

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

STATE OF IDAHO, DEPARTMENT OF
FINANCE, SECURITIES BUREAU,

Complainant,

Docket No. 2016-7-01

vs.

AGREEMENT AND ORDER

ALLEGIS INVESTMENT ADVISORS,
LLC,

Respondent.

The Director of the Department of Finance, State of Idaho (Director) has investigated the activities of Respondent Allegis Investment Advisors, LLC. (Allegis) Pursuant to said investigation, it appears that violations of the Idaho Uniform Securities Act (2004) ("Act"), Idaho Code § 30-14-101 et seq. have occurred. The Director and Allegis have agreed to resolve this matter without a public hearing. Therefore, the Director deems it appropriate and in the public interest that this Agreement and Order be entered. Allegis consents to the entry of this Agreement and Order.

PARTIES

1. Allegis Investment Advisors, LLC, ("Allegis"), CRD #157314, is an investment adviser registered with the Securities and Exchange Commission and notice-filed in Idaho.

Allegis was formed in 2011.

2. Allegis' principal place of business is located at 591 Park Ave, Suite 101, Idaho Falls, ID 83402.

BACKGROUND

3. Allegis offers several investment models and strategies to its customers. One such strategy was an options spread strategy that used the Russell 2000, a small cap index that is consistently more volatile than large cap indexes. The Russell 2000 Index was used because a more volatile index necessarily implies higher option premiums. Allegis referred to this strategy as the "RUT Net Credit Spread".

4. Allegis' net credit spread strategy returned profits to customers every month until August 20, 2015, when an overnight options trade resulted in significant losses in customers' accounts. The losses occurred after the Russell 2000 options market had closed on Thursday, August 20, 2015, and before the settlement value was determined on Friday, August 21, 2015.

RUSSELL 2000 INDEX

5. The Russell 2000 Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. The Russell 2000 is by far the most common benchmark for mutual funds that identify themselves as "small-cap" and its 2000 securities. The index is capitalization-weighted and includes only common stocks belonging to corporations domiciled in the U.S. and its territories and traded on the NYSE, NASDAQ or the AMEX. The Russell 2000 Index is adjusted once per year, in June, to reflect changes in rankings and shares outstanding.

6. The Russell 2000 Index Option with the symbol "RUT" is quoted in decimals and one point equals \$100. The RUT is a European style option and it stops trading when the market closes on Thursday afternoon, the day prior to the 3rd Friday of each month. Friday, after all of the underlying stocks in the index have opened, the settlement value of the index - the ARLS, is calculated. Due to this difference in settlement value and real value, it is possible that the settlement price can be lower (or higher) than the actual index price published on Friday.

THE OPTION STRATEGY

7. A credit spread, or net credit spread, involves a purchase of one option and a sale of another option in the same class and expiration but different strike prices. Both bull (up market) and bear (down market) spreads provide a net credit of premium. Bull put spreads and bear call spreads are both credit spreads since the option written (or sold) has a higher premium than the one purchased. Investors receive a net credit for entering the position, and want the spreads to narrow or expire in order for the trade to be profitable.

8. Allegis' goal was to do one weekly trade per quarter and one monthly trade on the RUT option expiration date, which is the 3rd Friday of every month, bringing the total number of trades to 16 per year.

9. Normal client fees on the net credit spread strategy were 2.5% of the funds allocated to that strategy and Allegis' up-front portion of the fee was .75%. The balance of 1.75% was credited to Allegis and the sales agent and was paid out according to a grid that could be as high as 100% for top producers and as low as 65% for lower producers.

10. Allegis clients who adopted the RUT option strategy opened an options trading account with TD Ameritrade and deposited funds in that account specifically for the purpose of participating in the strategy. Some clients signed documents acknowledging that the funds they allocated to the strategy represented no more than 25% or 33% (depending upon the document signed) of their investable assets. Allegis determined the percentage of funds in the TD Ameritrade accounts to be used to purchase options and TD Ameritrade would calculate the number of contracts that could be purchased. Once the number of option contracts was determined, a block trade was entered through Allegis' trading platform at TD Ameritrade. Once the block trade was completed, the contracts would be automatically allocated proportionately to each individual account. When placing put option spreads, Allegis only allocated 50% of

investor funds in the TD Ameritrade accounts to the trade due to the risk associated with the transaction.

