

BEFORE THE DIRECTOR OF THE DEPARTMENT OF FINANCE
OF THE STATE OF IDAHO

In the Matter of:

STATE OF IDAHO,
Department of Finance,
Securities Bureau,

Docket No.: 2011-7-11

Complainant,

AGREEMENT AND ORDER

vs.

Royal Wealth Management, Inc.
d.b.a. Northstar Capital,
Brian M. Royal

Respondents

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1 The Director of the Department of Finance, State of Idaho (Department), has conducted
2 an investigation into the conduct of ROYAL WEALTH MANAGEMENT INC., AND BRIAN
3 M. ROYAL (collectively, "Respondents"). Pursuant to the investigation, it appears to the
4 Director that violations of the Idaho Uniform Securities Act (2004), Idaho Code Sections 30-14-
5 101, *et. seq.* (the "IUSA"), have occurred. The Director and Respondents have agreed to resolve
6 this matter without a public hearing or other adjudication. Therefore, the Director deems it
7 appropriate and in the public interest to enter into this Agreement and Order ("Order").
Respondents voluntarily consent to the entry of this Order.

I.

PARTIES

1. Respondent Royal Wealth Management, Inc. ("RWM") is a state registered investment adviser based in Rustburg, VA. RWM was formed April 22, 2008 and became a registered investment adviser in Virginia on July 21, 2008.

2. RWM has been a registered investment adviser with the Department from January 12, 2011 to date. RWM is currently conducting is advisory business under the name Northstar Capital.

3. Respondent Brian M. Royal ("Royal") was the Vice President and Chief Compliance Officer of RWM. Royal has been registered as a RWM investment adviser representative with the Department from January 12, 2011 to date. On or about September 27, 2012, Royal became the President of RWM.

4. Other related parties, though not Respondents, are:

a. Claude Royal is the father of Royal. He was the President and majority shareholder of RWM as well as a RWM investment adviser representative. On or about September 27, 2012, Claude Royal ceased to serve as President of RWM. Mr. Royal continues to be a RWM investment adviser representative.

b. Densmore Financial Group, Inc. ("DFG") is an Idaho corporation with its principal place of business located at 612 3rd Street South, Nampa, Idaho. DFG was a registered investment adviser in Idaho from September 6, 2005 to November 23, 2010. DFG is owned and operated by Allan and Anna Densmore.

c. Allan Densmore ("Densmore") is the President of DFG. Densmore had previously operated as a registered investment adviser through his company,

DFG. However, Densmore withdrew DFG's investment adviser registration in November 2010.

- d. Anna Densmore ("Anna") is the wife of Densmore. Anna is the corporate secretary of DFG. Anna also provided administrative and customer service at DFG. Prior to 2011, Anna had never been licensed as an investment adviser representative. Anna was registered as a RWM investment adviser representative in Idaho from March 15, 2011 to August 10, 2011.

II.

BACKGROUND ALLEGATIONS

The Department alleges as follows:

0 5. Beginning in January 2011, after DFG had withdrawn its investment adviser
1 registration in November 2010 and could no longer provide investment advisory services in
2 Idaho, in a series of emails, Densmore and Royal discussed referring DFG clients to RWM.

3 6. In discussing the potential for establishing a business relationship, Royal wrote in
4 a January 8, 2011 email:

5 **"If you decide to license your secretary or even your wife they would have the advantage of
6 learning the business while they are studying for the test. This would also give us an
7 opportunity to discuss the do[sic] and don'ts of the business and make sure all parties know
8 the gray areas and stay far, far away."**

9 **"This would do two things for you Allan. It would give you an opportunity to build up the assets
10 on the investment side to a point that you have a physical bargaining chip to find someone that
11 is appealing to both you and us. It would also keep you from ever being put over a barrel by
12 you not having an investment license. I am sure we can find a legal and viable solution to
13 compensation."**

14 7. On January 14, 2011, citing the recommendation of his compliance consultants,
15 his father's opinion, and state investigations involving Densmore, Royal emailed Densmore that
16 they would not be able to develop a relationship together. On the same day, responding to
17 Royal's email, Densmore asked if Royal's position precluded his wife stating:

18 **"If we can do this, I will just let my clients know they will have to manage their own money
19 until my wife is up to speed and licensed."**

8. Anna executed an independent agent agreement ("Agreement") with RWM on January 14, 2011 and became an investment adviser representative of RWM on March 15, 2011.

9. The Agreement engaged Anna to act as an independent sales agent and marketing arm for RWM with respect to RWM's products and services. The Agreement set forth the terms of compensation and contained restrictive covenants including a 2 year post-employment non-solicitation restriction that applied to Densmore. The Agreement also dictated the termination provisions. According to the Agreement, Anna could be terminated if either she or Densmore committed an act of dishonesty or misconduct in connection with the rendering of services to any prospective or current customer of RWM.

