U. S. Department of Justice

United States Attorney
Northern District of Illinois
Federal Building

Patrick J. Fitzgerald
United States Attorney

219 South Dearborn Street, Fifth Floor
Chicago, Illinois 60604
(312) 353-5300

FOR IMMEDIATE RELEASE
WEDNESDAY, FEBRUARY 16, 2011
www.justice.gov/usao/iln

PRESS CONTACTS:
AUSA Clifford C. Histed (312) 886-7627
Randall Samborn (312)353-5318

CHICAGO OPTIONS TRADER ALLEGEDLY SWINDLED
MORE THAN $600,000 IN INVESTMENT FRAUD SCHEME

CHICAGO A Chicago options trader was taken into federal custody today after he turned himself in for allegedly engaging in an investment fraud scheme in which he swindled more than $600,000 from approximately ten victims who invested with him. The defendant, **Kent R.E. Whitney**, was charged with wire fraud in a criminal complaint filed in U.S. District Court on February 14, 2011, announced Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois; and Robert D. Grant, Special Agent-in-Charge of the Chicago Office of the Federal Bureau of Investigation.

According to the criminal complaint Whitney, 29, of Chicago, obtained over $600,000 from approximately ten investors since 2009, both for a purported commodity pool investment, and for trading in futures accounts to be held jointly between Whitney and the victims. He returned approximately $200,000 as so-called investor redemptions and misused most of the remaining funds for his own benefit and for the benefit of acquaintances. Whitney appeared this afternoon before U.S. Magistrate Judge Jeffrey Cole and was released on bond.

The CME Group, Inc. (CME) owns and operates the three U.S. futures exchanges that formerly went by the names Chicago Mercantile Exchange, Chicago Board of Trade, and New York Mercantile Exchange. Prior to and during 2009, Whitney had trading privileges on CME markets.

According to the charges, from mid-2009 through late 2010, Whitney made false representations to investors concerning, among other things: (1) the use of investors' funds; (2) the returns investors could expect to make, and already had made, on their invested funds; and (3) the risks involved in the investments. According to the charges, Whitney misappropriated most of the invested funds and concealed his misappropriation by creating and distributing phony account statements and making Ponzi-type payments of returns to investors.

In October 2009, one victim invested $40,000 with Whitney to trade options through Lone Star. According to the charges, Whitney told the victim that Whitney would earn a 50% annual return trading options, and Whitney deposited the victim's $40,000 check into a Lone Star bank account. Whitney gave the victim a phony document that purported to be a Lone Star account statement showing that the victim's investment had grown to $47,250 in just over one month. Whitney did not use the victim's funds to trade options, but instead used the funds for his own purposes, and ultimately most of the funds were used to buy a Maserati M128 GT Coupe.

In December 2009, another victim invested $15,500 from her daughter's college fund in Lone Star through Whitney. According to the charges, Whitney told the victim that Whitney had earned approximately 22% to 26% per month trading her funds in Lone Star, when he actually misappropriated most of the funds.

Between January and November 2010, the CME Group suspended Whitney from trading on CME markets three times as a result of his unrelated options trading activity. Each trading suspension prohibited Whitney from trading, placing or taking trading orders for others, or soliciting any business concerning CME products. Nonetheless, according to the charges, Whitney solicited $240,000 from another victim between January 2010 through August 2010, purportedly for Whitney to trade options on behalf of the victim. Whitney did not disclose to the victim that Whitney was currently subject to a trading suspension. Whitney did not use the victim's funds to trade options. However, Whitney provided the victim with phony documents purporting to be account statements from a trading firm showing the use of his funds to trade options. Whitney returned to the victim approximately $44,000 that Whitney claimed to be "returns" from the trading, but these "returns" were not profits from his trading but rather a return of some of the victim's own funds invested with Whitney. The remainder of the victim's invested funds were not traded, but were misappropriated by Whitney and were also used to make Ponzi-type payments to earlier investors.

According to the charges, in July 2010, another victim invested $50,000 with Whitney so Whitney could trade options on behalf of the victim. Whitney did not disclose to the victim that Whitney was currently subject to a trading suspension. Whitney guaranteed a 5% monthly return to the victim, and told him that the only way he would not receive his monthly returns was in the case of a "nuclear war." Whitney did not trade options with the victim's funds, but instead misappropriated the funds and used them for his own purposes and to make Ponzi-type payments to earlier investors.

The government is being represented by Assistant U.S. Attorney Clifford C. Histed. The U.S. Attorney's Office acknowledges the contributions made to this investigation by the CME Group, Inc. and the U.S. Commodity Futures Trading Commission.

Wire fraud carries a maximum penalty of 20 years in prison and a $250,000 fine, and restitution is mandatory. The Court may also impose a fine totaling twice the loss to any victim or twice the gain to the defendant, whichever is greater. If convicted, however, the Court must impose a reasonable sentence under the advisory United States Sentencing Guidelines.

A complaint contains only charges and is not evidence of guilt. The defendant is presumed innocent and is entitled to a fair trial at which the government has the burden of proving guilt beyond a reasonable doubt.

# # # #