PICI Futures Ethic Training

ONLY NFA REGISTERED PERSONNEL NEED READ THIS

ETHIC TRAINING PROCEDURES OUTLINING ETHICS TRAINING

1. The topics of the training program: Ethics, do the right thing, communications with public, reviewing clients information, sales practices, supervision.

2. The provider of the training: Sherry Abbott-EVP CCO CFO and Mike Jordan - President, CEO

3. The format of the training: reading of this ethic training material when presented at the annual compliance program where all NFA registered individuals perform their attestation. Ethic training has and is always covered in the firm's compliance meeting.

4. The frequency with which the firm expects its financial professionals to complete training: once a year, annually, when the compliance meeting is scheduled.

5. How the firm will document that it has followed its written procedures: all financial professionals complete an annual compliance certification in which they answer many compliance questions, which include ethics issues, and sign electronically they attest to doing all that is required for the annual compliance program certification. In addition to that, they manually sign a completed attestation form attesting to all of the above.

NFA REQUIRES THIS STATEMENT BE ADDED - IT IS NOTED THAT THE FIRM DOES COVER ALL IN THIS TRAINING DOCUMENT THAT WAS FURNISHED BY THE NFA. THE FIRM HAS TALIORED ITS PROGRAM FOR THE TYPE OF FUTURES ACTIVITY IT PERFORMS. ALL OTHER ETHIC TRAINING IS PROVIDED VIA OUR OTHER VARIOUS FIRM MANUALS AND COMPLIANCE PROGRAM.

CONTENT

The Statement lists the following as topics that an ethics training program should address:

1. An explanation of the applicable laws and regulations and rules of self-regulatory organizations or contract markets and registered derivatives transaction execution facilities; [1]
2. The registrant's obligation to the public to observe just and equitable principles of trade;
3. How to act honestly and fairly and with due skill, care and diligence in the best interest of customers and the integrity of the markets;
4. How to establish effective supervisory systems and internal controls;
5. Obtaining and assessing the financial situation and investment experience of customers;
6. Disclosure of material information to customers; and
7. Avoidance, proper disclosure and handling of conflicts of interest.

The Statement provides that ethics training should be focused to some extent on a person's registration category. Likewise, NFA believes it is appropriate for Members to tailor their ethics training programs to the specific obligations of their membership category and the roles of their personnel.

Note from Home Office: The following information was written with futures trading in mind, but is applicable in all aspects of the financial industry. Ethics are ethics and regardless what type of investing you do, the principals are the same. Procedures may be different from what is mentioned here for securities business. Much of what is discussed herein is contained in the firm's WSP and Comprehensive Compliance Package so it may be redundant but a review is never harmful but not required for securities only personnel.

***Note regarding rules for NFA**:* All rules and regulations can be found on www.nfa.futures.org and you need to familiarize yourself with them - if you are an NFA registered person. By accessing the website, we can be assured that you are viewing the most recent and up-to-date rules.

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Section One

Part I: Communications with the Public

These rules pertain to your publicity, advertising, direct mail, newsletters, letters, notes, seminars, workshops, speeches, interviews, e-mail, web site, adult education classes, phone solicitations, one-on-one or group presentations, trade shows, magazine or newspaper articles, reprints, face book, twitter, etc., virtually everything you communicate to clients and prospects. The compliance department must approve, ahead of time, anything you present, send or make available to prospects and clients. Failure to do so will result in your money being taken away by means of a fine, determined at the time of offense.

While that list is long, it protects the public, you and your company. Just remember any communication to prospects or clients must be in compliance. Be aware, anything you communicate to prospects and clients that is not in compliance can get you and your firm in serious trouble.

For example, imagine yourself jotting a quick note to a client about a fund you are selling. You mention this fund gives his portfolio balance and is a hedge against a down market. Whether the fund performs positively or not, your note could be used against you in a court of law or arbitration hearing ...if you did not include the 'risk' side of the story.