10. When asked what made her want to become involved with RWM, Anna testified, "That was a decision on my husband's part." Anna also testified that she had no desire to meet with clients and discuss RWM with them.

11. On January 17, 2011, Densmore emailed Royal writing:

"If you can confirm last email, that Anna will be under your firm, and you will protect her, they will be going in tomorrow. Allan P.S. I look forward to having my clients experience how proper money management can be done."

12. Royal responded to Densmore's January 17, 2011 email writing:

"Allan, Anna will be with our firm and we will take care of her and make sure she doesn't get in trouble. That is correct! Thanks."

13. Although Densmore was not registered with RWM, Densmore was involved in the solicitation and servicing of RWM clients. At least one Idaho investor paid Densmore \$150 for a "Financial Physical" that included a recommendation to sell the investor's holding of Micron stock and invest the proceeds with RWM.

14. Royal required Densmore to have prospective clients execute an acknowledgement form outlining Densmore's capacity as handling insurance products and NOT offering investment advice or soliciting investments. The acknowledgement form identified

Royal as being responsible for all investment advice, explanations and other investment adviser responsibilities.

15. On January 11, 2011, Densmore sought Royal's advice on presenting the acknowledgement form to clients by writing:

"I printed out the acknowledgement form. Do I have to give it to them at the beginning or, can I wait until we place the business. This way they have gotten a chance to know me, know how I work and understand the differences. I know ideally it would be at the very beginning, but does it have to?"

16. Royal also shared RWM performance information with Densmore to be used in the solicitation of clients.

17. On February 28, 2011 Royal emailed Densmore an attachment entitled, "Historical Return.xlsx" and wrote:

"Allan, Attached is the raw data for our performance since 1981. Tell me what you think buddy. We only beat the S&P 17 out of 31 times but would have had a much higher account balance than the S&P 500. Thanks. Brian M. Royal "

18. On February 21, 2011 Royal emailed Densmore an attachment entitled, "RWMA 2.00 percent 2 08-20-2010.xls" which contained RWM performance related information and wrote:

"I don't know what you have but this is something that I use internally."

19. Idaho investor A.D. alleged that during a meeting held at DFG, in which Densmore and Royal (via phone) participated, Royal specifically represented the track record of RWM. A.D. stated, "I asked specific questions about 2009 and 2001. Brian quoted his company's results versus the stock market. His results were better. He gave explanation about his spec. [sic] program and how his clients' losses were far less." A.D. also recalled Royal referenced a performance chart during the meeting that appeared to be substantially similar to the RWM 10 year chart: RWMA 2.00 percent 2 08-20-2010.xls. Other Idaho investors have also alleged that Royal discussed RWM's track record with them. Idaho investor E.C. alleged that Royal told him, "He has not had a losing year and no clients have lost money."

20. Royal also shared RWM performance related information with Brad Hunter (“Hunter”), an individual who ran a separate investment advisory firm in Idaho. On March 30, 2011, Royal emailed Hunter and wrote:

“Dear Mr. Hunter, I have attached the solicitors agreement above. The information regarding the historical performance for a conservative account and aggressive account will follow. I look forward from [sic] hearing from you. Thanks. Brian M. Royal.”

21. Royal then sent two emails with the subject lines, “Conservative” and “Aggressive” to Hunter which contained return information.

22. Several Idaho investors have indicated that Densmore suggested/recommended that they do business with RWM. Some investors also reported that Densmore showed them graphs that depicted RWM return information and track record results. In addition, at least fourteen (14) Idaho clients represent that they have never spoken with Royal.

23. With Royal’s knowledge and participation via telephone, Densmore held client meetings at his DFG office where prospective clients were solicited using charts and graphs that purportedly showed performance information associated with RWM. According to Royal, Densmore participated in these client meetings because he was licensed to sell insurance products and Anna was not.

24. Although Anna was a licensed investment adviser representative of RWM, she did not participate in the client meetings with Densmore and Royal, but apparently reviewed the completed RWM client paperwork. Royal described Anna’s position as being “clerical.”

25. Royal shared RWM client information with Densmore and conveyed RWM information through Densmore. A specific example of this practice can be seen in a March 31, 2011 email where Royal copied Densmore on an email sent to client O, regarding login instructions for client O’s account. In addition, on April 18, 2011, client O asked for a copy of RWM’s 10 year return history that had been shown to him at Densmore’s office. On April 22, 2011, Royal emailed Densmore, writing:

"Houston we might have a problem. After the performance reporting issues that we saw back in Jan. my father didn't pay to have the Morningstar report done for any of this year. The Jan. Morningstar report is the last one we have. If it makes any difference I will make a very generous offer. If he promises to put a million dollars with this firm I will give him just one of the hundred pieces my algo uses and he can put it to any stock at any time and will show him it is 70% accurate. That is the best I can do with my system for right now. Although I can't say I wouldn't use the numbers of the system backtested and just give those to him with the understanding they are backtested numbers."

