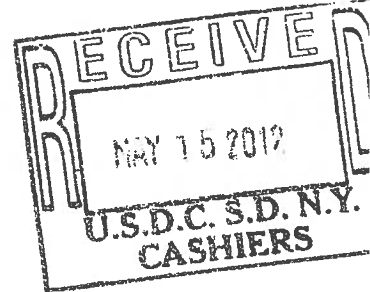
Judge McMahon

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

12 CV 3879



SARATOGA ADVANTAGE TRUST - FINANCIAL SERVICES PORTFOLIO, on Behalf of Itself and All Others Similarly Situated,	)	Civil Action No.
	)	CLASS ACTION
Plaintiff,	)	**COMPLAINT FOR VIOLATION OF FEDERAL SECURITIES LAWS**
v.	)	DEMAND FOR JURY TRIAL
JPMORGAN CHASE & CO., JAMIE DIMON, DOUGLAS L. BRAUNSTEIN,	)	
Defendants.	)	

Plaintiff Saratoga Advantage Trust – Financial Services Portfolio ("Plaintiff" or "Saratoga") alleges the following based upon the investigation of Plaintiff's counsel, which includes a review of United States Securities and Exchange Commission ("SEC") filings by JPMorgan Chase & Co. ("JPMorgan" or the "Company"), as well as regulatory filings and reports, securities analysts' reports and advisories about the Company, press releases and other public statements issued by the Company, and media reports about the Company. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a federal securities class action on behalf of purchasers common stock in JPMorgan between April 13, 2012 and May 10, 2012, inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

2. This action arises out of the materially false and misleading statements and omissions by JPMorgan's Chairman and Chief Executive Officer James "Jamie" Dimon and Chief Financial Officer, Douglas L. Braunstein that were made in the Company's April 13, 2012 earnings conference call with investors. Defendants misrepresented the losses and risk of loss to the Company arising from massive bets on derivative contracts related to credit indexes reflecting interest rates on corporate bonds. These derivative bets went horribly wrong, resulting in billions of dollars in lost capital for the Company and billions more in lost market capitalization for JPMorgan shareholders.

3. JPMorgan's credit index derivative positions were so large that they generated market rumors and press coverage in the weeks leading up to the April 13th conference call, such

that Dimon and Braunstein knew or could not reasonably have been unaware of the magnitude of losses being incurred by JPMorgan and the risks the derivative positions posed – and continued pose – to the financial stability of JPMorgan, its credit rating, and reputational capital. Instead of disclosing the true nature of JPMorgan's derivative bets and the actual losses that had been incurred at the time, Dimon and Braunstein attempted to contradict the press coverage by falsely labeling the derivative positions as mere "hedging" strategies. Defendant Dimon went so far as to call the press reports a "complete tempest in a teapot." Less than a month later, on May 10, 2012, JPMorgan held an after-hours investors conference call, where Defendant Dimon was forced to admit that the Company had realized a $2 billion loss on the derivatives, with additional significant loss likely, and that they were "grievous mistakes, [that] were self inflicted, we were accountable and we happened to violate our own standards and principles."

4. As a result of this disclosure, the market price of JPMorgan's common stock fell from $40.74 per share at the market close on Thursday, May 10, 2012, to $36.96 per share on May 11, 2012, falling more than 9% on extraordinary volume of 217 million shares. Shares of Company stock closed at $35.79 per share on Monday, May 14, 2012, also on extraordinary volume, wiping out more than $18.8 billion in market capitalization.

JURISDICTION AND VENUE

5. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78y(a),) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

6. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and Section 27 of the Exchange Act.

7. Venue is proper in this District pursuant to Section 27 of the Exchange Act and 28 U.S.C. § 1391(b). Many of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District.

8. In connection with the acts alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the New York Stock Exchange ("NYSE"), a national securities market located in this district.

PARTIES

9. Plaintiff Saratoga Advantage Trust – Financial Services Portfolio, as set forth in the accompanying certification and incorporated by reference herein, purchased common stock of JPMorgan during the Class Period and has been damaged thereby.

10. Defendant JPMorgan is one of the world's largest financial services companies and retail banking companies and trades on the NYSE under the ticker symbol "JPM". The Company's principal executive offices are located in New York, New York. JPMorgan is a registered bank holding company and financial holding company as defined under applicable federal banking regulations, and through its subsidiaries provides banking, investing, asset management, and other financial risk management products and services to the public.

11. Defendant Dimon is, and at all relevant times was, the Chairman, President, and Chief Executive Officer of the Company.

12. Defendant Braunstein is, and at all relevant times was, the Chief Financial Officer of the Company.

13. Defendants Dimon and Braunstien are collectively referred to herein as the

"Individual Defendants."

