

**IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF VIRGINIA
Roanoke Division**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

Chadd L. Evans,

Defendant.

C.A. No. 7:23cv00446

Plaintiff Securities and Exchange Commission (“Commission”) alleges as follows against Defendant, Chadd L. Evans (“Evans”):

SUMMARY

1. This action involves a “free-riding” securities trading scheme perpetrated by Defendant Evans. Free-riding schemes generally involve a brokerage customer trading securities without having sufficient funds to pay for the trading. If the trading is profitable, the customer keeps the profit, but if the trading is unprofitable, the brokerage firm sustains the loss.

2. That is exactly what happened here – Evans engaged in a pattern of making bogus transfers of money from various under-funded bank and brokerage accounts to accounts at other broker-dealers via Automated Clearing House (“ACH”) transfer or check. Evans knew that the bank and brokerage accounts from which he initiated the transfers did not have sufficient funds to cover the ACH transfers and checks. Nevertheless, he immediately began trading securities in the brokerage accounts using the funds the brokerage firms made temporarily available while the fraudulent transfers were pending. When those transfers did not materialize, the brokerages were left with trading losses. Evans typically traded in this way for about three business days before the brokerage firm discovered the transfers had been rejected.

3. After his ACH transfers and checks were rejected for insufficient funds, the brokerages through which Evans conducted his free-riding trading would freeze and eventually shut down his accounts. Evans then opened accounts at other brokerages to continue engaging in his free-riding scheme.

4. From July 2020 to October 2020, Evans perpetrated this scheme at a series of five brokerage firms, and made false deposits totaling over \$280,000. Although his trading at each firm was unprofitable, Evans placed nearly \$1 million in trades, leaving the brokers with losses of approximately \$11,768.

5. By this conduct, Evans violated, and unless enjoined will continue to violate, Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

6. The SEC seeks permanent injunctive relief, a conduct-based injunction, and civil penalties against Evans.

JURISDICTION AND VENUE

7. The Court has jurisdiction over this action pursuant to Sections 21(d)(1), 21(d)(3)(A), 21(e) and 27(a) of the Exchange Act, 15 U.S.C. §§ 78u(d)(1), 78u(d)(3)(A), 78u(e) & 78aa(a).

8. Defendant has, directly or indirectly, made use of the means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange in connection with the transactions, acts, practices and courses of business alleged in this complaint.

9. Venue is proper in this district pursuant to Section 27(a) of the Exchange Act, 15 U.S.C. § 78aa(a), because certain of the transactions, acts, practices and courses of conduct constituting violations of the federal securities laws occurred within this district. In addition, venue is proper in this district because Evans resides in this district.

THE DEFENDANT

10. Chadd L. Evans, age 36, is a resident of Fincastle, Virginia.

FACTS

11. Evans opened his first brokerage account at Broker A in March 2020 with an initial deposit of \$100. His account opening documents indicated that he had no prior trading experience.

12. Evans subsequently added several hundred dollars, and by June 1, 2020, he had approximately \$1,000 invested in the account. Beginning the next day and continuing through June 8, he made a series of five ACH transfers from his checking account at Bank A totaling \$620, which Broker A subsequently rejected for insufficient funds.

13. During the time period between making the ACH transfers and their rejection by Broker A, Evans placed a series of trades costing several thousand dollars. None of these trades were profitable, and after making two withdrawals totaling \$395, he ended the month with a negative balance in the Broker A account, leaving the broker to cover the losses.

14. After his experience at Broker A, Evans opened another brokerage account at Broker B on July 14, 2020. He initially funded the account with two ACH transfers from his account at Bank A totaling \$122. On July 17, 2020, Evans made two ACH transfers totaling

\$3,250 from Bank A to Broker B, both of which were rejected for insufficient funds on July 20, 2020.

15. During that three-day period before rejection, Evans placed 44 trades costing a total of approximately \$32,000. Evans lost \$93 on this activity, and ended the month with a negative balance in the Broker B account, once again leaving the broker to cover the losses.

16. Evans repeated this conduct in subsequent months at four other brokerage firms. From August 8, 2020 to August 10, 2020, he deposited a series of 7 checks totaling \$65,000 written from his account at Broker A (which had a negative balance) into a brokerage account at Broker C.

17. In the application he used to open his account at Broker C, Evans falsely represented that he had a liquid net worth of \$25,000, which greatly exceeded his actual assets at the time.

18. Evans placed more than 100 trades at Broker C worth more than \$850,000, resulting in losses of \$3,938. Evans ended the month with a negative balance in the account. Broker C closed the account and was forced to cover the losses.

19. Later in August, Evans deposited another series of checks totaling \$110,000, all of which were later rejected for insufficient funds, into a brokerage account at Broker D. Evans placed 52 trades at Broker D at a cost of over \$100,000, resulting in losses of \$6,743, which Broker D had to cover.

20. Evans resumed his free-riding activity in October 2020, first making deposits of \$100,000 into an account at Broker E, which were later rejected for insufficient funds. Evans placed only one trade for \$6,720, which was cancelled by Broker E without incurring a loss.

21. Finally, he made a series of transfers from an account at Bank B to Broker F totaling \$11,500. Before those transfers were reversed for insufficient funds, Evans placed 8 trades totaling approximately \$1400, resulting in losses of \$994, which Broker F had to cover.

22. In total, while Evans did not make any profit himself in placing the trades for which he lacked funds, he left the brokerages with collective losses of approximately \$11,768.

23. At all times when placing the trades referenced above, Evans knew, or was reckless in not knowing, that the deposits he had purported to make were insufficient to cover the costs of the trades he placed.

COUNT I—FRAUD BY DEFENDANT EVANS

Violation of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]

24. Paragraphs 1 through 23 are hereby realleged and are incorporated herein by

reference.

25. From at least June 2020 through at least October 2020, Defendant Evans, knowingly or recklessly, in connection with the purchase and sale of securities described herein, by the use of the means and instrumentalities of interstate commerce and by use of the mails, directly and indirectly:

a) employed devices, schemes, and artifices to defraud;

b) made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and

c) engaged in acts, practices, and courses of business which would and did operate as a fraud and deceit upon the purchasers of such securities, all as more particularly described above.

26. By reason of the foregoing, Defendant has violated and, unless enjoined, will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

PRAYER FOR RELIEF

WHEREFORE, Plaintiff Commission, respectfully prays that the Court enter a final judgment:

I.

Permanently restraining and enjoining Defendant Evans, and his agents, servants, employees, attorneys, and all persons in active concert or participation with him who receive actual notice of the order by personal service or otherwise, and each of them from violating Section 10(b) of the Exchange Act [15 U.S.C. 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. 240.10b-5].

II.

Permanently enjoining Defendant Evans from opening a brokerage account without first providing to the relevant brokerage firm(s) a copy of the Commission's filed complaint in this matter and any judgment that the Commission may obtain against him in this matter.

III.

Ordering Defendant Evans, pursuant to Sections 21(d)(3) of the Exchange Act [15 U.S.C. 78u(d)(3)], to pay a civil monetary penalty.

IV.

Retaining jurisdiction over this action in order to implement and carry out the terms of all orders and decrees that may have been entered and to entertain any suitable application or motion

by the Commission for additional relief within the jurisdiction of this Court.

V.

Granting such other and further relief as this Court may deem just, equitable, and appropriate in connection with the enforcement of the federal securities laws and for the protection of investors.

RESPECTFULLY SUBMITTED,



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