On April 22, 2011 Densmore copied Royal's April 22, 2011 email to client O.

26. Royal, Densmore, and Anna planned to hold a meeting on April 20, 2011 at the Holiday Inn Express in Nampa, ID to solicit prospective investors to join RWM. Prior to the meeting, DFG sent a letter that contained the meeting details, touted the impressive track record of RWM, and announced the May 1, 2011 rollout of RWM's two new programs. Densmore queried Royal about the upcoming meeting and asked for Royal's input.

27. On April 18, 2011 Densmore sent Royal an email with a subject line: "Wednesday Workshop" stating:

"Here is what the workshop is going to look like. Can I get the 2011 numbers for both models? Also can you add some other info about you and dad? Also add something about using a custodian to report your money? Allan"

28. On April 18, 2011 Royal sent Densmore an email with a PowerPoint attachment entitled: "What If[Autosaved].pptx"

29. On April 19, 2011 at 8:17 pm Royal sent Densmore an email stating:

"Allan, After contemplation just roll with the presentation. The performance is not going to be that far off from what we have shown. I will fix the presentation going forward for you but we had some flight problems and I just got to Lynchburg. It has been a little bit of an adventure this afternoon to put it lightly. I just know that just the IRA model and the taxable conservative model will be opened immediately and the Ferrari model is going to have to wait for now. Thanks. Brian M. Royal"

30. On April 19, 2011 at 8:35 pm Royal sent Densmore and Anna an email and a PowerPoint attachment entitled "What If Autosaved.pptx" The email stated:

"Worked on this and I am going to leave the 99 model on here but I changed the 331 model with accompanying information."

31. On April 20, 2011, as planned, Royal, Densmore and Anna held the meeting at the Holiday Inn Express in Nampa, Idaho. Royal participated in a portion of the meeting by phone.

32. According to Anna's testimony, Anna's involvement in the meeting included picking up refreshments, bringing Royal's phone number, bringing equipment necessary for the PowerPoint presentation, meet and greet, and handling sound problems that occurred during the presentation.

33. During the meeting, Densmore made representations such as:

- "Royal Wealth, for the most part, has taken over the management of all of our stuff. They do better than anything that I do or anything I did."
- "So with Royal Wealth, Royal Wealth is really no different than me, other than they've got their programs."
- "If you would have invested \$100,000 with Royal Wealth, it would have grown to \$4.2 million without losing one year." (Time period 1981-2010)
- "If you're with Royal Wealth, your \$100,000 would have grown to \$350,000 without a losing year." (Time period 2000-2010)
- When asked about fees during the meeting, Densmore answered, "We get a percentage of what they get." Densmore also stated, "I'm still going to be the guy that you talk to and meet with, but we just have somebody else managing the money."
- "I, as your advice giver, will talk about: What if I have the ability to truly do something that I have never been able to do before? And here's what I mean by that: All of the advisors, no matter what, we all do stocks, bonds, mutual funds, annuities. We all do similar stuff."
- "Now what would happen if—and, again, we have the securities, and I can put people in securities. And those are you guys that I manage your money, and we do the dividend and all that good stuff."

34. During the meeting, Densmore also made statements to prospective investors regarding Claude and Brian Royal's history of managing money and the existence of a multi-million dollar offer to buy Royal's program. Densmore's statements communicated the following:

- a. The Royals had been managing money since 1981 using a regular brokerage account, commodities, and ETFs.
- b. RWM had been formed in 2008 to enable Royal to talk to advisors like Densmore. Prior to 2008 if you weren't one of their clients or if one of their clients didn't refer you, you didn't know about Royal Wealth.
- c. Claude Royal had approximately \$600 million dollars under management.
- d. Royal had already been offered \$3.5 million for his program.

35. In reality, according to Claude Royal's testimony:

- a. Prior to 2008, RWM had no clients.
- b. Prior to 2008, the only client money managed by Claude Royal was in real estate.
- c. Claude Royal did not have any experience investing in commodities, in organized commodities exchanges.
- d. Claude Royal had not managed hundreds of millions of dollars.
- e. RWM had not been offered \$3.5 million dollars for its system.

36. On August 1, 2011 in correspondence with the state of Virginia who had commented on Densmore's alleged RWM activities, Royal stated, "...Our firm has lost faith and trust with the Densmores. RWM is therefore terminating the relationship between our firm and Anna Densmore." Anna's registration was terminated on August 10, 2011.

37. Despite having terminated Anna, RWM permitted Anna to retain user privileges associated with RWM's client accounts held at Interactive Brokers (IB). The Department informed IB on September 14, 2011 of its understanding that Anna was no longer affiliated with

RWM. IB contacted Royal and Anna's user privileges were revoked at IB on September 14, 2011.