14. During the Class Period, the Individual Defendants, as senior executive officers and/or directors of JPMorgan, were privy to confidential and proprietary information concerning JPMorgan's Chief Investment Office ("CIO"), its operations, investments, and financial condition as well as the CIO's credit index based derivative positions. The Individual Defendants had access to material adverse non-public information concerning JPMorgan's CIO, as discussed in detail below. Because of their positions within JPMorgan, the Individual Defendants had access to non-public information about the business, financial performance, investments, and hedges of the CIO via internal Company documents, conversations and connections with other corporate officers and employees, attendance at management and/or board of directors meetings and committees thereof, and via reports and other information provided to them in connection therewith. Because of their possession of such information, the Individual Defendants knew or recklessly disregarded that the adverse facts specified herein had not been disclosed to, were being concealed from, and actively misrepresented to the investing public.

15. The Individual Defendants are liable as direct participants in the wrongs complained of herein. In addition, the Individual Defendants, by reason of their status as senior executive officers and/or directors, were "controlling persons" within the meaning of Section 20(a) of the Exchange Act and had the power and influence to cause the Company to engage in the unlawful conduct complained of herein. Because of their positions of control, the Individual Defendants were able to and did, directly or indirectly, control the conduct of the Company's CIO.

16. The Individual Defendants, because of their positions with the Company,

controlled and/or possessed the authority to control the contents of its public statements to the investing public. The Individual Defendants spoke the public statements alleged herein to be misleading and had the ability and opportunity to prevent their issuance or cause them to be corrected. Thus, the Individual Defendants had the opportunity to commit the fraudulent acts alleged herein.

17. As senior executive officers and/or directors and as controlling persons of a publicly traded company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was, and is, traded on the NYSE and governed by the federal securities laws, the Individual Defendants had a duty to promptly disseminate accurate and truthful information with respect to JPMorgan's business, financial performance, operations and present and future business prospects, and to correct any previously issued statements that had become materially misleading or untrue, so that the market price of JPMorgan common stock would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

18. The Individual Defendants are liable as participants in a fraudulent scheme and course of conduct that operated as a fraud or deceit on purchasers of JPMorgan common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding the financial health, stability, and risk of JPMorgan's operations and the intrinsic value of JPMorgan common stock; and (ii) caused Plaintiff and members of the Class to purchase JPMorgan common stock at artificially inflated prices.

CLASS ACTION ALLEGATIONS

19. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of: all those who purchased the common stock of JPMorgan between April 13, 2012 and May 10, 2012, inclusive, and who were damaged thereby (the "Class"). Excluded from the Class are Defendants, the officers and directors of the Company, successors and assigns and any entity in which Defendants have or had a controlling interest.

20. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, JPMorgan common stock was actively traded on the NYSE. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds of thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by JPMorgan or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

21. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law complained of herein.

22. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class action and securities litigation.

23. Common questions of law and fact exist as to all members of the Class and

predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by Defendants' acts and omissions as alleged herein;

(b) whether statements made by Defendants to the investing public during the Class Period misrepresented and omitted material facts about the business and finances of JPMorgan;

(c) whether the price f JPMorgan common stock was artificially inflated during the Class Period; and

(d) to what extent the members of the Class have sustained damages and the proper measure of damages.

24. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

BACKGROUND AND SUMMARY

25. The Defendants were well aware of the heightened instability stemming from the Company's so-called "portfolio hedging."

26. In fact, as soon as lawmakers finished work on the nation's new financial regulatory law known as the "Volcker Rule," the Defendants were already seeking ways to poke

holes in the Rule or requesting loopholes to generate profits and wealth through a loophole known "portfolio hedging." "Portfolio hedging" is a strategy that essentially allows banks to view an investment portfolio as a whole and take actions to offset the risks of the entire portfolio. That contrasts with the traditional definition of hedging, which matches an individual security or trading position with an inversely related investment — so when one goes up, the other goes down.

27. The conduct that preceded the Rule resulted in a meltdown of the entire financial industry. This meltdown was unprecedented in America. The financial meltdown which reared its ugly head in 2007 has continued for nearly half a decade, of which Defendants were keenly aware. Many of the country's top banks disappeared almost overnight. Defendant JPMorgan was an exception as it held itself out as being risk averse and had a nearly unblemished record during the financial meltdown.

28. Defendant JPMorgan was one of the few top banks that stayed intact during the meltdown and avoided the untold losses that plagued other financial institutions. This was due in large part to their so-called "internal controls" which, had they been followed, would have prevented not only the $2 billion trading losses at issue in this Action, but also would have provided transparency to analysts, regulators, and especially shareholders which in itself would have stemmed the trades before they became losses.

29. Defendants were so keenly aware of the risks they were taking that a team of JPMorgan lobbyists descended on Washington. Their goal was to obtain special breaks in the form of a loophole that would allow Defendants to make big bets in their portfolios. This is precisely the type of conduct that would lead to the $2 billion loss and the subsequent loss of

$14.4 billion in market capitalization lost on May 11, 2012, as Defendant JPMorgan's shares tumbled.

