UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10628 / April 17, 2019

SECURITIES EXCHANGE ACT OF 1934
Release No. 85683 / April 17, 2019

INVESTMENT ADVISERS ACT OF 1940
Release No. 5224 / April 17, 2019

ADMINISTRATIVE PROCEEDING
File No. 3-19145

In the Matter of

MATTHEW R. ROSSI
and SJL CAPITAL, LLC

Respondents.

ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, SECTIONS 203(e), 203(f) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, AND SECTION 9(b) OF THE INVESTMENT COMPANY ACT OF 1940, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER AND NOTICE OF HEARING

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act"), Section 21C of the Securities Exchange Act of 1934 ("Exchange Act"), Sections 203(e), 203(f) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), and Section 9(b) of the Investment Company Act of 1940 ("Investment Company Act") against Matthew R. Rossi ("Rossi") and SJL Capital, LLC ("SJL", and together with Rossi, "Respondents").

II.

In anticipation of the institution of these proceedings, Respondents have submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Section 8A of the Securities Act of 1933, Section 21C of the Securities Exchange Act of 1934, Sections 203(e), 203(f) and 203(k) of the Investment Advisers Act of 1940, and Section 9(b) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order and Notice of Hearing ("Order"), as set forth below.

III.

On the basis of this Order and Respondents' Offer, the Commission finds[1] that

A. Summary

1. From at least May 2016 through March 2017, Respondents defrauded certain SJL advisory clients and at least one investor in SJL's MarketDNA Hedge Fund LP ("Fund") by misleading them regarding the nature and performance of Respondents' investment strategy and by concealing trading losses.

2. SJL and Rossi represented to Fund investors that the Fund would invest in a diversified portfolio consisting primarily of publicly traded equity securities. They further represented that the Fund would use a highly successful proprietary algorithm developed by Rossi known as MarketDNA, which allegedly had been refined over 20 years and included "safety valves" or stop losses to limit downside risk. Respondents also told certain advisory clients of SJL ("SMA Clients") that Respondents would use the same MarketDNA algorithm to invest the funds in their separately managed accounts ("SMAs").

3. In fact, Respondents engaged in risky, unhedged options trading, which did not comport with the purported MarketDNA strategy and did not include any safety valves or stop loss limits. Rossi had generated significant losses through such trading in the years preceding the launch of the Fund. Although the Fund achieved significant positive returns in June 2016, it lost 88% of its value in August, continued its decline in September and October, and was wiped out completely by November 2016. Respondents hid the full extent of the losses from investors in the

[1] The findings herein are made pursuant to Respondents' Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Fund by creating and distributing phony account statements and tax documents that falsely described the Fund's assets and the supposed returns generated by the MarketDNA strategy.

4. Respondents misled certain SMA Clients about the performance of the MarketDNA Strategy by distributing documents that falsely described the supposed returns generated by the strategy and concealed the losses suffered by the Fund. Unaware of the Fund's massive August 2016 losses and its ultimate collapse in November, Respondents' SMA Clients invested nearly $1.8 million with Rossi and SJL from August 12, 2016 through February 3, 2017. In February 2017, Rossi lost more than 70% of their remaining investment funds through more risky, unhedged options trading. When the SMA Clients discovered the losses, Rossi falsely told them that they were caused by a rogue trader whom he purportedly allowed to trade for the accounts when he underwent knee surgery in mid-February.

5. In March 2017, after having lost over $1.5 million, the SMA Clients revoked Respondents' discretionary authority over their accounts. In total, Respondents' Fund investors lost at least $300,000.

6. As a result of their conduct, Respondents violated Section 17(a) of the Securities Act; Section 10(b) of the Exchange Act and Rule 10b-5 thereunder; and Sections 206(1), 206(2), Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder.

B. Respondents

7. **Matthew R. Rossi**, age 50, resides in Fairfield, Connecticut where he moved in March 2017 from El Segundo, California. Rossi holds a Series 65 license. Rossi was the founder, managing partner, and 80% majority owner of SJL. On July 21, 2017, Rossi filed notice of his resignation from SJL.

8. **SJL Capital, LLC**, a Delaware limited liability company, was formed in January 2016 and originally located in El Segundo, California. In March 2017, SJL relocated to Fairfield, Connecticut. At all relevant times, SJL was an investment adviser registered with the state of California or Connecticut. SJL managed the Fund and several SMAs. SJL terminated its registrations in Connecticut and California on July 21 and August 20, 2017. SJL has never been registered with the Commission in any capacity.