38. In her sworn testimony, when asked if she had accessed client information at IB after her termination, Anna stated, "Yes." When asked to explain why she had accessed the information at IB, Anna stated, "Because Brian said even though I was no longer with him, he would go ahead and give me access to the clients for a certain amount of time so I could keep helping with the current business."

39. On June 14, 2011, the Department served RWM a subpoena that requested documents concerning the Department's investigation. Royal's June 28, 2011 subpoena response contained the following response to performance related information sought by the Department. Royal's response is shown in bold.

8) Any and all documents which support the claims: 1) "If you would have invested \$100,00 with Royal Wealth (in 1981) it would have grown to \$4.2 million without losing one year", 2) "If you are with Royal Wealth, your \$100,000 would have grown to 350,000 without a losing year from 2000 to 2010.

No such documentation exists or ever did exist to represent such claims. Nothing of the sort has ever come from Royal Wealth Management or been approved for usage by anyone at RWM.

9) Any and all documents that purport to describe past and/or present investment performance, either real or hypothetical, that were provided to or described to any person except Brian Royal, Claude Royal or Christopher Royal.

No such documents exist or ever has existed that was created by anyone affiliated with Royal Wealth Management.

40. Royal's subpoena response statements set forth in paragraph 39 above are misleading filings made with the Department and constitute violations of Idaho Code §30-14-505 based on the following evidence:

a. The Excel file named: "MarketingPiece Updated 2. xlsx" located on RWM's back-up server housed by DigitalBucket.net contains a graph labeled "Royal

Wealth Management Portfolio Hypothetical Net Performance vs. Investment Benchmarks 100,000 Initial Investment January 2, 1981 through December 31, 2010.” The graph shows RWM with positive returns every year and an ending value of RWM’s portfolio equal to \$4,211,787.01. This file also contains information that describes past and/or present investment performance, either real or hypothetical.

b. The Excel file named: “RWMA 2.00 percent 2 08-20-2010.xls located on RWM’s back-up server housed by DigitalBucket.net contains a graph showing RWM’s portfolio return based on an assumed initial \$100,000 investment from 2000 to 2010. The graph shows the 2010 ending value of RMW’s portfolio to equal \$350,110.15. This file also contains information that describes past and/or present investment performance, either real or hypothetical.

c. Emails sent from Royal to Densmore containing performance information.

d. Performance advertising documentation obtained from RIA In A Box/Lexington Compliance.¹

e. Emails sent from Royal to Hunter containing performance information.

f. RWM performance information obtained from David Alvarado, an individual who introduced Densmore to Royal.

41. On October 26, 2011, Royal provided sworn, investigative testimony to the Department in connection with the Department’s investigation into RWM’s securities activities.

¹ On February 22, 2011, Royal sent a submission to his third party compliance consultant. Royal wrote: “I want to show a hypothetical assumption of a portfolio’s return using third party investment management firms I deal with and I have put together the historical data along with a disclosure.” On the same day, the compliance consultant informed Royal that his submission would be considered performance advertising and responded “...I can save you some trouble here and tell you that you CANNOT (Emphasis in original) represent a third party money manager’s results as your own. Any regulator will deem that deceptive advertising.”

42. During Royal's testimony, with regard to performance topics and related exhibits,
Royal testified:

- a. He had not created any type of performance measures connected with RWM.
- b. He was not familiar with the information presented in certain exhibits, nor had he created the exhibits or shared the exhibits with Densmore.
- c. The only documents he shared with Densmore that contained statistical or return data were the actual forms from the companies Royal used as examples of the methodology.

43. In reality, based on evidence referenced in paragraphs 17, 18, and 40 above, Royal had created performance measures connected with RWM and had sent emails to
0 Densmore with performance information that 1) was not on the actual forms from the companies
Royal used as examples of his methodology, and 2) was identical to an exhibit discussed during
1 testimony that Royal claimed was not his document.

44. During Royal's testimony, when asked whether he had discussions with
2 Densmore about the capacity in which Densmore would be operating in connection with RWM,
Royal responded:

- a. "Well, after the January 14 email we had multiple telephone conversations as to
3 what we were, if we were going to, if these clients were going to become clients
4 of ours the capacity of which he could operate and could not operate in. He could
talk about insurance products, annuities; but he could not talk about the
5 investment products or anything to do with Royal Wealth Management. That was
explicit."

45. During testimony, when discussing the April 20, 2011 meeting, Royal testified:

- a. "To go back one step further, my understanding was that this seminar, or
7 whatever this thing was, was an annuity insurance seminar like the one he does

about every week. Or whatever the case was during that time period. It was not for Royal Wealth Management.”