We asked a thirty year veteran broker his thoughts about this subject and he said, "Before I send anything to a client or prospect, I ask myself, how would this look to a Judge if the client or prospect decided to sue (or to the National Futures Association)?" He said he wasn't being paranoid, only practical. In today's litigious environment everybody's suing everybody.

Sales promotion literature is an area that has seen many violations over the years. The NFA reports that deceptive and misleading promotional literature was listed as one of the main reasons for disbarment.

According to compliance officers and regulators, some of the most important requirements for promotional literature are:

- Information must be factual.
- You must be able to document any claims.
- You must balance any statements about profit potential with statements of risk of loss.
- Any reference to hypothetical results must be accompanied by a specific statement required by the National Futures Association (NFA).
- Any statement of actual past trading profits must be accompanied by a statement that, "past performance is not necessarily indicative of future results."
- Opinions must be identified as opinions and have a reasonable basis in fact.
- The most important thing compliance people and regulators told us about promotional material is that you must get everything reviewed and approved by your supervisor and/or compliance department before you use it. The review, as well as approval, of promotional literature must be in writing. One of the surest and fastest ways to get in trouble with your supervisor, your compliance department, and your company, would be to send or present anything to your prospects and clients without this prior written review and written approval.

NOTE: the firm requires all material, literature, articles, letters, anything you write, etc. must be pre-approved by the Home Office.

As mentioned earlier, interviews, such as those with the media, can be considered communications with the public if they are used to solicit business. **Most compliance officers we spoke with said they do not want their brokers to be interviewed by anyone.**

Here is an example given to us by a senior officer of a major FCM.

> "Let's say one of our brokers is being interviewed on TV about trading techniques. Our broker states that while in our training program, he was taught to always use stops. In fact, he says he was trained to enter the stop when he entered the order. One of our customers watching this interview uses a different broker with our firm. This other broker also went through our training program, but he never uses stops. That client watching the interview may feel that he has a case against us. After all, his broker was taught to use stops but he never did and that client lost money because of it."

There are many other pitfalls for brokers giving interviews. For example, an equity broker who sells funds tells an interviewer how a futures fund can give balance to a portfolio, improve returns and reduce volatility. He does not mention that futures funds are not for everyone. He does not mention downside risk. If an investor bought one of his company's funds based on that interview, and lost money, the broker and their firm could be at risk. It is relatively easy for lawyers to get videotape copies of such interviews or audiotapes of radio interviews.
In summary, most compliance officers we interviewed said the risks outweigh the rewards when media interviews are concerned.

Quite often a broker will see an article in a newspaper or magazine that agrees with the broker's thinking about a certain trading opportunity or about the advantages of managed futures. Brokers often send copies of articles like these to prospects and clients.

This third party endorsement has the possibility of strengthening the broker's rationale as to why the prospect or client should put on the trade or buy the fund. People seem to give added credence to something if they read or see it in the media. Much of the time, these stories are biased and do not necessarily present both sides of the story. Often they do not mention any downside risk at all.

The regulators have a problem with brokers sending out this kind of 'one-sided' information with no additional statements to give balance to the article. In fact, to quote from the NFA's Regulatory Guide for FCMs and IBs, "It is safe to assume that the use of an article, without some type of accompanying explanation, will be unacceptable."

Refer to www.nfa.futures.org for rules and regulations pertaining to this.

Radio and Television Advertisements
No Member shall use or directly benefit from any radio or television advertisement or any other audio or video advertisement distributed through media accessible by the public if the advertisement that makes any specific trading recommendation or refers to or describes the extent of any profit obtained in the past that can be achieved in the future unless the Member submits the advertisement to NFA's Promotional Material Review Team for its review and approval at least ten days prior to first use or such shorter period as NFA may allow in particular circumstances.

NOTE: the firm requires all material, literature, articles, letters, anything you write, etc. must be pre-approved by the Home Office.