MARKET VOLATILITY

11. Allegis was aware that the RUT option spread strategy requires an index with greater volatility because higher premiums result from higher volatility, a necessary component of the Allegis RUT option strategy.

12. A stock market sell-off in the United States began on August 18, 2015, when the Dow Jones Industrial Average fell 33 points and gathered downward momentum over several days. The Dow Jones Industrial Average fell over 1000 points, or approximately 6%, from August 18-21, 2015. Over the same four days, the RUT dropped approximately 5.5%.

AUGUST 20, 2015 TRADE

13. On August 20, 2015, Allegis purchased 39,200 RUT contracts with an August 21, 2015 expiration and strike price of 1145. The cost of each contract was \$0.4472. At the same time, Allegis wrote or sold 39,200 RUT contracts with an August 21, 2015 expiration and strike price of 1155. The premium or profit received on each contract was \$0.5272 — resulting in a net of approximately 37 basis points to each investor account.

14. As described above, Allegis sold a RUT put vertical spread, which means that the put they sold had a higher strike price (1155) than the put they purchased (1145). This trade would have been profitable if the RUT had expired above the short strike price of 1155 because the spread would have expired worthless - the short strike price would have been below the Russell settlement price and there would be no benefit in exercising the option.

15. Instead, the actual settlement price closed below 1155 at 1145.06. Because the option holder chose to exercise the options that Allegis sold, Allegis was required to buy 3,920,000 shares (39,200 option contracts with a multiplier of 100) of the Index at 1155 or

approximately \$4,527,600,000. To cover the cost of the purchase, Allegis was required to sell the 3,920,000 shares of the index at market price of \$1,145.06 or approximately \$4,488,635,200, resulting in investor losses.

SUITABILITY

16. Allegis contends the RUT net credit spread was suitable for certain clients because the clients had diversified portfolios and because those clients understood the investment was risky and that their investment in the strategy did not exceed 25%-33% of their investable assets.

17. The Director finds that there were investors in the RUT strategy that did have diversified portfolios with Allegis, but there were others whose account documents suggest that there was no meaningful diversification of assets. Allegis contends that these clients had a large net worth outside of Allegis, yet Allegis' customer file documentation is limited and in certain instances not created or retained as it pertains to these client's financial picture outside of Allegis. There were instances where the bulk of a client's assets were held at Allegis and allocated to the RUT strategy as recommended by their investment advisor representative.

18. Some of the investors in the RUT net credit spread strategy were likely sophisticated investors with an aggressive risk tolerance. However, multiple investors reported moderately conservative risk tolerances and capital preservation objectives. The Director finds that several RUT option investors were extremely unsophisticated investors, had limited investment experience and no prior option experience.

FINDINGS

19. IDAPA 12.01.08.104.04 (rule 104), promulgated pursuant to Idaho's Uniform Securities Act (2004) ("Act") addresses "Unsuitable Recommendations," as follows:

Recommending to a client to whom investment management or consulting services are provided the purchase, sale, or exchange of any security without reasonable grounds to believe the recommendation is suitable for the client on the basis of information furnished by the client after reasonable inquiry concerning the client's investment objectives, financial situation and needs, and any other information known by the investment adviser.

20. The Director concludes that Allegis violated Rule 104 in that the RUT net credit spread strategy was unsuitable for the customers listed on the attached Exhibit A.

21. The Director concludes that in certain instances, inadequate or incorrect representations were made such that Allegis violated §30-14-501(2) and its duty to provide full disclosure.

REMEDIES

22. Allegis neither admits nor denies the Findings of Violations contained in this Agreement and Order.

23. Allegis represents that to the best of Allegis' information and belief all the information requested by the Director in the investigation of this matter has been produced and that all documents Allegis produced are accurate and complete copies of the documents in Allegis' files.

24. Allegis has ceased offering the RUT Net Credit Spread Strategy.

25. Allegis agrees to compensate the investors identified in Exhibit A in the amounts identified on Exhibit A and at the times identified in that document. As a condition of receiving payment, each investor must sign a written release in the form submitted to and approved by the Director. Upon signing the release, the investor will receive payments according to the schedule in Exhibit A. If an investor does not sign the release, Allegis is not required to pay the investor under this Agreement.