46. Contrary to Royal’s testimony, contemporaneous emails as referenced in paragraphs 27-30 above indicate that Royal was aware that Densmore planned to discuss RWM at the April 20, 2011 meeting.

47. In March 2011, RWM desired to change the clients’ custodial broker-dealer from Folio Institutional to IB. On or about April 20, 2011, instead of using the clients’ email addresses, Royal began using two email accounts he controlled to facilitate the opening of at least ninety (90) Idaho accounts with margin capabilities. Royal opened the clients’ accounts at IB and electronically signed IB’s brokerage account agreements on behalf of the clients. Royal
0 never possessed signatory authority for any Idaho client.

48. On or about April 27, 2011 Royal was contacted by IB’s compliance department
1 regarding his use of similar email addresses to open client accounts at IB. By using a non-client email address to open client accounts, Royal’s actions interfered with IB’s client disclosure
2 mechanism. It appears that several clients, who were signed up for IB’s enhanced portfolio margin capabilities, did not receive IB’s disclosure because the disclosure was not sent to the
3 client’s email address.

49. During testimony, Royal related that after he was contacted by IB compliance he
4 ceased opening accounts using those same email addresses. However, contrary to Royal’s testimony, information provided by IB indicates that client accounts continued to be opened with
5 an email account controlled by Royal until June 1, 2011.

III.

ALLEGED VIOLATIONS AND CONCLUSIONS OF LAW

Department alleges the following violations and conclusions of law:

Unlawful Association

50. Idaho Code § 30-14-403(d) provides that it is unlawful for an investment adviser to employ or associate with an individual required to be registered under this chapter as an investment adviser representative unless the individual is registered under Idaho Code § 30-14-404(a), or is exempt from registration under Idaho Code §30-14-404(b).

51. Idaho Code §30-14-102(16) defines an investment adviser representative to include, “an individual employed by or associated with an investment adviser...who makes any recommendations or otherwise gives investment advice regarding securities, manages accounts or portfolios of clients, determines which recommendation or advice regarding securities should be given, provides investment advice or holds herself or himself out as providing investment advice, receives compensation to solicit, offer, or negotiate for the sale of or for selling investment advice, or supervises employees who perform any of the foregoing.”

52. Respondent RWM was associated with Densmore, who engaged in activities on behalf of RWM that required registration as an investment adviser representative. Details of Densmore’s association with RWM are set forth in paragraphs 5-36 above.

53. Respondent RWM’s unlawful association with Densmore, who engaged in activities that required registration as an investment adviser representative, violated Idaho Code § 30-14-403(d).

Misleading Filings

54. Idaho Code § 30-14-505 provides that it is unlawful for a person to make a statement in a record, used in a proceeding, that is false or misleading in a material respect. Rule 104.48 of the IUSA defines the term “proceeding” to include, but is not limited to, an investigation, examination or other inquiry initiated by the Department.

55. Idaho Code § 30-14-502(a)(2) provides that it is unlawful for an investment adviser, either directly or indirectly to engage an act, practice or course of business that operates or would operate as a fraud or deceit upon another person. A person who engages in any of the

practices enumerated in IDAPA 12.01.08, Rule 104 is deemed to have engaged in fraudulent, dishonest and unethical practices pursuant to Idaho Code § 30-14-502(b).

56. Rule 104.48 prohibits misleading filings as referenced in § 30-14-505 Idaho Code.

57. Rule 104.01(b) provides that a person who engages in any of the practices enumerated in IDAPA 12.01.08, Rule 104 is deemed to have engaged in a dishonest and unethical practice as used in Idaho Code § 30-14-412(d)(13), which constitutes grounds for denial, suspension, or revocation of registration or such other action authorized by statute.

58. As referenced in paragraph 39 above, Royal's subpoena response denied the existence of any documents that supported claims that 1) "If you would have invested \$100,000 with Royal Wealth (in 1981) it would have grown to \$4.2 million without losing one year", and 2) "If you are with Royal Wealth, your \$100,000 would have grown to \$350,000 without a losing year from 2000 to 2010." Royal's response also denied the existence of any documents that purported to describe past and/or present investment performance, either real or hypothetical.

59. The evidence cited in paragraph 40 above contains performance related information that contradicts Royal's representations to the Department. Some of this information was stored on RWM's back-up servers and supports the claims referenced in paragraph 39 above.

60. Royal's subpoena response statements, set forth in paragraph 39 above, constitute violations of Idaho Code §30-14-505, § 30-14-502(a)(2), Rule 104.48, and constitute grounds for suspension or revocation pursuant to Idaho Code §§ 30-14-412(d)(13) and 30-14-412(d)(2).

61. Royal's statements, as summarized in paragraph 42 above, constitute violations of Idaho Code §30-14-505 based on the evidence referenced in paragraph 40 above which, contrary to Royal's testimony, indicates that Royal:

- a. Had created performance measures connected with RWM.

b. Had sent emails to Densmore with RWM performance information that 1) was not on the actual forms from the companies Royal used as examples of his methodology, and 2) was identical to an exhibit discussed during testimony that Royal claimed was not his document.

