

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,

Complainant,

vs.

Anna M. Densmore,

Respondent

Docket No.: 2011-7-11A

AGREEMENT AND ORDER

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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 ANNA M. DENSMORE ("Respondent"). Pursuant to the
3 investigation, it appears to the Director that violations of the Idaho Uniform Securities Act
4 (2004), Idaho Code Sections 30-14-101, *et. seq.* (the "IUSA"), have occurred. The Director and
5 Respondent have agreed to resolve this matter without a public hearing or other adjudication.
6 Therefore, the Director deems it appropriate and in the public interest to enter into this
7 Agreement and Order ("Order"). Respondent voluntarily consents to the entry of this Order.

I.

PARTIES

1. Respondent was registered in Idaho from March 15, 2011 to August 10, 2011 as
an investment adviser representative for Royal Wealth Management, Inc. ("RWM").
Respondent is the corporate secretary of Densmore Financial Group, Inc. ("DFG"), a formerly-
registered investment adviser operated by Respondent's husband, Allan H. Densmore

0 (“Densmore”). Respondent provided administrative and customer service at DFG. Prior to 2011, Respondent had never been licensed as an investment adviser representative.

2. Other related parties, though not Respondents:

a. 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 was owned and operated by Allan and Anna Densmore.

b. 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.

c. RWM has been a registered investment adviser with the Department from January 12, 2011 to date.

d. Brian M. Royal (“Royal”) is the 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.

II.

BACKGROUND

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 Beginning in January 2011, after DFG had withdrawn its investment adviser registration in November 2010 and could no longer provide investment advisory services in Idaho, in a series of emails, Densmore and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

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

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

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

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

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

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

7. The Agreement engaged Respondent 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, Respondent 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.

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

9. 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."

10. 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."

11. Respondent knew that Densmore held meetings with clients about RWM at his DFG office. When asked how people knew to come in and sign paperwork to become a client of RWM, Respondent testified, "They were current clients of ours and Allan Densmore spoke to them."

12. Although Respondent was the 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 Respondent's position as being "clerical."

13. During her investigative testimony, Respondent represented the following:

- a. She learned about RWM through her husband.
- b. She wanted to become involved with RWM because of a decision on her husband's part.
- c. She did not know what made RWM special other than Royal managed money.
- d. She became an investment adviser representative with RWM to help with the local paperwork.
- e. Royal terminated her relationship with RWM by calling Densmore. She was not told the reason for her termination.
- f. Current clients would speak with Densmore and would come in and sign paperwork to become a client of RWM.
- g. She did not meet with clients about RWM.
- h. She knew that Densmore met with clients about RWM.
- i. She did not know why Densmore met with clients about RWM.
- j. She did not know why Densmore was answering client questions regarding RWM.
- k. She did not attend any individual client meetings with Densmore about RWM.

1. She did not know why Densmore was never an investment adviser representative of RWM.

14. Royal, Densmore, and Respondent 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. A PowerPoint presentation was prepared for the April 20, 2011 meeting.

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

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

2 17. During the meeting, Densmore made representations such as:

- 3 • "Royal Wealth, for the most part, has taken over the management of all of our
4 stuff. They do better than anything that I do or anything I did."
- 5 • "So with Royal Wealth, Royal Wealth is really no different than me, other
6 than they've got their programs."
- 7 • "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.”

18. 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.

19. 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.

20. IDAPA 12.01.08, Rule 47 requires all sales literature to be pre-approved by the Department unless an applicable filing exemption is available. "Sales literature" means material published, or designed for use, in a newspaper, magazine or other periodicals, radio, television, telephone solicitation or tape recording, videotaped display, signs, billboards, motion pictures, telephone directories (other than routine listings), other public media and any other written communication distributed or made generally available to customers or the public including, but not limited to, prospectuses, pamphlets, circulars, form letters, seminar texts, research reports, surveys, performance reports or summaries and reprints or excerpts of other sales literature or advertising to include publications in electronic format."

21. Respondent had made prior Rule 47 filings (including seminar invitations and PowerPoint presentations) with the Department in connection with DFG's former investment adviser activities.

III.

ALLEGED VIOLATIONS AND CONCLUSIONS OF LAW

Department alleges the following violations and conclusions of law:

Fraud in Providing Investment Advice

22. Idaho Code § 30-14-502(a)(2) provides that it is unlawful for a person that advises others for compensation, either directly or indirectly or through publications or writings, as to the value of securities or the advisability of investing in, purchasing or selling securities or that, for compensation and as part of a regular business, issues or promulgates analyses or reports relating to securities, to engage in 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).

23. 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.

24. Respondent violated the following IDAPA rules, and therefore is deemed to have operated a fraud or deceit in violation of Idaho Code § 30-14-502(a)(2) and is deemed to have engaged in a dishonest and unethical practice:

- a. 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.
- b. Rule 104.17 prohibits using any advertising or sales presentation in such a fashion as to be deceptive or misleading.
- c. 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.

25. Due to Respondent's prior IDAPA 12.08.08, Rule 47 filings made on behalf of DFG, Respondent was aware that seminar invitations and seminar PowerPoint presentations needed to be pre-approved by the Department. Neither the seminar invitation form letter nor the

seminar PowerPoint presentation connected with the April 20, 2011 meeting was filed with the Department.

26. Respondent violated Idaho Code § 30-14-502(a)(2), Rule 104.17, Rule 104.35, and Rule 104.47 of the IUSA when, through Densmore, she was present at an allegedly misleading sales presentation which communicated inaccurate and misleading information about RWM and its investment adviser representatives to prospective investors. The allegations of inaccurate and misleading information about RWM are set forth in paragraphs 17 and 18 above.

27. 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).

0 **REMEDIES**

1 THEREFORE, on the basis of the alleged violations and conclusions of law, and
2 Respondent's agreement to the entry of this Order, the Director finds that the following
3 remedies are appropriate and in the public interest:

4 28. Respondent consents to the entry of this Order.

5 29. Respondent neither admits nor denies the alleged violations and conclusions of
6 law as set forth in this Order.

7 30. Respondent attests and avows that all information provided to the Complainant
directly or through her legal representatives is true, accurate, and complete.

31. Respondent agrees that for a period of five (5) years following entry of this Order,
she will not apply for any securities-related registration in Idaho or engage in any securities-
related transaction with Idaho residents.

32. If Respondent engages in future securities related activities in Idaho, Respondent agrees to adhere to the provisions of the Idaho Uniform Securities Act (2004) and its rules promulgated thereunder.

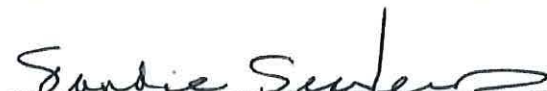
33. Respondent agrees that failure to comply with this Agreement and Order may result in the Director bringing further legal proceedings.

34. Respondent waives 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 Respondent.


0 
ANNA M. DENSMORE

1 State of FL
County of Lee

2 SUBSCRIBED AND SWORN to before me this 31st day of may, 2013

3 
NOTARY PUBLIC
My Commissions Exp: May 27, 2016



4 
5 MARILYN T. CHASTAIN
Bureau Chief, Securities Bureau
Department of Finance
State of Idaho

IT IS SO ORDERED

DATED this 31ST Day of MAY, 2013.



STATE OF IDAHO
DEPARTMENT OF FINANCE

A handwritten signature in blue ink, appearing to read "Gavin M. Gee", is written over a horizontal line.

GAVIN M. GEE, Director
Idaho Department of Finance

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