NFA INTERPRETIVE NOTICES
Use of On-Line Social Networking Groups to Communicate with the Public On-line social networking groups have changed the way people make trading decisions. A number of NFA Members sponsor blogs, chat rooms, and forums (also called message or bulletin boards), and some use sites like Facebook or Twitter for business purposes. Associates may also sponsor or participate in these groups. Unfortunately, these on-line communities provide opportunities for

posters to spread unsubstantiated rumors and intentional misrepresentations. The form of communication does not change the obligations of Members and Associates who host or participate in these groups, and electronic communications must comply with NFA rules.

Obviously, any electronic content that can be viewed by the general public, or even by a more closed community that includes current and potential customers, can be promotional material. For example, blogs dealing with commodity futures or options are promotional material when written by an NFA Member or Associate, and Forex blogs are promotional material when written by a Member or Associate subject to the Forex rules.
Note: The firm prohibits the use of blogs and social media pages for business use without and consent to archiving through our third party at a cost to the associate.

The issue becomes more complicated for user-generated comments responding to a Member or Associate's blog and for Members and Associates who host chat rooms or forums. What is their responsibility for posts from customers or others over whom the Member or Associate has no direct control? When inadequately monitored, social networking sites may contain misleading information, lure customers into trades that they would not normally make or be used in an attempt to manipulate prices.

Note: The firm prohibits the use of blogs and social media pages for business use without and consent to archiving through our third party at a cost to the associate
If a Member or Associate hosts a blog, a chat room, or a forum where futures or Forex are discussed, the Member or Associate is required to supervise the use of that community. This requires, at a minimum, that the Member or Associate regularly monitor the content of the sites it hosts, take down any misleading or otherwise fraudulent posts and ban users for egregious or repeat violations. Not only are these actions required by NFA's supervision rules, they are both common sense and common practice. Similar requirements apply to Facebook and other sites that allow others to post to the Member or Associate's "wall" or other assessable area.

Note: The firm prohibits the use of blogs and social media pages for business use without and consent to archiving through our third party at a cost to the associate.

Audio pod-casts and videos on the Internet -whether on the Member's or Associate's Web site or on an independent site such as YouTube -are similar to radio and television advertisements, If they make specific trading recommendations or refer to profits that have been obtained in the past or can be achieved in the future, NFA rules requires the Member or Associate to submit them to NFA for approval ten days prior to use. Members should have policies regarding employee conduct. These policies could require employees to notify the employer if they participate in any on-line trading or financial communities and provide screen names so that the employer can monitor employees' posts periodically. Alternatively, the policy could simply prohibit participation in such communities. The Member must, of course, take reasonable steps to enforce whatever policies it adopts.

Note: The firm prohibits the use of blogs and social media pages for business use without and consent to archiving through our third party at a cost to the associate

Note: Any associate that desires a business website must consent to creation and maintenance by the Home Office. All websites are maintained by the CEO with no control by associate.

The interpretive notice also states that Members are responsible for supervising their employees and agents who decide whether to include a hyperlink to another web site. While Members are not necessarily accountable for the content on the hyperlinked site, they are responsible for monitoring that content and removing the hyperlink if they have reason to believe the content is misleading. This includes hyperlinks to third-party blogs, chat rooms and forums.

Note: Any associate that desires a business website must consent to creation and maintenance by the Home Office. All websites are maintained by the CEO with no control by associate.

Part II: Financial Situation and Investment Experience of Prospects and Customers

Assessing the financial situation and investment experience of your prospects and clients is one of your most important responsibilities. You are required to profile your prospects first. As you have heard before, "futures trading is not for everyone." Of course, the degree of involvement and the type of futures trading must also be taken into consideration.

If you are a securities broker selling funds to your current clients, your job of profiling is more rigorous than a futures broker prospecting a new client, so applying those same practices and principles should be routine. You already know the financial situation and investment experience of most, if not all, of your clients. You know that putting $25,000 into a fund might be appropriate for a $500,000 stock and bond portfolio you are managing. You also know that putting $25,000 into a fund most likely would be inappropriate for a $50,000 portfolio.