62. Royal's statements, as referenced in paragraph 44 above, constitute violations of Idaho Code §30-14-505 based on the evidence referenced in paragraph 27-30 above which, contrary to Royal's testimony, demonstrates Royal's awareness that Densmore planned to discuss RWM at the April 20,2011 meeting.

63. During Royal's testimony, Royal also talked about his use of email and the back-up retention of RWM-related emails. According to Royal, emails prior to March 15, 2011 had been lost due to a conversion to Microsoft Exchange. Royal represented that he did not transact business through email and that email correspondence had been backed-up after March 15, 2011.

64. Contrary to Royal's testimony as summarized in paragraph 63 above, numerous emails exist showing that Royal conducted business through email. In addition, emails, dated after March 15, 2011, exist that had not been backed-up by RWM.

65. Royal's statements as set forth in paragraphs 42 and 44 above, constitute violations of Idaho Code §30-14-505, §30-14-502(a)(2) and Rule 104.48 and constitute grounds for suspension or revocation pursuant to Idaho Code §§ 30-14-412(d)(13) and 30-14-412(d)(2).

Fraud in Providing Investment Advice

66. Idaho Code § 30-14-502(a)(2) provides that it is unlawful for an investment adviser, either directly or indirectly, to engage an act, practice or course of business that operates or would operate as a fraud or deceit upon another person. A person who engages in any of the practices enumerated in IDAPA 12.01.08, Rule 104 is deemed to have engaged in fraudulent, dishonest and unethical practices pursuant to Idaho Code § 30-14-502(b).

67. Rule 104.01(b) provides that a person who engages in any of the practices enumerated in IDAPA 12.01.08, Rule 104 is deemed to have engaged in a dishonest and unethical practice as used in Idaho Code § 30-14-412(d)(13), which constitutes grounds for denial, suspension, or revocation of registration or such other action authorized by statute.

68. RWM and Royal violated the following IDAPA rules, and therefore are deemed to have operated a fraud or deceit in violation of Idaho Code §30-14-502(a)(2) and are deemed to have engaged in dishonest and unethical practices:

- a. Rule 104.17 prohibits using any advertising or sales presentation in such a fashion as to be deceptive or misleading
- b. Rule 104.35 prohibits the misrepresentation to any advisory client, or prospective advisory client, the qualifications of the investment adviser, investment adviser representative or any employee of the investment adviser, or to misrepresent the nature of the advisory services being offered or fees to be charged for such service, or to omit to state a material fact necessary to make the statement made regarding qualifications, services, or fees, in light of the circumstances under which they are made, not misleading.
- c. Rule 104.47 prohibits conduct or any act, indirectly or through or by any other person, which would be unlawful for such person to do directly under the provisions of the Act or any rules thereunder, or other conduct such as nondisclosure, incomplete disclosure, or deceptive practices.

69. Royal represented to the Department that RWM never had performance information, either real or hypothetical, that was created by anyone affiliated with RWM.

70. Based on the allegations set forth in paragraph 19 above, Royal violated Idaho Code §30-14-502(a)(2) by providing misleading performance information to prospective

investors and thus engaged in acts or practices that operated as a fraud or deceit upon prospective investors.

71. RWM and Royal violated Idaho Code § 30-14-502(a)(2), Rule 104.17, Rule 104.35, and Rule 104.47 of the IUSA when, through Densmore, they used a sales presentation in a misleading fashion which communicated inaccurate and misleading information about RWM and its investment adviser representatives to prospective investors. Violations of §30-14-502(a)(2), Rule 104.17, Rule 104.35, and Rule 104.47 constitute grounds for suspension or revocation pursuant to Idaho Code §§ 30-14-412(d)(13) and 30-14-412(d)(2).

72. Idaho Code §30-14-502(a)(2) provides that it is unlawful for an investment adviser, either directly or indirectly, to engage in an act, practice or course of business that operates or would operate as a fraud or deceit upon another person. Royal's impersonation of Idaho clients when opening IB margin accounts, without signatory authority, constitutes a violation of Idaho Code §30-14-502(a)(2).

73. RWM and Royal violated the following IDAPA rule, and therefore are deemed to have operated a fraud and deceit in violation of Idaho Code §30-14-502(a)(2):

- a. Rule 104.07 prohibits the execution of any transaction in a margin account without securing from the customer a properly executed written margin agreement before or promptly after the initial transaction in the account.

