



STATE OF MISSOURI
OFFICE OF SECRETARY OF STATE

IN THE MATTER OF:)	
)	
DRAKE INVESTMENT OPTIONS, LLC, and)	
JOSEPH DRAKE RITCHIE,)	
)	Case No. AP-19-16
<i>Respondents.</i>)	
)	
Serve: Drake Investment Options, LLC)	
525 Autumn Bluff Drive)	
Ellisville, MO 63021)	
)	
and)	
)	
Joseph Drake Ritchie)	
525 Autumn Bluff Drive)	
Ellisville, MO 63021)	
josephdritchie@yahoo.com)	

**ORDER TO CEASE AND DESIST AND ORDER TO SHOW CAUSE WHY
REVOCATION, RESTITUTION, CIVIL PENALTIES, AND COSTS SHOULD NOT BE
IMPOSED**

On September 23, 2019, the Enforcement Section of the Missouri Securities Division of the Office of Secretary of State (“the Enforcement Section”), through Director of Enforcement Steven C. Reed, submitted a Petition for Order to Cease and Desist and Order to Show Cause Why Revocation, Restitution, Civil Penalties, and Costs Should Not Be Imposed (“the Petition”). After reviewing the Petition, the Commissioner issues the following order:

I. ALLEGATIONS OF FACT

The Petition alleges the following facts:

A. Introduction

Since at least 2015, Joseph Drake Ritchie (“Ritchie”) has engaged in dishonest or unethical business practices by, among other things, guaranteeing clients gains by allowing Ritchie to trade in options, conducting options trades for some clients for which such trades may not be suitable, borrowing money from at least one client, and not disclosing all material information to at least one client regarding Ritchie’s advisory fees. Additionally, Ritchie failed to respond to the Enforcement Section’s request for information.

B. Respondents and Related Parties

1. Drake Investment Options, LLC (“DIO”), is a Missouri Limited Liability Company formed on May 4, 2011. Ritchie is DIO’s Organizer and Registered Agent. DIO’s last known address is 525 Autumn Bluff Drive, Ellisville, Missouri 63021.
2. A check of the Central Registration Depository (“CRD”) indicates DIO has been a Missouri-registered investment adviser since October 15, 2012, and is assigned CRD number 164785.
3. A check of the CRD indicates Ritchie is the sole Missouri-registered investment adviser representative and Managing Member of DIO and is assigned number CRD number 4925174.
4. On August 23, 2018, Ritchie entered into a Consent Order with the Securities Division due to DIO failing to timely renew its registration causing DIO to operate in Missouri while unregistered from January 1, 2018 to April 27, 2018.¹
5. Optionshouse, LLC (“Optionshouse”), was a broker-dealer headquartered in Chicago, Illinois, and registered with the Securities and Exchange Commission (“SEC”) until around 2016 when E*TRADE Securities, LLC, acquired it.
6. E*TRADE Securities, LLC (“E*TRADE”), has been an SEC-registered broker-dealer since 1991 and is headquartered at 11 Times Square, 32nd Floor, New York, New York 10036. E*TRADE is assigned SEC number is 8-44112 and CRD number 29106.

Enforcement Section’s Investigation

7. On or about May 15, 2019, the Enforcement Section opened an investigation on DIO and Ritchie after receiving a complaint from a 38 year-old Plano, Texas, resident (“TR1”).
8. Approximately five years ago, Ritchie persuaded TR1 to allow Ritchie/DIO to manage TR1’s IRA. Ritchie, TR1’s cousin, purported that Ritchie could earn a 25% per year return trading in options contracts using Ritchie’s proprietary trading algorithm.
9. According to TR1, Ritchie has made statements to other family members that Ritchie bases his trading strategy on the lunar cycle of the moon.
10. TR1 did not sign any contracts with Ritchie/DIO and Ritchie did not disclose fees that would be charged to TR1 for managing the IRA.
11. TR1 told Ritchie to refrain from investing TR1’s funds in risky investments since TR1 wanted to preserve the IRA funds.

