A Fund Charges It Was Defrauded Of $21.6 Million

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ATLANTA – An investment fund alleges that a hedge-fund manager and options-clearing firm, both based in Chicago, defrauded the fund out of $21.6 million, according to a lawsuit filed yesterday in U.S. District Court in Atlanta.

The suit was filed by four-year-old **Strategic Income Fund**, composed mostly of wealthy Atlantans. It was managed by money manager E. Thomas Jung, who also operated his own separate trading accounts. Mr. Jung processed trades for both his account and Strategic Income Fund through LIT ClearingServices Inc., a Chicago-based subsidiary of New Yorksecurities firm **Spear, Leeds & Kellogg**. In October, LIT merged into First Options of Chicago Inc., one of the largest options-clearing firms at the Chicago Board Options Exchange.

Spear Leeds, LIT and First Options are named in the lawsuit. Spear Leeds and First Options declined to comment. Mr. Jung, the lawsuit says, recently filed for bankruptcy and isn't named as a defendant in the lawsuit. He wasn't available for comment.

According to the lawsuit, LIT allowed Mr. Jung to use the assets of Strategic Income Fund as collateral for his own accounts, without the approval of the Atlanta group. However, the lawsuit contends that officials at LIT knew or should have known that Mr. Jung and his firm weren't allowed to use the assets of the fund, mostly long-held stocks, as collateral for Mr. Jung's trading.

By this year, Mr. Jung's own trading losses began to mount as did his expenses owed to LIT, according to the suit. Still, LIT allowed those costs to further increase as long as the costs didn't exceed the assets of the Atlanta fund, even though the assets didn't belong to Mr. Jung, the lawsuit contends.

Finally, in September, Mr. Jung's costs went over the top, exceeding the approximate $21.6 million value of the Atlanta fund. As a result, LIT seized all of Mr. Jung's accounts and liquidated every stock held by the fund.

In October, the investors held an emergency meeting to assess how much had been lost. They also replaced Mr. Jung, who had worked out of an office at the Chicago Board of Trade, until his lease was terminated on Oct. 22.

In addition to the $21.6 million the five dozen investors in the Atlanta fund claim to have lost, they also are seeking $50 million in punitive damages.

One of the lawyers for the Atlanta fund, Stephen Senderowitz of Chicago firm Schwartz, Cooper, Greenberger & Krauss, said that Mr. Jung is cooperating with the fund in its lawsuit against LIT, First Options and Spear Leeds. Morris, Manning & Martin of Atlanta also represents the fund.

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