

[Securities Regulation Daily Wrap Up, FRAUD AND MANIPULATION— N.D. Tex.: SEC obtains injunction against hedge fund manager in fraud scheme, \(Apr. 7, 2014\)](#)

Securities Regulation Daily Wrap Up

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By Amanda Maine, J.D.

The SEC announced that it had charged a hedge fund manager with defrauding investors. The hedge fund manager agreed to be permanently enjoined from violating the applicable securities laws. The SEC has also asked the district court to order disgorgement and the payment of a civil penalty (*SEC v. Sample*, April 4, 2014).

Allegations. According to the SEC, Matthew D. Sample used his hedge fund, Lobo Volatility Fund, LLC, to raise nearly \$1 million from five investors between 2009 and 2012. Sample allegedly told the investors that he would use their money to trade on their behalf, while taking a monthly management fee of a fraction of 1 percent of the fund's net asset value, 20 percent of trading profits, and limited expenses. Instead, Sample almost immediately diverted significant funds obtained from the investors for his personal use, including credit card payments, retail purchases, meals, and entertainment, the SEC alleged. Sample lost all the remaining investor funds when his trading strategy failed, yet he provided false documents to the investors to give the illusion that his trading had resulted in profits. He also used money from a new investor to make a partial payment to earlier investors demanding a refund, according to the SEC's complaint.

Charges and sanctions. The SEC charged Sample with violating Securities Act Sec. 17(a), Exchange Act Sec. 10(b) and Rule 10b-5, and Advisers Act Secs. 206(1), (2) and (4). Without admitting or denying the SEC's allegations, Sample [agreed](#) to be permanently enjoined from violating the above provisions and from soliciting or accepting funds from any person or entity for any unregistered offering of securities. In addition, the SEC has requested that the district court impose disgorgement, pre-judgment interest, and a civil penalty.

The case is [No. 3:14-cv-1218](#).

Companies: Lobo Volatility Fund, LLC

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