¹ See *In the Matter of Drake Investment Options, LLC, CRD #164785*, Case No. AP-18-17

12. Ritchie conducted trading in an E*TRADE account for TR1 and TR1 did receive statements directly from E*TRADE but never reviewed them until recently.
13. TR1 never received statements from Ritchie/DIO.
14. According to TR1, TR1's most recent E*TRADE statements indicates TR1's account has lost more than 25% of its value.
15. TR1 complained to Ritchie about the losses. Ritchie tried to allay TR1's concerns by asking TR1 to keep TR1's funds in longer to recover.
16. TR1 declined to keep TR1's funds with DIO/Ritchie and withdrew the funds.

Documents from E*TRADE

17. The Enforcement Section obtained statements and other documents for all known clients of DIO/Ritchie from E*TRADE and found approximately 10 clients of DIO/Ritchie that appear to be all family members.

TR1's E*TRADE Activity

18. The Enforcement Section reviewed TR1's E*TRADE account activity from August 2017 to March 2019 and noted, among other things, the following:
 - a. a beginning account value of \$27,636.62;
 - b. approximately 449 trades made in stocks, options, and exchange traded funds;
 - c. approximately \$362 in management fees paid to DIO/Ritchie;
 - d. ending account value of \$23,716.60 in March 2019; and
 - e. TR1 withdrew \$23,584.42 on March 26, 2019, ending TR1's investment relationship with DIO/Ritchie.

Missouri Resident 1 ("MR1")

19. On June 17, 2019, the Enforcement Section was contacted by a 59 year-old St. Louis, Missouri resident ("MR1").
20. MR1, Ritchie's aunt, has been a client of DIO/Ritchie for approximately 12 years.
21. MR1 was somewhat upset at Ritchie for selling MR1's blue chip stocks several years ago without MR1's knowledge or consent. Ritchie would later tell MR1 that it was Ritchie's

belief that Ritchie could provide a better return by trading options. Had MR1 retained the blue chip stocks, MR1 would have realized a substantial gain.

22. From approximately 2015-2019, MR1 has deposited more than \$1 million in MR1's E*TRADE accounts for Ritchie to manage.
23. Over a long period of time, Ritchie has made numerous losing trades in MR1's E*TRADE accounts resulting in large losses for MR1.
24. Ritchie has tried to allay MR1's concerns by asking for more time to make up the losses and suggested MR1's account value should improve.
25. MR1 has extended several loans to Ritchie over the years that included:
 - a. \$80,000 in May 2018; and
 - b. \$50,000 in October 2018.
26. None of the loans included a promissory note or other contract.
27. Ritchie has paid back the \$80,000 loan to MR1.
28. MR1 was concerned about MR1's mother's ("MR2") E*TRADE account which purportedly lost approximately \$500,000 due to Ritchie's alleged unsuitable trading in the account. MR2, Ritchie's grandmother, passed away on May 7, 2017, at the age of 96.

MR1's Optionshouse Account Review

29. The Enforcement Section reviewed MR1's Optionshouse account ending in RP9G from January 1, 2015, to January 31, 2016, one of approximately three accounts Ritchie/DIO managed for MR1, and found, among other things, the following:
 - a. a beginning account value of \$147,575.37 on January 1, 2015;
 - b. deposits totaling \$960,000;
 - c. numerous options trades conducted in the account;
 - d. advisory fees amounting to more than \$15,000 paid to Ritchie/DIO; and
 - e. ending account value of \$51,086.95 on January 31, 2016.