Many problems that occur for some futures brokers come from accounts that never should have been trading futures in the first place. It is your job to attempt to determine if your prospect should become your client. In some cases, a client's financial situation and investment experience could require additional risk disclosure in addition to the Risk Disclosure Statement. This includes, but is not limited to, younger clients, older clients, clients with little or no investment experience, clients with questionable employment situations, clients who have never traded futures, clients who barely meet your firm's minimum financial requirements. If there is any doubt as to whether or not a client requires disclosure in addition to the Risk Disclosure Statement, ask the Home Office.

Your responsibility concerning financial situation and investment experience does not end when your prospects become clients. A client's financial situation may change quickly and dramatically. For example, if a client begins to trade wildly and incur large losses, you must try to determine what's going on. Is the client in financial trouble and trying to use the futures markets to recover? Is the client going through a personal crisis? Is the client now losing necessary capital rather than risk capital?

When it comes to exchange traded options on futures contracts, the financial situation and investment experience of your prospects may require additional examination. CFTC Regulation says in part, "commodity options transactions are not suitable for many members of the public." The CFTC has stated that, " ... the FCM must acquaint itself sufficiently with the personal circumstances of each option customer to determine what further facts, explanations and disclosures are needed in order for that particular option customer to make an informed decision whether to trade options ... while this requirement is not a 'suitability' rule as such rules have been imposed in the securities industry, before the opening of an option account the FCM has a duty to acquaint itself with the personal circumstances of an option customer."

Your activities pertaining to the topic of this section are covered by the National Futures Association's Rule 2-30: Customer Information and Risk Disclosure. Following this rule helps you to get to ***know your customer***. Every compliance officer and regulator we surveyed said it is most important to "know your customer”.

In addition to this document, the firm has extensive training on the “know your customer” rule for our securities business, which you should already be familiar with.

Rule 2-30 requires NFA Members and Associates to obtain information about their futures customers and provide such customers with appropriate risk disclosure prior to the time the customer first opens a futures trading account or authorizes the Member to direct trading in their account.

Generally, the amendments broaden the scope of the rule through the following changes:

- Expanding the customers covered by the rule to reach not just individual customers but all non-ECP (eligible contact participant) customers;
- Requiring FCM Members to annually request that active customers notify the Member of any material changes to the information obtained from the customer pursuant to Compliance Rule 2-30(c), and requiring the FCM, IB or CTA Member that currently solicits and communicates with the customer to determine if additional risk disclosure is required to be provided based on any changed information; and
- Prohibiting Members and Associates from making individualized trading recommendations to those customers whom the Member or Associate has or should have advised that futures trading is too risky for them.

The FCM that carries the customer account will be required to contact the customer in writing at least annually to request that the customer notify the Member of any material changes to the information previously obtained. Members or Associates may contact the customer electronically or by any other means reasonably designed to reach the customer.

If a customer informs the carrying FCM that they are unable to verify the information because the information previously provided to the carrying FCM is not currently available to the customer, then the carrying FCM must promptly provide the information to the customer.

If the customer does not inform the carrying FCM of any material changes to the information, then the information previously provided is deemed verified. However, if a customer notifies the FCM of material changes to the information, a determination must be made as to whether additional risk disclosure is required based on the changed information. If another FCM or IB introduces the customer's account or a CTA directs trading in the account, then the carrying FCM must notify that Member of the changes to the customer's information. The Member or Associate who currently solicits and communicates with the customer is responsible for determining if additional risk disclosure is necessary.
We close this topic on financial situation and investment experience of your prospects and customers, as we began: "futures trading is not for everyone."