74. Royal's conduct connected with transferring client accounts to IB as set forth in paragraphs 47-49 above constitutes a violation of Rule 104.07 pursuant to the IUSA and §30-14-502(a)(2), in that Royal impersonated clients when he opened margin accounts and executed transactions in the accounts without securing from the customer a properly executed written margin agreement. Moreover, Royal exacerbated this issue by ignoring the April 27, 2011 warning he received from IB's compliance department regarding his opening of accounts with

the same email addresses. Royal continued to impersonate clients, open margin accounts, and execute transactions in the accounts until at least June 1, 2011.

75. RWM and Royal's violations of § 30-14-502(a)(2) and Rule 104.07 constitute grounds for suspension or revocation pursuant to Idaho Code §§ 30-14-412(d)(13) and 30-14-412(d)(2).

Failing to Enforce Procedures and Preserve Records

76. Rule 93 pursuant to the IUSA requires every investment adviser registered under the IUSA to make and keep true, accurate and current books and records in compliance with 17 CFR 275.204.2 under the Investment Advisers Act of 1940, as currently amended.

0 77. Rule 104.42 prohibits the failure to establish, maintain, and enforce written
1 policies and procedures reasonably designed to prevent the misuse of material nonpublic
2 information contrary to the provisions of Section 204A of the Investment Advisers Act of 1940.
3 Section 204A of the Investment Advisers Act of 1940 requires investment advisers to enforce
4 written policies and procedures to prevent the misuse of material, nonpublic information by such
5 investment adviser or any person associated with such investment adviser. Regulation S-P
6 requires investment advisers to adopt written procedures that address administrative, technical,
7 and physical safeguards for the protection of customer records and information.

4 78. Rule 105.04 pursuant to the IUSA requires every investment adviser to establish,
5 maintain and enforce written procedures.

5 79. Pages 31-33 of RWM's procedures required Royal to make and keep a true,
6 accurate and current list of books and records relating to its investment advisory business which
7 included, but is not limited to:

- 6 b. Written communications (business correspondence sent and received).
- 7 c. All communications sent to or from the client.

80. Page 40 of RWM's procedures states: "The firm backs up its electronic records daily by off-site server describe process. In the event of an internal or external significant business disruption that causes the loss of our paper records, we will physically recover them from our back-up site...For the loss of electronic records, we will either physically recover the storage media or electronically recover data from our back-up site..."

81. Royal violated Rule 93 and Rule 105.04 when he failed to maintain required records and enforce RWM's procedures that required the maintenance of business communications related to RWM and all communications sent to or from clients.

82. Page 19 of RWM's procedures state: "Royal Wealth Management Inc. restricts access to your personal and account information to those employees who need to know that information to provide products or services to you. Royal Wealth Management Inc. maintains physical, electronic, and procedural safeguards to guard your nonpublic personal information."

83. Despite having terminated Anna, Royal permitted Anna to retain user privileges associated with RWM's client accounts held at IB.

84. Royal violated Rule 105.04 and Rule 104.42 when he failed to enforce RWM's privacy policy related procedures when he permitted Anna to retain the capability to access RWM client information after she had been terminated by RWM as referenced in paragraphs 37-38 above.

85. Idaho Code § 30-14-412(d)(9) provides the Department grounds to suspend or revoke the registration of any investment adviser or investment adviser representative who has failed to reasonably supervise an agent, investment adviser representative or other individual, if the agent, investment adviser representative or other individual was subject to the person's supervision and committed a violation of any provision of the Act or a rule adopted under this chapter. Densmore and Anna committed violations of the IUSA and/or its rules and were subject

to the supervision of RWM and Royal. RWM and Royal failed to exercise reasonable supervision over the securities activities of Densmore and Anna Densmore in Idaho.

86. Idaho Code § 30-14-412(d)(2) provides the Department grounds to suspend or revoke the registration of any investment adviser or investment adviser representative who has willfully violated or willfully failed to comply with this chapter or the predecessor act or a rule adopted or an order issued under this chapter or the predecessor act within the previous ten (10) years. RWM and Royal engaged in willful violations of the IUSA and its rules that include the following:

- a. RWM and Royal violated Idaho Code §30-14-403(d) by associating with Densmore, who was not registered as an investment adviser representative.
- 0 b. Royal made misleading statements to the Department in violation of Idaho Code §30-14-505.
- 1 c. Royal provided misleading information to prospective investors in violation of §30-14-502(a)(2).
- 2 d. RWM and Royal, through Densmore, used a sales presentation in a misleading fashion which communicated inaccurate and misleading information about RWM and its investment adviser representatives to prospective investors and therefore
- 3 violated §30-14-502(a)(2).
- 4 e. Royal impersonated clients in opening client margin accounts at IB and therefore violated §30-14-502(a)(2).
- 5 f. RWM and Royal failed to enforce RWM's procedures to 1) maintain required books and records and 2) enforce RWM's privacy policy related safeguards for
- 6 the protection of customer records and information and therefore violated §30-14-502(a)(2).
- 7

REMEDIES

THEREFORE, on the basis of the background allegations and alleged violations and conclusions of law, and Respondents agreement to the entry of this Order, the Director finds that the following remedies are appropriate and in the public interest:

87. Respondents consent to the entry of this Order.

88. Respondents neither admit nor deny the alleged violations and conclusions of law as set forth in this Order.

89. Respondents consent to the suspension of their investment advisory registrations in Idaho for a period of five (5) years beginning on March 1, 2013 and further agree that they will not apply to hold a securities related registration in Idaho during the five (5) year suspension period. Respondents agree to refrain from conducting securities related business in Idaho during the suspension period.