Review of Ritchie's Personal First Community Credit Union Bank Account

30. A review of Ritchie's personal First Community Credit Union bank account ending in #0417 from February 4, 2015, to October 30, 2018, revealed, among other things, the following:
 - a. deposits from at least 3 known clients of DIO/Ritchie that totaled \$525,000. Upon information, at least two of these deposits were loans from MR1 that included:
 - i. a \$83,000 deposit on May 16, 2018; and
 - ii. a \$50,000 deposit on October 30, 2018.
31. A review of Ritchie's personal First Community Credit Union bank account ending in #0417 during the month of June 2019 revealed an \$83,000 check written to MR1 that, upon information, was repayment for a loan Ritchie received from MR1 on May 16, 2018.
32. A review of Ritchie's personal First Community Credit Union bank account ending in #0417 from June 8, 2017, to June 4, 2019, revealed at least \$290,000 in payments to investment-related businesses that included Optionshouse, E*TRADE, and Interactive Brokers.

Texas Resident 2 ("TR2")

33. On June 25, 2019, the Enforcement Section was contacted by a 70 year-old Plano, Texas, resident ("TR2").
34. TR2, Ritchie's aunt, is the daughter of MR2.
35. TR2 served as the Executor of MR2's estate after MR2 passed away on May 7, 2017.
36. TR2 obtained copies of MR2's Optionshouse/E*TRADE account statements and was shocked to find approximately \$400,000 in losses due to Ritchie's trading in options contracts.
37. Ritchie made so many trades in MR2's account that some monthly statements were over 300 pages long.
38. It is unknown how much money MR2 invested with DIO/Ritchie over the years.
39. TR2 confronted Ritchie about the losses in MR2's account. Ritchie responded the account value will go up and they "were not really losses."

Review of MR2's April 2015 Investment Objectives

40. The Enforcement Section reviewed MR2's April 2015 Optionshouse investment objectives and financial information and found the following information:
- a. MR2's "Risk Tolerance" as "High";
 - b. MR2's "Estimated Net Worth" as "Under \$50,000";
 - c. MR2's "Estimated Liquid Net Worth" as \$1 million-\$5 million;
 - d. MR2's "Estimated Income" as \$100,000-\$200,000;
 - e. MR2's "Time Horizon" as "Average";
 - f. MR2's "Investment Objective" of "Growth" defined as "Investing in securities with strong earnings and/or revenue growth or potential."; and
 - g. MR2's "Liquidity Needs" as "Somewhat Important."
41. TR2 disagreed with the April 2015 Optionshouse investment objectives and financial information document because, among other things:
- a. MR2, as an elderly person in her 90s, had a low risk tolerance because MR2 wanted to preserve her retirement savings; and
 - b. MR2 valued liquidity especially considering MR2's medical needs at the time. Additionally, MR2 resided in a nursing home the last 2½-3 years of MR2's life.

MR2's Optionshouse/E*TRADE Statements Review

42. The Enforcement Section reviewed MR2's Optionshouse/E*TRADE statements ending in #0654 from January 1, 2015, to June 30, 2017, and found, among other things, the following:
- a. a beginning account value of \$631,842.04 on January 1, 2015;
 - b. deposits totaling approximately \$1,110,000;
 - c. withdrawals totaling approximately \$473,000;
 - d. numerous trades made, particularly in options;
 - e. more than \$57,000 in advisory fees paid to Ritchie/DIO; and

f. ending account value of \$589,195.82 on June 30, 2017.

Enforcement Section Letter to Ritchie

43. On May 16, 2019, the Enforcement Section sent a letter to Ritchie to request additional information.
44. On May 30, 2019, Ritchie emailed the Enforcement Section and said “I am aware of this inquiry and please allow me at least 30 days extension.”
45. On May 30, 2019, the Enforcement Section responded to the above-referenced email and suggested Ritchie provide the requested information in a rolling production. Ritchie responded “That should work.”
46. On July 9, 2019, after not receiving any documents or any other information from Ritchie, Ritchie emailed the Enforcement Section and said “I’m on vacation this week with my family. In the mean time the State should have everything you need Pre August 2017 given the Routine Exam that was conducted, as well as the statements, agreements, and files that were copied.”
47. The Enforcement Section responded to Ritchie via email on July 9, 2019, and indicated Ritchie would still be required to respond to the Enforcement Section’s letter requesting information. Ritchie never responded to this email.
48. On July 19, 2019, the Enforcement Section emailed Ritchie and requested a response to the letter by July 26, 2019. Ritchie never responded to this email.
49. To date, Ritchie has not responded to the Enforcement Section’s letter requesting information or provided any documents requested by the Enforcement Section.