26. Allegis agrees to pay a civil penalty in the amount of \$200,000.00 to the Idaho Department of Finance. This penalty will be waived if Allegis complies with all the terms of this order.

27. Allegis agrees that failure to timely meet all terms and conditions set forth in this Order shall be considered a material breach of this Agreement and Order entitling the Director to seek civil enforcement against Allegis pursuant to Idaho Code § 30-14-603. Allegis agree that in such a civil enforcement action the appropriate relief would at least consist of a permanent injunction against offering, issuing, buying or selling securities in the state of Idaho, and a monetary award to the Department equaling the penalties and any unpaid investor compensation due under the terms of this Agreement and Order.

28. Time is of the essence for payments to investors identified on Exhibit A who timely sign and return a release, and the parties agree that failure to make a payment on time is a material breach of this Agreement and Order and the agreements embodied herein. If Allegis fails to make a payment on time or otherwise fails to comply with this Agreement, the Department shall provide it with notice of breach via US Mail to its counsel of record, whereupon Allegis shall have ten (10) business days from the date of the Department mailing notice within which to affect a complete cure. Following the expiration of the curative window the Department may exercise its remedy for breach in paragraph 25 above. Allegis is not entitled to any notice of breach by the Department other than that specified in this paragraph.

29. As long as Allegis is in compliance with the terms of this Agreement and Order, the Department will not use the Order for any purpose in any subsequent or other proceeding.

30. Allegis hereby waives any rights it may have to notice and opportunity for hearing regarding this Agreement and Order.

31. Allegis agrees to comply with all provisions of Idaho's Uniform Securities Act (2004) in the future.

DATED this 17 day of MAY, 2017.


Allegis Investment Advisors, LLC.

By: HEATH BOWLER

Title: PRESIDENT

DATED this 22nd day of May, 2017.

STATE OF IDAHO, DEPARTMENT OF
FINANCE, SECURITIES BUREAU



JAMES BURNS
Bureau Chief, Securities Bureau

IT IS SO ORDERED.


MARY E. HUGHES
Acting Director of Finance



EXHIBIT A

Name	Account Number	Amount Allegis to pay by July 10, 2017	Amount Allegis to pay by July 10, 2018	Amount Allegis to pay by July 10, 2019	Amount Allegis to pay by July 10, 2020	Amount Allegis to pay by July 10, 2021
R.C.	*****0616	\$6,487.21	\$6,487.21	\$6,487.21	\$6,487.21	\$6,487.21
D.C.	*****4924	\$20,747.23	\$20,747.23	\$20,747.23	\$20,747.23	\$20,747.23
R.D.	*****5962	\$10,695.67	\$10,695.67	\$10,695.67	\$10,695.67	\$10,695.67
T.D. & T.D.	*****9258	\$5,511.51	\$5,511.51	\$5,511.51	\$5,511.51	\$5,511.51
T.D. & T.D.	*****8193	\$1,024.26	\$1,024.26	\$1,024.26	\$1,024.26	\$1,024.26
C.H.	*****3550	\$6,654.58	\$6,654.58	\$6,654.58	\$6,654.58	\$6,654.58
W.A. & C.H.	*****7990	\$9,200.14	\$9,200.14	\$9,200.14	\$9,200.14	\$9,200.14
M.R.	*****1298	\$7,265.56	\$7,265.56	\$7,265.56	\$7,265.56	\$7,265.56
W.R.	*****5571	\$3,616.02	\$3,616.02	\$3,616.02	\$3,616.02	\$3,616.02
J.R.	*****1365	\$13,634.98	\$13,634.98	\$13,634.98	\$13,634.98	\$13,634.98
S.S.	*****8683	\$5,827.71	\$5,827.71	\$5,827.71	\$5,827.71	\$5,827.71
P.S.	*****2311	\$7,842.47	\$7,842.47	\$7,842.47	\$7,842.47	\$7,842.47
W.A. & C.A.	*****6409	\$6,281.68	\$6,281.68	\$6,281.68	\$6,281.68	\$6,281.68
R.S. & J.S.	*****1204	\$28,332.74	\$28,332.74	\$28,332.74	\$28,332.74	\$28,332.74
B.C. & R.C.	*****8947	\$11,157.03	\$11,157.03	\$11,157.03	\$11,157.03	\$11,157.03
D.E.	*****0470	\$6,770.32	\$6,770.32	\$6,770.32	\$6,770.32	\$6,770.32
Totals		\$151,049.12	\$151,049.12	\$151,049.12	\$151,049.12	\$151,049.12

SETTLEMENT AND RELEASE AGREEMENT

This Settlement and Release Agreement (“Agreement”) is made and entered into by and among _____ (“Customer”) and Allegis Investment Advisors, LLC (“Allegis”) (Customer and Allegis shall collectively be referred to as “Parties”).