30. In the months leading up to the Class Period, JPMorgan's self proclaimed "well-connected" chief executive, Defendant Dimon, and co-executives made several visits to Washington aimed at persuading regulators to create a loophole in the Volker Rule. The Rule was designed by Congress to limit the very kind of proprietary trading that Defendant JPMorgan and the Individual Defendants were engaged in as complained of herein.

31. By October 2011, months before the Class Period, even after the official draft of the Volcker Rule regulations was released, JPMorgan continued their full-court press to avoid limits on trading for its own account. Defendants continued to seek special exemptions in the form of a loophole well into 2012.

32. In early February 2012, a group of JPMorgan executives (including Ina Drew, the head of JPMorgan's Chief Investment Office), met with Federal Reserve officials and warned that anything but a loose interpretation of the trading ban would hurt the Company's hedging activities.

33. Then, on February 29, 2012, the Company filed its annual report, that included statements made by Defendant Dimon that the type of proprietary trading at issue in this action, which harms the Company, should be eliminated. "**If the intent of the Volcker Rule was to eliminate pure proprietary trading and to ensure that market making is done in a way that won't jeopardize a financial institution, we agree**."

34. The Individual Defendants, when present during private meetings with Treasury officials and during the Dodd-Frank debates, yet unbeknownst to shareholders, were masking

their true views of risking the Company's assets. In stark contrast to the above statement in the Company's Annual Report, Defendants were making special pleas, to allow hedging, and specifically to allow this type of portfolio hedging.

35. Following the revelations of May 10, 2012, members of Congress and Treasury officials commented on the Defendants' efforts to divest the Volker Rule of any teeth. Senator Carl Levin, the Michigan Democrat who co-wrote the legislation that led to the Volcker Rule, the JP Morgan loophole sought was "a big enough loophole that a Mack truck could drive right through it." Commenting on the true nature of the "portfolio hedging" loophole, Senator Levin remarked: "Portfolio hedging is a license to do pretty much anything."

36. Senator Levin and Senator Jeff Merkley, an Oregon Democrat who worked on Dodd-Frank with Mr. Levin, sent a letter to regulators in February, making clear that hedging on that scale was not their intention, stating "[t]here is no statutory basis to support the proposed portfolio hedging language," they wrote, "nor is there anything in the legislative history to suggest that it should be allowed."

37. Despite the realities of "portfolio hedging" Defendants abandoned "internal controls" and sought to use "portfolio hedging" as a means to generate huge bonus pools for themselves. This risked huge amounts of Company capital, exposing JPMorgan to undisclosed leverage and risk above and beyond position limits and risk limits.

SUBSTANTIVE ALLEGATIONS

38. In London, JPMorgan maintains a division called the "Chief Information Office" or "CIO" that the Company describes as being tasked with hedging risks and investing excess cash. In reality however, the CIO is used by the Company to make proprietary trades, or wagers

made with the bank's own money. These types of derivative trades for banks' own account were at the center of the 2008 financial crisis, the proper disclosure of which is highly material to reasonable investors.

39. In the first few months of 2012, JPMorgan began accumulating positions in a group of credit-default-swap indexes that measure corporate default risk. These indexes allow investors to shield themselves from losses on corporate debt or to speculate on general corporate creditworthiness. Until that time, transactions had been dwindling in these derivative products as banks stopped creating structured debt products that the indexes were used to hedge against.

40. On April 5, 2012, Bloomberg broke the story[1] that a particular trader out of JPMorgan's London CIO[2] was amassing positions so large that the trades were distorting prices in the credit indexes, the market for which was several hundred billion dollars deep. Anonymous traders quoted by Bloomberg stated that the trades were the largest they had seen in the particular market, and in some instances "broke" the credit indexes – Wall Street vernacular for creating a disparity between the price of the index and the average price of credit-default swaps on the individual companies underlying the index.

41. Based on the notional size of open interest in the derivative contracts involved, JPMorgan's position at the end of the Class Period likely approached $100 billion.

42. JPMorgan's derivative positions were creating a material adverse financial risk for the Company. A former examiner for the Federal Reserve quoted in the April 5, 2012 Bloomberg article agreed, stating that "the issue is how much capital they're putting at risk."

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[1] http://www.bloomberg.com/news/2012-04-05/jpmorgan-trader-iksil-s-heft-is-said-to-distort-credit-indexes.html

[2] The Bloomberg story quoted Company spokesman Joe Evangelisti that "[t]he chief investment office is responsible for managing and hedging the firm's foreign exchange, interest-rate and other structural risks." Evangelisti said the CIO is "focused on managing the long-term structural assets and liabilities of the firm and is not focused on short-term profits."