Section Two

Part I: Disclosure of Material Information

Following these guidelines is not only ethical but also will increase your chances of getting more business.
You must disclose the material information necessary to help each prospect decide if managed futures or futures trading is for them. Your very action of disclosing material information directly and honestly improves your chances of opening the account. After all, the number one attribute your prospects want from you is honesty and disclosure helps you demonstrate honesty.

Over the past several years, major Commodity Exchanges, major Brokerage Firms and Introducing Brokers have conducted market surveys, to determine the reasons why futures prospects open accounts and why they don't. The number one reason prospects open accounts is because they trust the broker. Disclosure of material information gives you a marvelous opportunity to establish trust. If your prospect believes you, they are more likely to buy from you. You must be believed to be heard.

Here is a partial checklist of things you may want to disclose, depending on the situation. It is not all-inclusive nor does it all apply to the type of futures trading the firm allows.

- Futures trading is not for everybody.
- Futures trading involves the risk of loss.
- Money invested in futures should be risk capital not necessary capital.
- Most individual futures speculators lose money.
- The investor can lose more than his initial capital in a transactional account.
- Most trades will probably be losing trades.
- Discuss slippage (fills off the market).
- Explain the possibilities of no fills.
- Explain locked-limit markets.
- Spreads and/or straddles are not necessarily conservative.
- Options don't necessarily have limited risk.
- Options don't necessarily move in relationship to the underlying futures contract.
- Options are not as conservative as they may sound. You could lose everything you paid for the option and possibly more with some option strategies.
- If margin calls are not met in a timely fashion you can be taken out of the market.
- Futures trading uses leverage--explain this principle to your prospects.
- Markets can be thin and illiquid--explain this trading risk to your prospects.
- Tell your prospects about margin calls.
- Markets can be violent and fast.

- Brokers, floor personnel, back office people can and do make mistakes.
- Commissions and fees can be substantial and have a negative impact on possible profits, if any, and/or magnify losses.
- Futures trading can be a gut wrenching, emotional experience.

The more you disclose the less trouble you are liable to have once the account starts trading. The less you disclose the more trouble you are liable to have once the account starts trading. If you are selling futures funds, you must disclose, among other things, that futures funds can be volatile, significant draw-downs can occur and there can be a penalty for early withdrawals (if there is).

Another major advantage of disclosing material information ahead of time is that you help your clients avoid surprises. When it comes to money, clients hate surprises. You should disclose to your prospects that any money invested in futures should be risk capital not necessary capital. This concept is at the very center of this disclosure requirement. Some brokers even tell prospects that most people who trade their own account lose money. You may want to point out to your prospect, "If you open a speculative trading account and lose every cent, it should not make a difference in your lifestyle." Many prospects know that most transactional futures traders lose money, trading futures is risky, margin calls can happen with non-fund accounts, as well as other negatives. If you disclose these possible problems, you improve your chances of being perceived as an honest broker.

This ends Disclosure of Material Information. Disclosure is good because:
- It's what your prospects and clients want.
- It's what your manager wants.
- It's what your compliance people want.
- It's what the regulators want.
- It lets you demonstrate your honesty, which helps you open more accounts.

Part II: Sales Practices
Sales Practices is an area that can either make you or break you as you offer futures to the investing public. Most brokers we have interviewed and worked with are ethical, law abiding, and professional. They identify and find needs. They see their futures products and services by asking questions, listening, and educating. They convey as much information as possible for the prospect to make up their mind. The true professionals in this business never try to talk futures prospects into something they really don't want to do.

Examine your book of clients. Did you pressure any into opening an account? If the answer is yes, have these been satisfactory relationships? Probably not. The best brokers we have gotten to know over the last thirty-plus years use very conservative sales practices. This section shows you how they sell legally and ethically to increase their business. We also cover what compliance people and regulators said about violations in this area, including ways to help keep yourself and your firm out of trouble. One of the most common violations in the sales practice area is a broker overstating and/or misrepresenting his performance record. Some futures brokers seem to believe they need to make claims of 25, 30, or 40 percent annual returns to convince a prospect to open an account. More than thirty years' of marketing research finds that most prospects do not believe these claims. Prospects say that if the broker is doing that well, he would have all the clients he could handle and would not be prospecting. Making big returns and calling the markets are not prerequisites for success.