RECITALS

- A. Customer adopted an options trading strategy offered and managed by Allegis called the RUT Net Credit Spread (“Strategy”).
- B. The State of Idaho, Department of Finance, Securities Bureau negotiated an agreement with Allegis pursuant to which Allegis agreed to pay Customer(s) to resolve disputes relating to Customer’s investment in the Strategy if the Customer agrees to release Allegis from all liability relating to the Strategy.

NOW, THEREFORE, CUSTOMER(S) AND ALLEGIS AGREE AS FOLLOWS:

- 1. Settlement Payment. Allegis agrees to pay Customer the total sum of \$_____. This amount will be paid in five installments of \$_____ each on July 10, 2017, July 10, 2018, July 10, 2019, July 10, 2020, and July 10, 2021. Customer and Allegis agree that Allegis is making this payment to avoid any costs of litigation and not as an admission of liability of any kind to Customer.

The payment shall be made payable to:_____

The payment shall be mailed to:_____

- 2. Release. Customer(s) hereby releases and forever discharges Allegis, its owners, employees, agents, advisors, independent contractors, representatives, predecessors, successors, assigns, and Allegis’ affiliates, subsidiaries, parent companies and their owners, employees, agents, advisors, independent contractors, representatives, predecessors, successors, and assigns from all claims, demands, causes of action, damages, debts, liabilities, accounts, costs, expenses, attorneys fees, and liens, whether now known or unknown, suspected or unsuspected, which Customer(s) may now have or could have had against Allegis involving or relating directly or indirectly to the Strategy investments made by Customer(s) through Allegis or their owners, employees or agents.
- 3. Confidentiality of Agreement. The Parties agree to treat as confidential all of the terms and conditions of this Agreement, and agree not to, directly or indirectly, disclose such information to or discuss such information with any person, firm, or entity for any reason except, (a) the Parties may disclose the terms of this Agreement to their own respective counsel or other professional advisors for tax or financial or estate planning advice, but shall also inform these advisors of the confidentiality provisions of this Agreement, and (b) the Parties may disclose the terms of this Agreement if required to do so by court order or order of any regulatory agency with the legal authority to require such disclosure.

4. Voluntary Agreement. The Parties hereto acknowledge and warrant they have had the opportunity to be represented by counsel of their own choice throughout all negotiations which preceded the execution of this Agreement. The Parties have read all of this Agreement and fully understand all the terms used and their significance. The Parties are satisfied with the settlement and have signed this Agreement voluntarily.
5. Entire Agreement. This Agreement contains the entire agreement and understanding concerning the subject matter hereof between the parties and their counsel and supersedes and replaces all prior negotiations, proposed agreements and agreements, written or oral. The Parties acknowledge and warrant that they are not executing this Agreement in reliance on any promise, representation or warranty not contained herein.
6. Parties Bear Own Costs/Fees. The parties agree to bear their own costs, legal fees, and attorneys' fees and all other expenses and costs related to Customer's investment in the Strategy and this Agreement.
7. Amendments in Writing. This Agreement may not be modified or amended in any manner except by an instrument in writing specifically stating that it is a supplement, modification or amendment of this Agreement and signed by each of the Parties and their respective counsel.
8. Validity of Agreement. In the event that any provision hereof is deemed to be illegal and unenforceable, such a determination shall not affect the validity or enforceability of the remaining provisions thereof, all of which shall remain in full force and effect.
9. Signing in Counterparts. This Agreement shall be executed with one or more separate counterparts, each of which, when so executed shall, together, constitute and be one and the same instrument.
10. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the state of Idaho.

CUSTOMER:

Dated: _____ By: _____

ALLEGIS:

Dated: _____ By: _____