90. Respondents agree to pay the amount of twenty thousand dollars (\$20,000) as fines and penalties for the violations alleged in the Order. In satisfaction of this amount, subject to the terms below, Respondents will make payments to the Complainant, as specified next.

91. Respondents shall pay the amount of ten thousand dollars (\$10,000) on or before January 15, 2013. Respondents shall pay an additional ten thousand dollars (\$10,000) on or before February 15, 2013. Payment shall be made payable to the order of "Idaho Department of Finance."

92. Respondents may prepay any payment, but will continue paying until it has paid the total sum of twenty thousand dollars (\$20,000), after which the payments will cease and the matter will be entirely resolved.

93. Respondents agree that upon completion of their five (5) year suspension, if they wish to conduct business in Idaho, to retain a third party compliance firm, at their own expense,

to review and approve all investment advisory performance information, whether real or hypothetical, that is to be communicated to Respondents' investment adviser representatives, Respondents' clients or prospective clients. The investment advisory performance information shall be reviewed for compliance with requirements of the Investment Advisers Act of 1940 and the rules promulgated thereunder, as amended. The review and approval of investment advisory performance information shall be completed prior to use or distribution.

94. Respondents waive notice and opportunity for a hearing under Idaho Code § 30-14-604(b) and (c), and under the contested case provisions of the Idaho Administrative Procedures Act, I.C. §67-5240 *et. seq.* The terms contained in this Order constitute the entire agreement between the Department and Respondents.

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REMEDIES UPON BREACH

95. Failure to cure any default after a five (5) day notice and thirty (30) day opportunity to cure shall be considered a breach of this Order, affording the following remedies:

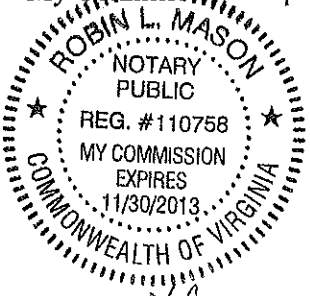
- a. The unpaid balance of any penalties provided for in this Order and owed by RWM and Royal become immediately due and payable, and the Department can initiate suit to collect against any and all parties.
- b. Respondents agree that failure to comply with the Order may result in the Director bringing further legal or administrative proceedings.

Brian M. Royal
BRIAN M. ROYAL

State of VA
County of Campbell

SUBSCRIBED AND SWORN to before me this 24 day of December 2012

Robin R. Mason
NOTARY PUBLIC
My Commissions Exp: Nov. 30, 2013



ROYAL WEALTH MANAGEMENT, INC.

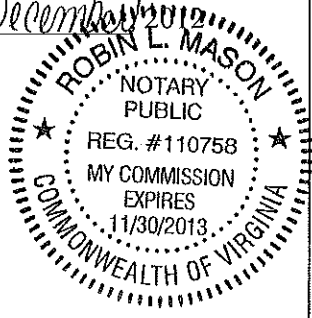
Brian M. Royal
By: BRIAN M. ROYAL
Title: President, Royal Wealth Management, Inc.

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State of VA
County of Campbell

SUBSCRIBED AND SWORN to before me this 24 day of December 2012

Robin R. Mason
NOTARY PUBLIC
My Commissions Exp: November 30, 2013



State of _____
County of _____

Marilyn T. Chastain
MARILYN T. CHASTAIN
Bureau Chief, Securities Bureau
Department of Finance
State of Idaho

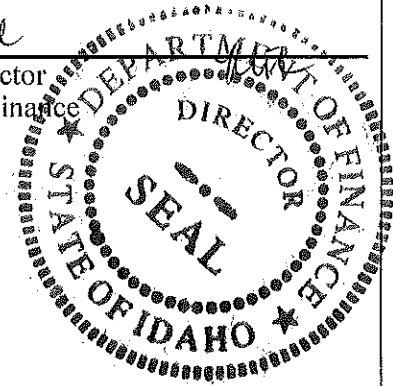
IT IS SO ORDERED

DATED this 27th Day of December 2012.

STATE OF IDAHO
DEPARTMENT OF FINANCE

Gavin M. GEE

GAVIN M. GEE, Director
Idaho Department of Finance



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