Imagine yourself at an arbitration hearing with a disgruntled client. When the client tells the arbitration board how you were so enthusiastic about the possibility of big gains, are you going to honestly be able to say that you also warned your client about the possibility of large losses? The most frequent sales practice violation is downplaying risk and overstating profit potential. If you do this, you could be setting yourself and your firm up for a potential lawsuit. This behavior has gotten many brokers and their firms in trouble over the years.

The NFA has disciplined and/or barred from the industry more than a hundred firms for sales practice fraud ... almost all of whom were guilty of overstating profit potential and downplaying risk. The Commodity Futures Trading Commission also has been successful in ridding our industry of many charlatans. These regulatory efforts must be working. Each year

there are fewer and fewer complaints by the public about fraudulent activity in the sale of futures products. Claims about commissions are a potential pitfall when selling futures. For example, you must be careful not to gloss over and/or minimize the impact commissions and fees can have on a trader's or fund's performance. A regulator told us a broker got in trouble when he said to prospects, "commissions in futures are comparable to stocks except that with futures you only pay a commission when you close out a trade, and with stocks you pay a commission when you buy and when you sell." Brokers have been barred from the industry for misrepresenting their commission structure among other violations.

Commissions can have a significant impact on a transactional account. Talk about this with your prospects (experienced traders and novices) before they open an account. Again, you want to avoid surprises. You don't want a client to call you someday and say, "I just figured it out, about 30% of my money goes to paying your commissions, no wonder you're always trying to get me to trade!"

Brokers often use seminars as sales tools. The sales practices used at seminars are subject to the same rules and regulations you must follow in all your solicitations. All promotional material to solicit attendance at the seminar must be in compliance. The same rules for promotional literature discussed in Part One of Section One, Communications with the Public, apply to your seminar promotions. For example, if a broker phones prospective attendees and says, "Come to our seminar and learn how a ten cent move in the beans can make you $5, 000," they must give equal balance to the risk of loss during that same phone call. Any sales scripts used at the seminar are also subject to the same rules and regulations for all promotional literature. You are required to keep copies of these scripts on file in a readily accessible location for two years from the date of the last use and for a minimum of five years altogether.

Note: The firm has specific forms and procedures - see PICI WSP for details. ALL seminars must be approved prior to commitment.

One sales technique occasionally used at seminars is to show attendees the account statements of a client who is making money in the markets. The client's name is usually blocked out for confidentiality reasons. The firm DOES NOT allow this sales technique under any circumstances. You can produce a hypothetical report for review to use. When it comes to sales practices, most top brokers we have worked with, consider themselves sales people not traders. They read more books about "how to sell" than "how to trade." Good, ethical, legal sales practices help you build your business. They also help you build a positive image for yourself and your company.

Section Three

Part I: Acting honestly and fairly with due skill, care and diligence in the best interest of customers and the integrity of the market

This section deals primarily with your daily activities and responsibilities to your customers. These include your treatment of customer orders and handling of customer business. You are required to put your customers' interests ahead of your own. The principle here is, "your customers come first". This starts with something as basic as being available to your customers when necessary. Too many times, customers have been known to complain, "I couldn't reach my broker," "he never called me back," "I needed some information," "I wanted to get a price," "I was going to place an order," or "I wanted to get out of that position but couldn't reach my broker."

Note: The firms associates are generally securities licenses brokers in addition to being a futures associate and therefore the rules of engagement with your customers whether securities or futures apply.