43. This market imbalance accordingly caused traders to take the opposite side of the JPMorgan's trades to benefit from the arbitrage opportunities being created by the Company's positions. This was causing significant and material losses in JPMorgan's CIO related to the derivative positions, which were significantly amplified following the April 5, 2012 Bloomberg article, as additional market participants made trades against JPMorgan's positions. For example, on April 6, 2012, the Wall Street Journal ("WSJ")[3] quoted a message from Kavi Gupta, a trader at Bank of America, to that firm's investors saying that hedge funds were accelerating wagers against the credit index based positions because "Fast money has smelt blood." According to the WSJ, "[t]he hedge funds are wagering that the cost of default protection using the index will increase, potentially putting [JPMorgan] in a money-losing position and forcing [the Company] to reduce some of [its] holdings."

44. According to an April 9, 2012 Bloomberg article,[4] the publicity surrounding JPMorgan's trades stirred debate among U.S. policy makers over the 2012 Easter holiday weekend as they wrangled over the pending implementation of the Volcker Rule. Bloomberg noted that several members of Congress publicly criticized JPMorgan's trades.

45. The April 9th Bloomberg article quoted Stanford graduate school of business professor Darrell Duffie, that "[i]f the trades were indeed part of a risk management strategy, then the intent wouldn't be to move markets."

46. The Class Period begins on April 13, 2012, when the Company issued its First Quarter 2012 (ending March 31, 2012) Form 8-K, and held a conference call with investors to discuss the results. In the conference call with investors, the Individual Defendants made

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[3] *'London Whale' Rattles Debt Market*,
http://online.wsj.com/article/SB10001424052702303299604577326031119412436.html

[4] http://www.bloomberg.com/news/2012-04-09/jpmorgan-trader-iksil-fuels-prop-trading-debate-with-bets.html

materially false and misleading statements, and omitted material information, concerning JPMorgan's losses and risks arising from the credit index derivative positions at JPMorgan's CIO. At the April 13th conference call, Defendant Braunstein made the following statement:

> I did want to **talk about the topics in the news around CIO**, and just sort of take a step back and remind our investors about that activity and performance. We have more liabilities, $1.1 trillion of deposits, than we have loans, approximately $720 billion. And we take that differential and we invest it, and that portfolio today is approximately $360 billion. We invest those securities in very high-grade, low-risk -- we invest those dollars in high-grade, low-risk securities. We've got about $175 billion worth of mortgage securities. We've got government agency securities, high-grade credit and covered bonds, securitized products, municipals, marketable CDs. The vast majority of those are government or government-backed and very high grade in nature. **And we invest those in order to hedge the interest rate risk of the firm as a function of that liability and asset mismatch.** We **hedge** basis risk.[5] We **hedge** convexity risk.[6] Foreign exchange **risk is managed** through a CIO and MSR [*Mortgage Securitization Rights*] risk. And we also do it to generate NII [*Net Investment Income*], which we do with that. **The result of all that is we also need to manage the stress loss associated with that portfolio and – so we have put on positions to manage for a significant stress event in credit. We've had that position for many years, and the activities that have been reported in the paper are basically part of managing that stress loss position**, which we moderate and change over time, depending on our views as to what the risks are for our stress loss from credit.

47. The truth is that the trading position JPMorgan's CIO had taken in index-based credit derivatives "that were reported in the paper" could <u>not</u> reasonably be construed as hedges (*i.e.*, "manage stress loss") because such positions, at the least: (1) could not, or were not designed to, proportionally offset losses in other JPMorgan positions, as the credit index derivative trades were too large, and were not matched with offsetting investments by JPMorgan;

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[5] Basis risk arises when a hedging strategy does not work as intended. In other words, when a trading position intended to offset losses of another trading position does not move perfectly opposite of the position it is intended to protect, thus rendering the hedge ineffective, or in some circumstances, amplifying losses.

[6] Convexity risk occurs when the price of a trading position changes due to changes in the yield of the underlying asset.

(2) were so large they distorted market prices of the index-based derivatives themselves; and (3) were executed for the purpose of generating income for JPMorgan. Defendants misrepresented the CIO's credit index based derivative positions as hedges to imply that any losses on the credit index based derivatives would be offset by gains in other JPMorgan investments, thus implying that they posed no risk to the Company. This was false.

48. During the question and answer portion of the April 13, 2012 conference call, Defendant Dimon had an exchange with Guy Moszkowski from Bank of America, in which Dimon attempted to downplay the loss and risk of loss arising from the leveraged credit positions, and falsely represented that the particular trading positions that had been the subject of news reports were disclosed to Plaintiff and the Class:

> <u>Guy Moszkowski</u>
>
> **On the CIO question, which obviously you've addressed and has gotten so much attention in the press this week**, can I just ask one further question, which is, are all of the results of the CIO group reflected with -- only within Corporate and other? There's no sharing of any of those results with, say, FICC in terms of the reporting that we would see in the Investment Bank.
>
> <u>James Dimon</u>
>
> No. God no. No, no. A lot of the NII is given to the businesses that generate the deposits on a consistent fund transfer methodology, which -- but not with the Investment Bank. Remember, **a lot -- and most of that portfolio is an AFS [*Available for Sale*] portfolio. Not all of it, but most of it.**
>
> <u>Guy Moszkowski</u>
>
> Right, fair enough. It just...
>
> <u>James Dimon</u>
>
> **We disclose both realized gains, unrealized gains and mark-to-market gains. You get all of that.**
>
> <u>Guy Moszkowski</u>
>
> Yes, that's just a question that I ask in order to sort of assess the "tempest in the teapot" nature of the stories relative to the revenues that we see with it, because it don't seem to be that big.

