

NY AG Says Ex-Citigroup Adviser Bilked \$11M From Clients

By **Stewart Bishop**

Law360, New York (May 30, 2018, 7:26 PM EDT) -- New York Attorney General Barbara D. Underwood on Wednesday announced grand larceny, fraud and forgery charges against a former Citigroup investment adviser accused of cheating elderly clients out of more than \$11 million through high-risk trading in his hedge fund.

Underwood said Queens financial adviser Dean S. Mustaphalli defrauded oftentimes elderly investors out of the bulk of their life savings by investing their money in his Mustaphalli Capital Partners Fund LP hedge fund without their knowledge or consent.

"Mr. Mustaphalli concealed from his elderly clients that he was transferring their nest eggs out of low-risk conservative accounts and into his high-risk hedge fund," Underwood said at a press conference.

Mustaphalli was arraigned on Tuesday in Queens County Supreme Court. Bail was set at \$2 million, but as of Wednesday, Mustaphalli remains incarcerated.

The hedge funder had already been hit with a civil suit by the New York attorney general's office last year. An attorney for Mustaphalli in the civil case on Wednesday renewed a request to stay that action in light of the criminal case.

Prosecutors say that after Mustaphalli resigned from Citigroup in 2009 amid a rash of customer complaints, he solicited clients to follow him as he set up his own shop. Despite knowing his clients' preference for relatively low-risk conservative investments, Mustaphalli engaged in risky short-term options and leveraged trading.

In 2012, prosecutors say Mustaphalli moved \$7.1 million of his investors fund into his hedge fund, and by year end, he had lost 92 percent of the investments' value. In one instance, he lost more than \$2 million on a single bet on the volatility of the price of Mastercard stock, according to court documents.

Despite the losses, Mustaphalli in 2015 brought 22 new clients with \$5 million into his hedge fund by 2015. He also forged account opening documents and submitted fake email addresses for his clients, according to the government.

By the end of 2015, prosecutors say Mustaphalli's hedge fund had lost about 80 percent of its value due to his high-risk trading strategy, and he falsely blamed the losses on market forces such as Brexit as

opposed to his high-risk trades, prosecutors say.

An attorney for Mustaphalli, Robert Gottlieb of Gottlieb & Janey LLP, said in an email that Mustaphalli stated very clearly in court that he is not guilty of the crimes charged in the indictment and they intend to vigorously fight the charges in the courtroom. Gottlieb called the \$2 million "outrageous."

"Mr. Mustaphalli has been aware of the attorney general's investigation of these same allegations since 2014 and has turned over to the attorney general over 3,000 documents. He has appeared in civil court in related civil proceedings for years without fail. There is absolutely no basis for such unreasonable, high bail," Gottlieb said.

Mustaphalli is due back in court on June 26.

The government is represented by Assistant Attorneys General Maureen Grodidier, Kristen Bitetto and Kenneth Haim of the New York attorney general's office.

Mustaphalli is represented by Robert C. Gottlieb of Gottlieb & Janey LLP.

The case is the People of the State of New York v. Dean Mustaphalli, case number 559/2018, in the Supreme Court of the State of New York, County of New York.

--Editing by Stephen Berg.