You are required to be available to your customers. It's just that simple and it's part of your job. Some of the most irate customers, who are prone to sue, are customers who are ignored, particularly if they have a complaint. In fact, if you receive a written complaint you are required to notify your manager immediately. If you are a one-person office, notify the home office compliance people immediately. Small complaints that are not dealt with can become large problems. The firm and the regulators are adamant about complaints being handled quickly and fairly. For example, the NFA's Self-Examination Checklist has a section entitled "Supervision," which lists areas of responsibility. More than 25% of these areas have to do with or involve the proper handling of customer complaints. The proper treatment and handling of customer complaints is a serious matter.

Another area that gets brokers in trouble from time-to-time is margin calls. You should thoroughly discuss the concept and the possibility of margin calls with every transactional prospect before the account is opened. If you avoid this responsibility, you are not only asking for trouble, you are volunteering for trouble. Some brokers are afraid to bring up margin calls in the prospecting process. It speaks directly to the fear that most prospects have about losing more money than their initial investment. That is why some brokers slide over it. Some brokers actually tell their customers to ignore a margin call because "the market will come back tomorrow." Discuss, disclose, dissect, dwell on, elaborate, announce, explain and teach the distinct possibility and probability of margin calls ahead of time. Believe it or not, clients have sued brokers and their firms for not making margin calls. If you let a client accumulate overdue calls, a common complaint is, "why didn't you liquidate me sooner?" The client then claims the firm is responsible for subsequent losses because the firm failed to follow its own policies of liquidation if margin calls aren't met. The client's defense was, "If they had insisted on the margin money, I would have liquidated my position(s) that first day and would not have lost all that money!" A major reason clients like futures funds is because there is no possibility of margin calls.

Now, let's look at one of the most sensitive areas in our business, churning. One definition of churning is: trading for commissions rather than in the best interests of your customers.

Note: The firms associates are generally securities licenses brokers in addition to being a futures associate and therefore the rules of trading ahead or churning or painting the tape apply to futures business as it does to securities business.

According to market studies, the number one reason a client switches from one brokerage firm to another is lack of attention by the broker. Whether your clients are trading or have managed accounts, such as funds, you are expected to pay attention to them. You are expected to let them know how they are doing. With a fund, daily updating is not usually necessary. Funds are generally considered much longer term investments than transactional accounts. However, the broker must stay current with what's going on with the fund. If a fund experiences a significant change, the broker should advise his client accordingly -preferably before the client hears about it from another source. It's particularly important to tell your clients in advance about any significant loss, rather than have them discover it when they receive their statements. A transactional futures broker has many responsibilities when servicing their trading accounts. One of the most important times for a broker to be in constant contact with a client is when losses are occurring. Another important time for on-going contact is when margin money is due and owing.

Unauthorized trading is one of the most common violations in our industry, and one of the most serious. Unauthorized trading comes in many forms. A seemingly harmless way is placing an order for a non-discretionary account of a close friend. He's not available and you just know he would want to put on this trade. You reason, by the time you reach him, this "great opportunity" will be gone. So, you put on the trade without his permission. This is illegal. If the regulators decided to check telephone records, you could be caught! Another form of unauthorized trading is trying to trade your way out of trouble. You have talked someone into a trade that is not working out. Rather than admitting your mistake to your customer, you compound it by putting on additional trades (unauthorized) to try to make up for the loss. An almost sure way to have the market go against you is to put on an unauthorized trade.

While we covered many examples of acting honestly and fairly in the best interest of your prospects and customers and cited many violations, it would be impossible to list them all. If you act honestly and fairly, you will be doing what is required of you.

Section Three

Part II: Conflicts of Interest and Confidentiality

Do you know of any career that has more potential conflicts of interest than yours? Conflicts of interest seem to be everywhere when selling futures.

The first conflict of interest may be in selecting whom you prospect. If you’re a securities broker, do you automatically prospect everyone in your book? Are all your existing accounts legitimate prospects for a fund or for individual managed futures accounts? Will they be comfortable with the possible swings in value even though you alert them ahead of time? If their portfolios are very small, should they be in managed futures at all? Even a fund?