Facts

C. Respondents' MarketDNA Strategy

9. Rossi launched the Fund, a Delaware limited partnership domiciled in California, in January 2016. At all relevant times, SJL was the general partner of the Fund, Rossi was the managing partner of SJL, and Rossi was solely responsible for both the Fund's and SJL's investment decisions.

10. The Fund's private placement memorandum ("PPM"), which Rossi approved and had ultimate authority over, stated that the Fund's investment objective was to maximize capital appreciation. The PPM further represented that the Fund would "seek consistent positive absolute returns primarily through a combination of long-term and short-term investments in order to achieve capital appreciation, while also attempting to preserve capital and mitigate risk through the diversification of investments." The PPM stated that the Fund "invests in a diversified portfolio consisting primarily of equity securities that are traded publicly in the U.S. markets." The Fund purportedly used Rossi's "proprietary algorithm known as MarketDNA which takes advantage of inefficiencies in dissemination of information within the derivatives market to determine equity directional movement." According to the PPM, SJL would use the MarketDNA algorithm to identify investment opportunities, analyze the underlying fundamentals of the companies identified, and then use "technical analysis to determine when to purchase or sell a given stock." SJL's Form ADV Part 2 represented that MarketDNA involved a "proprietary system of filters refined over 20 years, proven to bring [investors] substantially higher returns."

11. The Fund's initial investors were associates of Rossi. As of May 2016, the Fund's brokerage account had assets of $417,675.80, which Rossi allocated as follows: Fund Investor A ($265,675.80), Fund Investor B ($50,000), Fund Investor C ($10,000) and Rossi ($92,000).

D. Rossi Solicits New Investors

12. In May 2016, Rossi met Fund Investor D at a finance industry conference in Las Vegas. Rossi told Fund Investor D about the Fund, including that the Fund's MarketDNA strategy had been through many years of testing. Rossi also assured Fund Investor D that the strategy included "safety valves" that would cause the Fund to liquidate a position if losses exceeded 5%.

13. Rossi met SMA Client 1 at an asset management conference in June 2016 in New York City. Rossi told SMA Client 1 that his MarketDNA strategy could analyze options market activity to predict stock price movement, and that Rossi would trade only if his experience and other "confirming signals" indicated a good investment opportunity. Rossi also represented that stop losses were in place to limit downside risk.

E. The Fund Posts Early Gains As a Result of Rossi's Risky, Unhedged Options Trading

14. In fact, Respondents engaged in risky, unhedged options trading in the Fund, which did not comport with the purported MarketDNA strategy and did not include any safety valves or stop loss limits. Rossi had generated significant losses through such trading in the years preceding the launch of the Fund.

15. In June 2016, Rossi used Fund assets to make a series of unhedged trades in short-dated Priceline options. Rossi initially bought Priceline put options, which he held for one day before selling them at a loss. Rossi, however, recovered these losses and made money through subsequent short-term Priceline put trades. The Fund ended the month with a return of approximately 101%. The Fund achieved additional gains of 15% from unhedged options trading in July 2016. The Fund reached its peak valuation of over $1.3 million at the end of July 2016.

16. Rossi told Fund Investor D about the Fund's June 2016 performance. Between May and July 2016, Fund Investor D had numerous phone calls with Rossi during which they discussed the Fund. Based on Rossi's and SJL's representations, including the representations discussed in paragraphs 10 and 12 above, Fund Investor D invested $100,000 in the Fund on July 8, 2016.

F. The Fund Collapses, and Rossi Covers Up the Losses

17. The success of the Fund was short lived. It lost approximately 88% of its balance in August 2016 as a result of Rossi's unhedged options trading. The largest losses came on August 19th, when Rossi sold short-dated Amazon call options at a loss of over $600,000. Minutes after closing that position, he purchased more Amazon call options as well as Priceline call options. Rossi lost over $68,000 when he sold the Amazon options on August 22nd. He sold the Priceline options on August 26th—hours before they expired—for a $360,000 loss.