James Dimon

> **It's a complete tempest in a teapot.** Every bank has a major portfolio. In those portfolios, you make investments that you think are wise, **that offset your exposures**. Obviously, it's a big portfolio. We're a large company and we try to run it. **It's sophisticated**, well, obviously, a complex thing. But at the end of the day, that's our job, is to invest that portfolio wisely and intelligently to -- over a long period of time to earn income and **to offset other exposures we have**.

49. The statements referenced ¶¶ 46-48 above were materially false and misleading when made because they misrepresented and failed to disclose the following facts, which were known to Defendants or recklessly disregarded by them:

(a) JPMorgan's positions in the credit index-based derivative products were not for "hedging" purposes or to "offset other exposures" but were in fact trades on the Company's own account intended to generate income because they were not matched to offset other JPMorgan investments;

(b) The Company had already incurred significant and material losses in the credit index-based derivatives when the market learned of JPMorgan's positions, and by the April 13, 2012 conference call;

(c) The Company faced potentially tens of billions of losses resulting from the credit index based derivatives, downgraded credit, and loss of reputational capital.

50. The Class period closes on May 10, 2012, when JPMorgan filed an SEC Form 10-Q and held a business update conference call with investors. In the May 10th call, Defendant Dimon admitted that the Company had experienced a "slightly more than $2 billion trading loss under synthetic credit positions [*i.e.* derivatives]." Defendant Dimon made the following statements:

> Regarding what happened, **the synthetic credit portfolio** was a strategy to hedge the firm's overall credit exposure, which **is our largest risk overall in a stressed credit environment**. We are reducing that hedge, but **in hindsight the new**

strategy was flawed, complex, poorly reviewed, poorly executed, and poorly monitored. The portfolio has proven to be riskier, more volatile, and less effective as an economic hedge than we thought.

* * *

We have more work to do but **it's obvious at this point that there are many errors, sloppiness, and bad judgment.**

* * *

The portfolio still has a lot of risk and volatility going forward. So how are we going to manage that? So number one, we're going to manage it to maximize economic value for shareholders. What does that mean? It means we're not going to do something stupid. We're willing to hold as long as necessary inventory and we're willing to bear volatility. Therefore, **the volatility for the rest of this quarter and next quarter or so will be high. It could cost us as much as $1 billion or more**. Obviously, we're going to work hard to have that not be a negative at all, but **it is risky and it will be for a couple of quarters.**

51. During the question and answer portion of the May 10th conference call, Defendant Dimon made the following statements:

Glenn Schorr - *Nomura - Analyst*□

So just I'm not clear on when did the losses accumulate? In other words, was this something that happened most recently or is this an error in the past and is just updating your risk models now?

Jamie Dimon

There were small ones in the first quarter, but the real ones that we talked about, **the $2 billion, were all in the second quarter and it kind of grew as the quarter went on.** And obviously, **it got our attention**, that and other things, which have come to our attention.

* * *

Matt O'Connor - *Deutsche Bank - Analyst*

Hi. I hope this isn't a stupid question, but I guess when I sit back and I think about the earnings power and all the moving pieces at your Company, my first thought is on a net basis, $1 billion, **I guess I feel like the message maybe is worse than what the numbers are and I'm trying to better understand why you felt like you needed to disclose it** in the Q, what's -- because last quarter you had $2.5 billion of litigation and you absorbed that and then some. So it just seems like a --

Jamie Dimon

Matt, it's a very good question and the fact is, **first of all, we've already said it could get worse and it's going to go on for a little bit, unfortunately.** That's number one. Number two is so soon after the end of the first quarter, when we basically gave you different kind of guidance. And number three, we just want to tell you what we know. We're not telling you it's the worst and I completely agree with what you said. It's not going to stop us from building a great Company, but it's unfortunate and of course it's going to raise questions and we just want to answer those as best we can.

* * *

John McDonald - *Sanford Bernstein - Analyst*□

Okay, and last thing. The $800 million [*revised guidance*] for this quarter, that's only for this quarter. You're not talking about continuing, we'll see on the future quarters. But that's just for this quarter, right?

Jamie Dimon

That's this quarter, currently. So **we're telling you there's going to be a lot of volatility here. It could easily get worse this quarter or better, but it could easily get worse and then next quarter we also think we have a lot of volatility next quarter.** And we're not going to update if that number changes a lot. We're not going to make calls every time that number moves around by half a billion dollars.