II. COMMISSIONER’S DETERMINATIONS AND FINDINGS

Multiple Violations of Failing to Produce Records

50. **THE COMMISSIONER DETERMINES** that Respondents failed and refused to produce records requested by the Securities Division despite repeated requests and opportunities to comply.
51. These activities constitute violations of Section 409.108,² which prohibits any person from altering, destroying, mutilating, concealing, falsifying, removing, or withholding any record or document with the intent to impede, obstruct, avoid, evade, or influence the official investigation of the Missouri Securities Division.

² Unless otherwise noted, all statutory citations are to the 2016 Revised Statutes of Missouri.

52. Respondents' conduct in violation of Section 409.108 constitutes an illegal act, practice, or course of business and is, therefore, subject to the Commissioner's authority under Sections 409.113 and 409.6-604.

Multiple Violations of Making an Untrue Statement, Omitting to State Material Facts or Engaging in An Act, Practice, or Course of Business that Would Operate as a Fraud or Deceit Upon Another Person

53. **THE COMMISSIONER FURTHER DETERMINES** that Respondent Ritchie persuaded TR1 to allow Ritchie/DIO to manage TR1's IRA and claimed Ritchie could earn a 25% per year return trading in options contracts using Ritchie's proprietary trading algorithm.
54. According to TR1, Ritchie has made statements to other family members that Ritchie bases his trading strategy on the lunar cycle of the moon.
55. TR1 did not sign any contracts with Ritchie/DIO and Ritchie did not disclose fees that would be charged to TR1 for managing the IRA.
56. Ritchie sold MR1's blue chip stocks without MR1's knowledge or consent.
57. Ritchie borrowed money from MR1 without providing a promissory note or other contract that included:
- a. \$80,000 in May 2018; and
 - b. \$50,000 in October 2018.
58. Ritchie traded in options contracts for MR2's account and failed to disclose losses such that TR2, the executor of MR2's estate, was shocked to find approximately \$400,000 in losses due to Ritchie's trading in options contracts. When TR2 confronted Ritchie about the losses Ritchie responded the account value will go up and they "were not really losses."
59. Ritchie's activities constitute a violation of 409.5-501, which prohibits making untrue material statements, omitting material facts and engaging in practices that operate as a fraud or deceit upon another person.
60. At the time Respondents engaged in the conduct set forth above, at least one investor was more than 60-years-old and was an elderly person as that term is defined under Section 409.6-604(d)(3)(B).
61. Respondents conduct in violation of Section 409.5-501 constitutes an illegal act, practice, or course of business and such conduct is, therefore, subject to the Commissioner's authority under Section 409.6-604.

Multiple Violations of Dishonest and Unethical Conduct as a Registered Investment Adviser

62. **THE COMMISSIONER FURTHER DETERMINES** that Respondents engaged in dishonest and unethical practices by:
- a. refusing to produce records requested by the Securities Division;
 - b. engaging in excessive trading of options contracts;
 - c. borrowing money from a client;
 - d. failing to disclose advisory fees and commissions;
 - e. failing to receive discretionary authority in writing;
 - f. engaging in activities that constitute dishonest and unethical business practices under 15 CSR 30-51.172; and
 - g. engaging in activities that constitute a violation of Section 409.5-501.
63. Respondents' activities constitute dishonest and unethical business practices such that discipline under Section 409.412 and 15 CSR 30-51.172 is appropriate.
64. Respondents conduct in violation of Section 409.412 and 15 CSR 30-51.172 constitute an illegal act, practice, or course of business and such conduct is, therefore, subject to the Commissioner's authority under Section 409.6-604.