18. Rossi deceived Fund Investor D about the Fund's trading activity and performance in August 2016. On August 18th, Fund Investor D emailed Rossi asking for an update on the Fund. The next morning, shortly before he locked-in the losses on the Amazon call options, Rossi responded to Fund Investor D that "[t]he trading is doing well" despite some recent trades that "went opposite on us." Rossi reassured Fund Investor D that the Fund had "a couple of positions that should pay off … over the next couple days." When Fund Investor D asked how bad the August returns were looking, Rossi falsely replied "we were down 4% then bk [sic] to even. No. It's not bad." After he learned the truth about the August trading losses, Fund Investor D withdrew from the Fund and received approximately $11,000, the remainder of his $100,000 investment.

19. The Fund continued to lose money in September and October 2016 due to Rossi's risky, unhedged options trading.

20. By November 2016, the Fund's assets had decreased to approximately $22,000. Rossi transferred all of those assets to SJL's brokerage account in two transactions on November 7 and 17, 2016, leaving the Fund with $0. Rossi wrote himself checks totaling $1,000 and lost most of the remaining money in risky, unhedged options trading. The Fund's $0 balance remained unchanged through the end of the year.

21. To cover up the full extent of the Fund's losses, Rossi created and sent false account statements to Fund Investor B and false tax documents to Fund Investors A and B. For example, on November 6, 2016, Rossi sent Fund Investor B false account statements for his investment in the Fund that showed slight losses for September and October and an ending balance of $23,384.27. In fact, the entire Fund was worth only $21,618.50 at the end of October. Rossi also sent Fund Investor B false November and December statements, showing that Fund Investor B's account ended the year with a $26,790.28 balance, when in fact the Fund ended the year with no assets. Rossi also sent Fund Investor B a false K-1 statement reporting a $26,790.28 year-end balance for 2016.

22. In July 2017, Rossi met Fund Investor B at a coffee shop and confessed to giving him phony account statements. At their meeting, Rossi gave Fund Investor B a thumb drive containing what Rossi described as true account statements. He admitted to Fund Investor B that "the ones he had given [Fund Investor B] before were false."

G. Rossi Signs Up the SMA Clients

i. SMA Client 1 and SMA Client 2

23. Rossi continued soliciting SMA Client 1 following their June meeting in New York. SMA Client 1 told Rossi that he and his wife were interested in making an investment that would follow Rossi's MarketDNA strategy, and were especially comforted by the existence of stop losses to reduce risk; but, they did not want to invest in the Fund directly. Shortly after their meeting in New York, Rossi provided SMA Client 1 with temporary online access to "read-only" returns for an account that Rossi represented was trading according to the same MarketDNA strategy used by the Fund. SMA Client 1 thereafter observed the gains posted in the account for June and July 2016.

24. Beginning in or about early July 2016, Rossi and SMA Client 1 began speaking with each other by phone on approximately a weekly basis to discuss the Fund, the MarketDNA strategy, and a potential investment by SMA Client 1 or his wife ("SMA Client 2"). Rossi told SMA Client 1 about the Fund's performance and provided SMA Client 1 with tearsheets representing the Fund's performance through June 2016.

25. On August 12, 2016, SMA Client 2 signed an Investment Advisor Contract with SJL, appointing SJL as the investment adviser for her SMA and authorizing SJL to supervise and direct the investments of her brokerage account. SMA Client 2 allowed Rossi, through SJL, to begin trading the $150,000 that was in her account at the time.

26. Respondents never disclosed the Fund's massive August 19 and 22 losses to SMA Clients 1 or 2. Earlier that month, SMA Client 1's temporary access to the "read-only" statements expired. He and SMA Client 2, therefore, were no longer able to follow the MarketDNA strategy returns on a real time basis and had no knowledge of the Fund's steep decline.

27. Contrary to Rossi's representations to SMA Client 1, Respondents engaged in risky, unhedged options trading in the SMA Clients' accounts which did not comport with the purported MarketDNA strategy and did not include any stop loss limits.

28. Unlike the Fund, SMA Client 2's account achieved gains during August and September 2016 of 1.54% and 1.35%, respectively, and had only an 11% loss in October 2016. On November 2, 2016, Rossi emailed SMA Client 1, reporting that SMA Client 2's account was up 9% from her $150,000 starting investment. One week later, SMA Client 2 deposited another $50,000 into her account. On November 14, SMA Client 1 deposited $200,000 into another

brokerage account that he gave Rossi and SJL authority to manage. Their accounts enjoyed modest gains through the end of December 2016.

ii. SMA Client 3 (The Church)

29. In early September 2016, Rossi gave SMA Client 1 marketing materials and background information to provide to the leaders of SMA Client 1's church. SMA Client 1 was the church's treasurer, chairman of its endowment committee, and a member of the church's board of trustees. The marketing materials included a tearsheet falsely representing that Rossi, in his capacity as a portfolio manager, had generated "live" returns of 135.6% for the months of May through August. The tearsheet failed to disclose or take into account the Fund's substantial losses in August.