* * *

Guy Moszkowski - *BofA Merrill Lynch - Analyst*□

Listen, I'd really like to understand what type -- **why you felt that you needed to add this kind of synthetic credit exposure.** Were you not, it seemed, that you had enough exposure through core lending businesses or what was going on?

Jamie Dimon

Exactly. The original premise of the synthetic credit exposure was to hedge the Company in a stressed credit environment. Our largest exposure is credit, across all forms of credit. But we do look at the fat tails of what affects this Company. That was the original proposition for this portfolio. **In rehedging the portfolio, I've already said it was a bad strategy. It was badly executed. It became more complex. It was poorly monitored. We obviously don't have to do anything like this at all if we don't and I understand you can ask that question.** So I don't want to give you specifics, because we've already said we're not going to talk about the actual positions or anything like that.

Guy Moszkowski

And Jamie, **the $1 billion that you referred to in your prepared remarks of incremental loss potential, is that -- is that the max that you envision** above and beyond this sort of net $800 million after-tax number?

Jamie Dimon

No, I said the volatility could easily be that. Obviously, it could be worse than that. We're going to manage this for economics. Hopefully by the end of the year is the hope that this won't be a significant item for us. We want to maximize the economic value of these positions and not panic or do anything stupid. Therefore, we're willing to bear volatility and that's life.

* * *

Brennan Hawken

Hi, just kind of curious to the extent that you can comment. If you - if the regulators are aware of this and whether there's been any regulatory response, and if there's, heaven forbid, any kind of Volcker-related implications on this matter.

Jamie Dimon

I think you should assume -- I can answer this 100 times, you should assume that we keep our regulators up to date. That is a policy of the Company. Sometimes we don't give them great information because we didn't have great information. You can assume they're up to date. They will take their own point of view on this.

Brennan Hawken

Okay, I just didn't know whether they made --

Jamie Dimon

We've already said that this violated our principles, whether or not it violated Volcker principles, and we want to run and build a good company. We do believe you need to have the ability to hedge in CIO-type position and that that Volcker allows that. This trading may not violate the Volcker Rule, but it violates the Dimon Principle.

Brennan Hawken

Okay, and **you had mentioned that this was a new strategy that you had decided to exit**. Is it possible for you to let us know **how new** that strategy was?

Jamie Dimon

□**Not new**. It was, I said new but what I meant it was the strategy to reduce the credit hedge. So it's kind of a new strategy was devised and I already said it was poorly constructed and poorly monitored, all of that. **And that took place over the course of the last couple of months.**

Brennan Hawken

And the implication, I guess, might have been that there was all this press speculation about certain trading individuals out of London. Were some staff fairly new that came into execute this new -- or is some of this a new angle? And are those folks no longer in that -- that's been rejiggered, I think you said, right?

Jamie Dimon

No, nothing to do with new folks. **A little bit to do with the articles in the press. That was somewhat related to that and it was obviously more than that, but some were related to that. And I also think we reacted a little too defensively to that.**

* * *

Mike Mayo - *Credit Agricole Securities - Analyst*□

Hi. **So how much of the $2 billion trading loss is due to terrible execution, which you mentioned, versus the environment?** You seem to be implying none of this is due to the environment and --

Jamie Dimon

No, no, I'm sorry. I think **in hindsight, bad strategy, bad execution**, obviously the environment because there are mark to market positions, obviously that. I just don't want to make excuses and start talking about market, and dislocation, and stuff like that, because that's usually just an excuse.

* * *

Mike Mayo

And just in real simple terms, **in six weeks you lost $2 billion**. So as simple as you can explain it, what went wrong?

Jamie Dimon

You've already mentioned, **there were huge moves in the marketplace. These are complex -- we made these positions more complex. The strategy was barely executed, barely monitored.** I could repeat it 800 times. I'm not going to

get into more specifics than that.

* * *

Mike Mayo

And lastly, just one last follow-up. You said you had some smaller losses in the first quarter. Even **in retrospect, were there any signs that perhaps you should have paid more attention to, looking back?**

Jamie Dimon

Yes, in retrospect, **yes**.

Mike Mayo

And **what would those be**?

Jamie Dimon

Trading losses. There was some stuff in the newspaper and a bunch of other stuff. Hindsight is -- even hindsight is not 20/20 but with hindsight, yes, obviously we should have been paying more attention to it.

* * *

Keith Horowitz - *Citigroup - Analyst*

Hey Jamie. Thanks for coming clean on this and I think it's important that you did. I guess the question I really had is you're open about this strategy that was poorly monitored, but the real question I guess I had is, **do you feel that the hedge put on or the position put on, was the intention really to kind of hedge? Or do you feel like the person who put it on, his intention for profits or to take money?**

Jamie Dimon

It had been on for a long time. It actually made money. I don't want to talk about what it did. It actually did quite well. **It was there to deliver a positive result in a credit-stressed environment and we thought we could do that and make some net income**. In the -- that was -- and in the process of changes in new environments, new markets, and all that, I've already described the outcome.

