER IS THE SUBJECT OF AN ORDER OF A SELF-REGULATORY ORGANIZATION BARRING HIM FROM ASSOCIATING WITH ANY MEMBER FIRM IN ANY CAPACITY

N.J.S.A. 49:3-58 (a)(1); N.J.S.A. 49:3-58 (a)(2)(vi)

52. The preceding paragraphs are incorporated by reference as though set forth verbatim herein.

53. Pursuant to N.J.S.A. 49:3-58 (a):

[t]he bureau chief may by order deny, suspend, or revoke any registration if he finds: (1) that the order is in the public interest; and (2) that the applicant or registrant... (vi) ... is the subject of an order of... a self-regulatory organization... suspending or expelling him from a national securities or commodities exchange or national securities or commodities association...

54. Having been barred from association with any FINRA member firm in any capacity, Schrader has effectively been expelled from a national securities association. This is cause, pursuant to N.J.S.A. 49:3-58 (a)(2)(vi), to revoke Schrader's registration.

55. Based upon the foregoing, the revocation of Schrader's agent registration is in the public interest.

For the reasons stated above, it is on this 11th day of August, 2014

ORDERED that:

(a) Schrader is assessed a civil monetary penalty in the amount of seventy-five thousand dollars (\$75,000) pursuant to N.J.S.A. 49:3-70.1, for violations of N.J.S.A. 49:3-56(a).

This penalty shall be paid to the Bureau within thirty (30) days of the execution of this order;

- (b) Schrader's agent and investment adviser representative registrations are REVOKED;
- (c) Schrader is denied all exemptions contained in N.J.S.A. 49:3-50 subsection (a) paragraphs 9, 10 and 11 and subsection (b); and
- (d) The exemptions to the registration requirements provided by N.J.S.A. 49:3-56(b), N.J.S.A. 49:3-56(c) and N.J.S.A. 49:3-56(g) are hereby revoked as to Schrader.



Laura H. Posner
Bureau Chief

NOTICE OF RIGHT TO HEARING

Pursuant to the Uniform Securities Law (1997), N.J.S.A. 49:3-47 et seq., specifically, N.J.S.A. 49:3-58(c), the Bureau Chief shall entertain on no less than three (3) days notice, a written application to lift the summary revocation on written application of the registrant and in connection therewith may, but need not, hold a hearing and hear testimony, but shall provide to the applicant or registrant a written statement of the reasons for the summary suspension.

This matter will be set down for a hearing if a written request for such a hearing is filed with the Bureau within fifteen (15) days after the respondent receives this Order. A request for a hearing must be accompanied by a written response, which addresses specifically each of the allegations set forth in the Order. A general denial is unacceptable. At any hearing involving this matter, an individual respondent may appear on his/her own behalf or be represented by an attorney.

Orders issued pursuant to this subsection to suspend or revoke any registration shall be subject to an application to vacate upon ten (10) days notice, and a preliminary hearing on the order to suspend or revoke any registration shall be held in any event within twenty (20) days after it is requested, and the filing of a motion to vacate the order shall toll the time for filing an answer and written request for a hearing.

This Order is immediately effective. If no hearing is requested, the Order shall become a Final Order and will remain in effect until modified or vacated. If a hearing is requested, this Order shall remain in effect until a hearing is held and the Bureau Chief affirms, vacates or modifies the Order in accordance with the Administrative Law Judge's findings made at the hearing.

NOTICE OF OTHER ENFORCEMENT REMEDIES

You are advised that the Uniform Securities Law provides several enforcement remedies, which are available to be exercised by the Bureau Chief, either alone or in combination. These remedies include, in addition to this action suspending your registration, the right to seek and obtain injunctive and ancillary relief in a civil enforcement action, N.J.S.A. 49:3-69, and the right to seek and obtain civil penalties in an administrative or civil action, N.J.S.A. 49:3-70.1.

You are further advised that the entry of the relief requested does not preclude the Bureau Chief from seeking and obtaining other enforcement remedies against you in connection with the claims made against you in this action.