30. Based on Rossi's representations and the apparent success of Rossi's MarketDNA strategy, SMA Client 1 recommended that his church ("SMA Client 3," together with SMA Client 1 and SMA Client 2, the "SMA Clients") invest with Rossi and SJL. SMA Client 3's board of trustees approved the investment recommendation. On November 22, 2017, the SMA Client 3's executive director signed an Investment Advisor Contract with SJL. SMA Client 3 deposited a total of $300,000 in three equal installments between December 21, 2016 and February 1, 2017 into its SMA account to be managed by Rossi and SJL.

31. On January 3rd, Rossi sent SMA Client 1 an email attaching a December 2016 tearsheet that falsely represented that the MarketDNA strategy had a net return for the calendar year of 186.44%. Later in January, Rossi sent SMA Client 1 hedge fund rankings that showed the Fund was "#1 for Returns %" for "2016 YTD." Rossi knew that these returns and rankings were false and that he had lost all of the Fund's assets.

32. Subsequently, on January 27, 2017, SMA Client 2 deposited an additional $600,000 into her SMA. On February 1, 2017, SMA Client 3 deposited an additional $100,000 into its SMA. On February 3, 2017, SMA Client 1 deposited an additional $499,000 into his SMA.

H. Rossi's February 2017 Losses

33. SMA Client 1 noticed large losses in his and SMA Client 2's SMA accounts in mid-February 2017. Later that month, SMA Client 1 asked Rossi for an explanation for the losses. Rossi blamed most of the losses on a rogue trader whom he had allegedly allowed to access the accounts on February 16 and 17, 2017 while Rossi purportedly underwent knee surgery. Rossi told SMA Client 1 that this trader "was given access to login to our advisory account to monitor the portfolio. Unfortunately the person executed trades, not associated with the algorithm that incurred losses of nearly 58% to the portfolio of [sic] which my personal account is linked to as well as your two accounts and the churches [sic] account."

34. Rossi assured SMA Client 1 that SJL had taken steps to make sure this mistake would not recur. Rossi told SMA Client 1 that SJL had revised its "vetting process" for future

traders "to make sure who we bring in is understanding of following our algo to the tee, 100% all the time." Rossi asked SMA Client 1 to "stick with us," adding "I truly believe we will recover a significant amount in March and the following months." The three SMA accounts for SMA Clients 1, 2, and 3 lost over 70% of their value in February 2017.

35. SMA Client 1 continued investigating Rossi's explanations for the losses into March 2017. On March 20, 2017, after Respondents lost an additional 56% of the SMA Clients' remaining investment funds, SMA Clients 1, 2, and 3 revoked Rossi's access to their accounts. The SMA Clients suffered combined losses in excess of $1.5 million.

36. The February losses were caused by Rossi's risky, unhedged options trading, and his representations regarding the cause of the losses were false. First, most of the February 2017 losses resulted from Rossi's purchase of Amazon options before the date that he claimed to have turned over the account to the rogue trader. Second, the losses were not caused by a rogue trader because the trader did not exist. In fact, if Respondents had hired a trader, it would have been a violation of the Investment Advisory Agreements entered into with the SMA Clients, which required written authorization from the clients before any new traders were allowed access to the accounts.

37. Rossi deregistered and closed SJL in July 2017.

I. Rossi's Fees

38. Rossi's false representations and failure to disclose the performance of his trading strategy to SMA Client 1 enabled Rossi to obtain advisory contracts and fees to which he was not entitled and would not otherwise have obtained. In November 2016 and January 2017, Rossi requested prepayment of certain performance-based fees from SMA Client 1 based on the gains in his and SMA Client 2's accounts. Although SMA Client 1 knew that Rossi was not yet entitled to these fee payments, he agreed to make four transfers into SJL's account, totaling $28,965 as a "gesture of good faith."