Keith Horowitz

So we had a stressed environment in terms of credit and so this is where essentially this strategy didn't work. But you feel that as you kind of go back and

> kind of play Monday morning quarterback, and you look at how the position got so big, **do you feel that it was done with the intention of trying to hedge the tail risk for JPMorgan?**
>
> Jamie Dimon
>
> I know it was done with the intention to hedge the tail risk for JPMorgan, but I'm telling you **it morphed over time and the new strategy, which was meant to reduce the hedge overall made it more complex, more risky, and it was unbelievably ineffective, and poorly monitored, and poorly constructed, and poorly reviewed, and all that.**

52. As a result of this disclosure, the market price of JPMorgan's common stock fell from $40.74 per share at the market close on Thursday, May 10, 2012, to $36.96 per share on May 11, 2012, falling more than 9% on extraordinary volume of 217 million shares. Shares of Company stock closed at $35.79 per share on Monday, May 14, 2012, also on extraordinary volume, wiping out more than $18.8 billion in market capitalization. This decrease in the price of JPMorgan common stock was the result of the disclosure of previously concealed and misrepresented information being revealed.

53. On May 11, 2012, the rating agency Fitch confirmed the inherent risk of loss in JPMorgan's derivative bets by downgrading the Company's long-term Issuer Default Rating ("IDR") to 'A+' from 'AA-', and its short term IDR to 'F1' from 'F1+'. Fitch also placed the Company on Ratings Watch Negative. Fitch stated that although the losses were

> manageable… the magnitude of the loss and ongoing nature of these positions imply a lack of liquidity. It also **raises questions regarding JPM's risk appetite, risk management framework, practices and oversight**…
>
> * * *
>
> Fitch believes JPM, like other GTUBs, is in a **highly confidence sensitive business** and the longer-term implications for the firm's reputation are not yet known.
>
> * * *
>
> In addition, **ongoing volatility and further losses are likely to arise from these positions as the firm unwinds them**, creating some uncertainty.

54. Also on May 11, 2012, the New York Times reported that the SEC has opened a preliminary investigation into JPMorgan's disclosures and policies leading up to the derivatives loss.

55. The market for JPMorgan common stock was open, well-developed, and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, JPMorgan common stock traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class Purchased or otherwise acquired JPMorgan common stock relying upon the integrity of the market price of JPMorgan common stock and market information relating JPMorgan, and have been damaged thereby.

56. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of JPMorgan common stock, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

57. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused, or were a substantial contributing cause of, the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false or misleading statements about JPMorgan's business, financial performance, investments, and hedges as particularized herein. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of JPMorgan and its business,

prospects and operations, thus causing the Company's common stock to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's common stock at artificially inflated prices, thus causing the damages complained of herein.

Additional Scienter Allegations

58. As alleged herein, Defendants acted with scienter in that Defendants knew, or recklessly disregarded, that the public statements they issued and disseminated to the investing public in the name of the Company or in their own name during the Class Period were materially false and misleading. The public reports about the Company's credit index derivative positions beginning April 5, 2012 were highly specific concerning the very large and abnormal positions being taken by JPMorgan and the financial risk they posed to the Company. The Individual Defendants' statements at the April 13, 2012 conference call implied that they had conducted an investigation into the trades that were the subject of the news reports, such that Defendants had actual knowledge of the losses that had been incurred by the Company's CIO division, and/or the risk they imposed to JPMorgan's finances and reputation because of their positions and access to material non-public information, or recklessly disregarded the falsity and misleading nature of the information which they caused to be disseminated to the investing public.

59. Defendants knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements as primary violations of the federal securities laws. Defendants, by virtue of their receipt of information reflecting the true facts regarding JPMorgan, their control over JPMorgan's materially misleading and incomplete statements, were

active and culpable participants in the fraudulent scheme alleged herein.

60. Defendants knew and/or recklessly disregarded the falsity and misleading nature of the information which they caused to be disseminated to the investing public. The fraudulent scheme described herein could not have been perpetrated during the Class Period without the knowledge and complicity or, at least, the reckless disregard of the personnel at the highest levels of the Company, including the Individual Defendants.

61. The Individual Defendants, because of their positions with JPMorgan, controlled the contents of the Company's public statements during the Class Period. Because of their positions and access to material non-public information, these Defendants knew or recklessly disregarded that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations that were being made were false and misleading. As a result, each of these Defendants is responsible for the accuracy of JPMorgan's corporate statements and are therefore responsible and liable for the representations contained therein.

Loss Causation/Economic Loss

62. During the Class Period, as detailed herein, Defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated the price of JPMorgan common stock and operated as a fraud or deceit on Class Period purchasers of JPMorgan common stock by failing to disclose and misrepresenting the adverse facts detailed herein. When Defendants' prior misrepresentations and fraudulent conduct were disclosed and became apparent to the market, the price of JPMorgan common stock fell precipitously as the prior artificial inflation came out.