III. ORDER

NOW, THEREFORE, it is hereby ordered that Respondents, its agents, employees and servants, and all other persons participating in or about to participate in the above-described violations with knowledge of this order be prohibited from violating or materially aiding in any violation of:

- A. Section 409.108, by failing to produce records;
- B. Section 409.4-412, by engaging in dishonest and unethical conduct; and
- C. Section 409.5-501, by engaging in fraudulent conduct.

IV. STATEMENT

Pursuant to Section 409.6-604, the Commissioner hereby states that he will determine whether to grant the Enforcement Section's requests for:


- A. \$10,000 against each Respondent for more than one violation of Section 409.108, in a final order, unless Respondents request a hearing and show cause why the penalties should not be imposed;
- B. \$50,000 against each Respondent for more than one violation of Section 409.4-412, in a final order, unless Respondents request a hearing and show cause why the penalties should not be imposed;
- C. \$15,000 against each Respondent for more than one violation of Section 409.5-501, when at least one of these violations was committed against an elderly person, in a final order, unless Respondents request a hearing and show cause why the penalties should not be imposed;
- D. a referral to the Administrative Hearing Commission for revocation of the registration of both Respondents pursuant to Section 409.4-412(b) and 409.6-604;
- E. an order to pay restitution for any loss, including the amount of any actual damages that may have been caused by the Respondents' conduct, and interest from the date of the violation causing the loss, or disgorge any profits arising from any violation of Sections 409.4-402; and
- F. an order that the Commissioner provide such other relief as he deems just. All of the preceding relief is sought on behalf of the persons injured by the acts and practices of Respondent that constitute violations of the Missouri Securities Act.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY,
MISSOURI THIS 26th DAY OF SEPTEMBER, 2019.



JOHN R. ASHCROFT
SECRETARY OF STATE



DAVID M. MINNICK
COMMISSIONER OF SECURITIES



STATE OF MISSOURI
OFFICE OF SECRETARY OF STATE

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Ellisville, MO 63021)	
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525 Autumn Bluff Drive)	
Ellisville, MO 63021)	
josephdrichie@yahoo.com)	

NOTICE

TO: Respondents and any unnamed representatives aggrieved by this Order:

You may request a hearing in this matter within thirty (30) days of the receipt of this Order pursuant to Section 409.6-604(b), RSMo 2016, and 15 CSR 30-55.020. Any request for a hearing before the Commissioner must contain:

- a. a brief statement of the facts;
- b. a summary of the factual and legal issues involved;
- c. a request for relief;
- d. suggestions in support of the relief sought, including the relevant statutes;
- e. the name of the party requesting the hearing; and
- f. the name of the attorney representing the party, if any.

Within fifteen (15) days after receipt of a request in a record from a person or persons subject to this order, the Commissioner will schedule this matter for a hearing.

A request for a hearing must be mailed or delivered, in writing, to:

David M. Minnick, Commissioner of Securities
Office of the Secretary of State, Missouri
600 West Main Street, Room 229
Jefferson City, Missouri, 65102

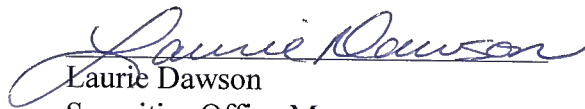
CERTIFICATE OF SERVICE

I hereby certify that on this 26th day of September, 2019, a copy of the foregoing Order to Cease and Desist and Order to Show Cause Why Revocation, Restitution, Civil Penalties, and Costs Should Not Be Imposed in the above styled case was **mailed via certified U.S. mail and emailed to:**

Drake Investment Options, LLC
525 Autumn Bluff Drive
Ellisville, MO 63021

and

Joseph Drake Ritchie
525 Autumn Bluff Drive
Ellisville, MO 63021
josephdritchie@yahoo.com


Laurie Dawson
Securities Office Manager