39. Rossi transferred these fees into SJL's brokerage account, which he used for his personal benefit. He lost virtually all of the first fee payment of $5,281 in November 2016 on risky, unhedged options trading in SJL's brokerage account. Rossi used the second fee payment of $4,446 in January 2017 and other funds to write a $6,000 check to Fund Investor C and a $2,900 check to himself. Finally, after receiving $19,208 from SMA Client 1 and SMA Client 2 in February 2017, Rossi transferred $5,500 to his personal checking account, wrote a $2,000 check to cash, used $4,650 to pay personal expenses such as rent and heating, wrote a $3,000 check to a family member, and lost more than $4,700 through trading.

J. Violations

40. Section 17(a) of the Securities Act prohibits fraudulent conduct in the offer or sale of securities. As a result of the conduct described above, Rossi and SJL willfully violated Section 17(a) of the Securities Act.

41. Section 10(b) of the Exchange Act and Rule 10b-5 thereunder prohibit fraudulent conduct in connection with the purchase or sale of any security. As a result of the conduct described above, Rossi and SJL willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

42. Section 206(1) of the Advisers Act prohibits an investment adviser from employing any device, scheme, or artifice to defraud any client or prospective client. As a result of the conduct described above, Rossi and SJL willfully violated Section 206(1).

43. Section 206(2) of the Advisers Act makes it unlawful for an adviser, directly or indirectly, to engage in any transaction, practice, or course of business that operates as a fraud or deceit upon any client or prospective client. As a result of the conduct described above, Rossi and SJL willfully violated Section 206(2).

44. Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder make it unlawful for any investment adviser to a pooled investment vehicle to "[m]ake any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to any investor or prospective investor in the pooled investment vehicle" or "engage in any act, practice, or course of business that is fraudulent, deceptive, or manipulative with respect to any investor or prospective investor in the pooled investment vehicle." As a result of the conduct described above, Rossi and SJL willfully violated Section 206(4) and Rule 206(4)-8 thereunder.

IV.

Pursuant to Respondents' Offer, Respondents agree to additional proceedings in this proceeding to determine what, if any, disgorgement, prejudgment interest, and civil penalties are appropriate and in the public interest under the Securities Act, Exchange Act, and Advisers Act. In connection with such additional proceedings: (a) Respondents agree that they will be precluded from arguing that they did not violate the federal securities laws described in this Order; (b) Respondents agree that they may not challenge the validity of this Order; (c) solely for the purposes of such additional proceedings, the findings of this Order shall be accepted as and deemed true by the hearing officer; and (d) the hearing officer may determine the issues raised in the additional proceedings on the basis of affidavits, declarations, excerpts of sworn deposition or investigative testimony, and documentary evidence. Respondent Rossi may, if he elects, also testify and present arguments at a hearing concerning issues relevant to the imposition of disgorgement, prejudgment interest and civil penalties, provided such testimony and arguments do not contravene subsections (a) through (c) of this Section IV.

V.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondents' Offer.

Accordingly, pursuant to Section 8A of the Securities Act, Section 21C of the Exchange Act, Sections 203(e), 203(f) and 203(k) of the Advisers Act, and Section 9(b) of the Investment Company Act, it is hereby ORDERED that:

A. Respondents cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 206(1), 206(2), and 206(4) of the Advisers Act and Rule 206(4)-8 thereunder.

B. Respondent Rossi be, and hereby is:

i. barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization; and

ii. prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter.

Any reapplication for association by the Respondent Rossi will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

C. Respondent SJL is censured.

VI.

IT IS FURTHER ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section IV hereof shall be convened, at a time and place to be fixed, before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

If Respondents fail to appear at a hearing after being duly notified, the Respondents may be deemed in default and the proceedings may be determined against them upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f),

221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

IT IS FURTHER ORDERED that, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice, 17 C.F.R. § 201.360(a)(2), the Administrative Law Judge shall issue an initial decision no later than 75 days from the occurrence of one of the following events: (A) The completion of post-hearing briefing in a proceeding where the hearing has been completed; (B) Where the hearing officer has determined that no hearing is necessary, upon completion of briefing on a motion pursuant to Rule 250 of the Commission's Rules of Practice, 17 C.F.R. § 201.250; or (C) The determination by the hearing officer that a party is deemed to be in default under Rule 155 of the Commission's Rules of Practice, 17 C.F.R. § 201.155 and no hearing is necessary.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Vanessa A. Countryman
Acting Secretary