

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, DECEMBER 3, 2019

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COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. SEC-2019-00049

SLAGEL INVESTMENT MANAGEMENT,
and
ZACHARY SLAGEL,
Defendants

SETTLEMENT ORDER

The State Corporation Commission's ("Commission") Division of Securities and Retail Franchising ("Division") conducted an investigation of Slagel Investment Management ("SIM") and Zachary Slagel ("Slagel") (collectively, the "Defendants") pursuant to § 13.1-518 of the Virginia Securities Act ("Act"), § 13.1-501 *et seq.* of the Code of Virginia ("Code").

Slagel is a Virginia resident and the sole proprietor of SIM. SIM's last known address is 303 Church Street SE, Blacksburg, Virginia 24060.

The Division alleges that Slagel and SIM recommended and placed clients into an investment program without fully accounting for the client's risk tolerance, age, investment knowledge and experience, and other information that Slagel and SIM assert was known or acquired by them.

The Division further alleges that Slagel and SIM failed to properly update and keep accurate books and records pertaining to client agreements, their investment strategies, and financial circumstances.

Based on the investigation, the Division alleges Slagel and SIM violated:

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(1) 21 VAC 5-80-200 A (1) and 21 VAC 5-80-200 B (1) of the Commission's Rules Governing Dishonest or Unethical Practices of Investment Advisors, 21 VAC 5-80-10 *et seq.*, by failing to fully consider their clients' risk tolerance, ages, investment knowledge and experience, and other information known or acquired by the Defendants after reasonable examination of the client's financial records; (2) 21 VAC 5-80-160 A (10) of the Commission's Rules Governing Recordkeeping Requirements for Investment Advisors, 21 VAC 5-80-10, *et seq.* ("Rules"), by failing to properly update and keep accurate books and records, and by having conflicting information in the Investment Advisory Agreement and Investment Policy Statement regarding the type of programs clients participated in and the associated fees for the selected programs; and (3) 21 VAC 5-80-160 A (16) by failing to properly maintain the records that show the basis for making their recommendations to clients and by having clients sign agreements before properly disclosing the selected investment program.

While there is no evidence the Defendants purposely failed to keep accurate books and records, the Division has made the Defendants aware of the importance and requirement under the Rules to not only collect these records, but also maintain such records as client financial status changes.

If the provisions of the Act are violated, the Commission is authorized by § 13.1-519 of the Act to issue temporary or permanent injunctions; by § 13.1-521 (A) of the Act to impose a civil penalty; by § 13.1-521 (C) of the Act to order the defendant make rescission and restitution; and by § 12.1-15 of the Code to settle matters within its jurisdiction.

The Defendants neither admit nor deny the allegations herein but admit to the Commission's jurisdiction and authority to enter into this Order.

As a proposal to settle all matters arising from these allegations, the Defendants have made an offer of settlement to the Commission wherein the Defendants will abide by and comply with the following terms and undertakings:

1. The Defendants agree to not offer investment advisory services involving or containing either Options or Alternative Investments¹ for a period of five years from the entry of this Settlement Order ("Order");

2. Within 90 days of the entry of this Order, the Defendants agree to retain an independent, third-party Compliance Consultant to assist in its compliance review. The Compliance Consultant, as well as the terms of the agreement between the Compliance Consultant and the Defendants, shall be approved by the Division in advance:

- a. Within 180 days of the entry of this Order, the Compliance Consultant will complete its review.
- b. Within 20 days of the date of the Compliance Consultant's review, the Defendants will submit:
 - i. the Compliance Consultant's report or their findings; and
 - ii. an affidavit to the Division listing the steps taken to address all findings.

3. The Defendants will pay to the Treasurer of Virginia, contemporaneously with the entry of this Order, the amount of Five Thousand Dollars (\$5,000) in monetary penalties;

4. The Defendants will pay to the Treasurer of Virginia, contemporaneously with the entry of this Order, the amount of Two Thousand Five Hundred Dollars (\$2,500) to defray the costs of investigation in this matter; and

5. The Defendants will not violate the Act in the future.

¹ "Alternative Investments" for purposes of this Order are defined as complex, non-conventional investments that are non-publicly traded and illiquid in nature.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendants, and the recommendation of the Division, is of the opinion that the Defendants' offer should be accepted.

Accordingly, IT IS ORDERED THAT:

- (1) The offer of the Defendants in settlement of the matter set forth herein is hereby accepted.
- (2) The Defendants shall fully comply with the aforesaid terms and undertakings of this settlement.
- (3) The Commission shall retain jurisdiction in this matter for all purposes, including the institution of a show cause proceeding, or taking such other action it deems appropriate on account of the Defendants' failure to comply with the terms and undertakings of the settlement.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Zachary Slagel, 303 Church Street SE, Blacksburg, Virginia 24060; and a copy shall be delivered to the Commission's Office of General Counsel and the Division of Securities and Retail Franchising.

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STATE CORPORATION COMMISSION

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Defendants

ADMISSION AND CONSENT

Slagel Investment Management and Zachary Slagel (collectively, the "Defendants") admit to the jurisdiction of the State Corporation Commission ("Commission") as to the party and subject matter hereof, and neither admit nor deny the allegations made herein by the Division of Securities and Retail Franchising, hereby consent to the form, substance and entry of the foregoing Settlement Order ("Order").

The Defendants further state that no offer, tender, threat or promise of any kind whatsoever has been made by the Commission or any member, subordinate, employee, agent or representative thereof in consideration of the foregoing Order.

Slagel Investment Management

Date: 11/20/19

By: Zachary Slagel
Its: Sole Proprietor

Zachary Slagel

Date: 11/20/19

By: Zachary Slagel