63. As a result of their purchases of JPMorgan common stock during the Class Period, Plaintiff and the other Class members suffered economic loss, *i.e.*, damages, under the federal securities laws. Defendants' false and misleading statements had the intended effect and caused JPMorgan common stock to trade at artificially inflated levels throughout the Class Period.

64. By failing to disclose to investors the adverse facts detailed herein, Defendants presented a misleading picture of JPMorgan's business, financial performance, investments, and hedges as particularized herein. When the truth about the Company was revealed to the market, the price of JPMorgan common stock fell precipitously. These declines removed the inflation from the price of JPMorgan common stock, causing real economic loss to investors who had purchased JPMorgan common stock during the Class Period.

65. The declines in the price of JPMorgan common stock after the corrective disclosures came to light were a direct result of the nature and extent of Defendants' fraudulent misrepresentations and omissions being revealed to investors and the market. The timing and magnitude of the price declines in JPMorgan common stock negate any inference that the loss suffered by Plaintiff and the other Class members was caused by changed market conditions, macroeconomic or industry factors or Company-specific facts unrelated to Defendants' fraudulent conduct. The economic loss, *i.e.*, damages, suffered by Plaintiff and the other Class members was a direct result of Defendants' fraudulent scheme to artificially inflate the price of JPMorgan common stock and the subsequent significant decline in the value of JPMorgan common stock when Defendants' prior misrepresentations and other fraudulent conduct were revealed.

Applicability of Presumption of Reliance:
Fraud on the Market Doctrine

66. At all relevant times, the market for JPMorgan common stock was an efficient market for the following reasons, among others:

(a) JPMorgan common stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient, electronic stock market;

(b) as a regulated issuer, JPMorgan filed periodic public reports with the SEC and the NYSE;

(c) JPMorgan regularly communicated with public investors via established market communication mechanisms, including regular disseminations of press releases on the national circuits of major newswire services and other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) JPMorgan was followed by securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

67. As a result of the foregoing, the market for JPMorgan common stock promptly digested current information regarding JPMorgan from all publicly available sources and reflected such information in the prices of the stock. Under these circumstances, all purchasers of JPMorgan common stock during the Class Period suffered similar injury through their purchase of JPMorgan common stock at artificially inflated prices and a presumption of reliance applies.

COUNT I

Violation of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against All Defendants

68. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

69. During the Class Period, Defendants disseminated or approved the materially false and misleading statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

70. Defendants: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's common stock during the Class Period.

71. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for JPMorgan common stock. Plaintiff and the Class would not have purchased JPMorgan common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

72. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their purchases of

JPMorgan common stock during the Class Period.

COUNT II

Pursuant to Section 20(a) of
the Exchange Act Against the Individual Defendants

73. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

74. The Individual Defendants acted as controlling persons of JPMorgan within the meaning of Section 20(a) of the Exchange Act as alleged herein. By reason of their positions as officers and/or directors of JPMorgan, the Individual Defendants had the power and authority to cause JPMorgan to engage in the wrongful conduct complained of herein. By reason of such conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act.

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

A. Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a Class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;

B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: May 15, 2012

MURRAY FRANK LLP

By:______________________________
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Attorneys for Plaintiff

FINKELSTEIN & KRINSK LLP
SARATOGA ADVANTAGE TRUST

CERTIFICATION OF REPRESENTATIVE PLAINTIFF
PURSUANT TO 15 U.S.C. §78u-4(a)(2)

I, Bruce Ventimiglia, as President and Authorized Representative of Saratoga Advantage Trust, Financial Services Portfolio ("Plaintiff"), declare as to the claims asserted under the federal securities laws, that I have reviewed the Complaint and authorized its filing.

1. Plaintiff did not purchase the security that is the subject of this action at the direction of plaintiff's counsel or in order to participate in this private action.

2. Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary.

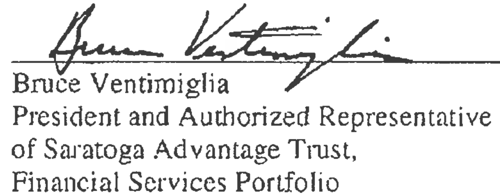
3. Plaintiff's transactions in the securities that are the subject of this action during the Class Period are as follows:

Security	Amount Purchased/Sold		Date	Price Per Share
JPM	91	Purchase	05/04/2012	42.0274

4. Plaintiff has sought to serve or served as a representative party for a class in the following actions filed under the Securities Exchange Act of 1934 or Securities Act of 1933 within the last three years: none.

5. Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond the Plaintiff's *pro rata* share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty or perjury of the laws of the United States that the foregoing is true and correct. Executed this 15th day of May, 2012 at Goodyear, Arizona.



Bruce Ventimiglia
President and Authorized Representative
of Saratoga Advantage Trust,
Financial Services Portfolio