Assume you have decided to offer managed futures to clients for whom they're appropriate. What do you sell them? There are more possible conflicts here. Does one fund offer a larger up-front payout? Or a bigger trail? What about pay-out for performance? How do you resolve these conflicts? While each decision may seem difficult, the answer is always easy. You must put your clients' interests ahead of yours. This is the key principle of this ethics training course: your clients come first! You must always recommend what's best for your clients.

Next comes one of the most serious conflicts you face every day. You are a commission salesperson. You make money when your clients trade. Do you put on a position because it's an excellent opportunity or is a commission the primary motivating factor? Do you talk your customers into trades? Why? Why not? Are your trades based on a sound trading plan with reasonable risk/reward ratios rather than a need for income? When your equity is down, do you "push" trades in an attempt to make up for lost income? Compliance departments look at brokers' commission-to-equity ratios on a regular basis. A branch manager has a potential conflict of interest in the way he treats a big producer. It's certainly all right for the manager to give a very good broker a big office, awards, bonuses, and other ethical and legal perks. However, a major problem exists if the manager "looks the other way" if a broker bends or breaks the law. This can take the form of questionable practices concerning the broker's trading account, lax enforcement of margin calls, discretionary trading, over-trading, irresponsible, reckless trading, allocation of trades, complaints and errors. If you use or disclose confidential information, you are inviting trouble. Often, there is a traceable pattern of which the broker may not be aware. For example, whenever you put on more trades than normal in your account or your "special" customers' accounts, you could be sending signals without knowing it. Be aware, this is a trading pattern that is easy to identify. Your compliance department and/or regulators could check to see if a large order was placed shortly after you, or a fellow broker, entered a larger than normal order for the same contract.

Section Four

Part I: Supervision and Internal Controls

Supervising is one of the most demanding jobs in our industry. We are responsible for you and everything that happens in your office. In the NFA's Reports of Quarterly Actions, in cases where the broker has been found guilty, "failure to supervise" is almost always listed as one of the violations.

The CFTC publishes a Proceedings Bulletin, which lists violations and alleged violations of their regulations. Your supervisor is required to review your clients' account opening forms. They must check to make sure all required documents are included and properly completed, including the Risk Disclosure Statement.

Note: ALL new account openings are sent to the Home Office to be opened. At no time is a rep to open their own account whether securities or futures. At no time is a rep to trade prior to approval of a new account being opened.

The Home Office is required to check profitable accounts for possible preferential treatment. Can your personal account withstand careful analysis? What about profitable accounts of your customers? When did you place other orders relative to placing orders for profitable accounts? When did you get your good fills? When did you get your fills "off the market"? At what price? Do you trade your account like your customers' accounts? Do you trade your account like your non-discretionary accounts or like your discretionary accounts? Who gets what fills? To whom were they allocated? Is there a pattern?

Your supervisor has an additional set of responsibilities when it comes to options accounts. Your supervisor must approve every options account in writing. On your options order ticket, you must include the routine information as well as whether the order is for a put or call, strike price and the premium.

Supervisors are also expected to be aware of, and act on, what their brokers may not be doing, such as: not providing enough service to their clients, not keeping them informed about what's happening with their accounts, not advising clients of a change in commissions or fees, not staying within trading limits that may have been imposed when the account was opened, not calling for margin, not returning clients' phone calls, not attending to paperwork, not checking equity runs before the market opens, not reviewing accounts' open positions and not checking stops.

In closing, "You must take ethics training to make sure you understand your responsibilities to the public under the Act..."

While instinctively you know what's right and wrong when dealing with prospects and clients, we hope this course has increased your awareness of your responsibilities to the public. Yours is a difficult job. It is easy to get caught up in the frantic pace of business and do certain things almost without thinking. We also hope this material helps you stop and think about your ethical and legal responsibilities. You know the concepts: Futures trading is not for everyone and your clients come first.