

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 57056 / December 27, 2007**

**INVESTMENT ADVISERS ACT OF 1940**  
**Release No. 2689 / December 27, 2007**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-12915**

**In the Matter of**

**NATIONAL INVESTMENT  
ADVISORS, INC. and  
DOUGLAS A. JIMERSON,**

**Respondents.**

**ORDER INSTITUTING ADMINISTRATIVE  
AND CEASE-AND-DESIST PROCEEDINGS,  
MAKING FINDINGS, AND IMPOSING  
REMEDIAL SANCTIONS AND A CEASE-  
AND-DESIST ORDER PURSUANT TO  
SECTION 21C OF THE SECURITIES  
EXCHANGE ACT OF 1934 AND SECTIONS  
203(e), 203(f), AND 203(k) OF THE  
INVESTMENT ADVISERS ACT OF 1940**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and Sections 203(e), 203(f), and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”), against National Investment Advisors, Inc. (“NIA”) and Douglas A. Jimerson (“Jimerson”) (collectively “Respondents”).

**II.**

In anticipation of the institution of these proceedings, Respondents have submitted an Offer of Settlement, which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934 and Sections 203(e), 203(f), and 203(k) of the Investment Advisers Act of 1940, as set forth below.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds that:

#### **SUMMARY**

1. This matter involves fraudulent schemes through which NIA, a registered investment adviser, and Jimerson, its principal and an associated person, marketed and sold "insured" investment programs that purported to guarantee clients against loss of principal if they kept their assets under management with NIA for a continuous five-year period. In actuality, between at least 2002 through 2005, NIA enrolled clients in three "insured" management programs that either lacked the appropriate insurance, or insurance entirely, necessary to protect clients against loss of principal.

2. Moreover, NIA, which was managed by Jimerson at all relevant times, failed to disclose to its clients material information regarding its precarious financial condition and did not maintain certain books and records required under the Advisers Act.

3. As a result of the foregoing, NIA and Jimerson willfully violated or willfully aided and abetted and caused violations of the antifraud and other provisions of the Exchange Act and Advisers Act, as provided herein.

#### **RESPONDENTS**

4. National Investment Advisors, Inc. ("NIA"), is a Maryland corporation based in North Potomac, Maryland. NIA has been registered with the Commission as an investment adviser since 1986.

5. Douglas Alan Jimerson ("Jimerson"), age 55, is the President and majority owner of NIA, and has been since its inception. Jimerson was a registered representative at H. Beck, Inc. from October 1986 to December 1997 and at Wall Street Strategies, Inc. from February 1998 to May 1999. Through NIA, Jimerson has been registered as an advisory representative with the states of Maryland and Virginia since November 1990 and March 1991, respectively. Jimerson is a resident of North Potomac, Maryland.

#### **FACTS**

6. Starting in 1997, NIA offered an insured investment program backed by a Florida-based insurance company ("Original Program"). The theory underlying the Original Program was that if clients kept their funds invested with NIA for a period of five consecutive years, their initial principal investment (minus certain expenses) was guaranteed against loss. For this insured product, NIA charged clients an annual fee of three percent of assets under management, with one percent going to NIA as a management fee, one percent going to the solicitor for referring the client to the program, and one percent going to the insurance company and its agent for insurance

and program management. In September 2001, the Florida-based insurance company stopped accepting new accounts under this program.

7. In an effort to continue offering an insured investment product, Jimerson looked for an insurance policy to replace the policy used in the Original Program. Jimerson had trouble finding a similar policy, so he turned his efforts toward creating his own off-shore captive insurance company, which Jimerson named Professional Insurance Limited (“PIL”).

8. In late 2002, while trying to raise capital to fund PIL, Jimerson and NIA began offering a new insured investment program. Jimerson told NIA’s solicitors that this new insured program operated just like the Original Program, except that the required management period increased from five to seven years (the “7-Year Program”). In addition, Jimerson claimed that, unlike in the Original Program, the new insurer did not provide certificates of endorsement to confirm and verify that clients’ accounts were covered under the insurance policy.

9. Jimerson had clients in the 7-Year Program sign a document that contained the following representation from NIA, “[a]s the risk manager of your account we have purchased ‘Registered Investment Advisors Professional Liability Insurance’ which insures that our risk management strategy will not result in a loss of principal to our clients’ accounts when continuously managed under our Insured Fund Management Program for a continuous seven-year period.”

10. However, at no point during the period when NIA offered and sold the 7-Year Program, between at least November 2002 and April 2003, did NIA have insurance to support the 7-Year Program. During this period, eight clients invested over \$3.5 million in NIA’s 7-Year Program. Investors in the 7-Year Program were required to pay annual fees of three percent of assets under management, one-third of which was to be used to purchase insurance. However, because there was no insurance policy to fund, NIA kept this money as an undisclosed addition to its management fee.

11. Jimerson testified, under oath, that (1) NIA did not have insurance for the 7-Year Program, (2) he and NIA were essentially the ones “guaranteeing” clients against loss of principal, and (3) he and NIA never disclosed these facts to any solicitors or clients because he believed the off-shore captive insurer (PIL) would eventually become funded.

12. While offering and selling the 7-Year Program, Jimerson enrolled clients with the promise that NIA had insurance to protect their principal against loss, while at the same time using those same client funds to induce other companies to help fund PIL, his off-shore captive insurance company.

13. At some point in early 2003, Jimerson realized that funding for PIL was not available, so he continued his search for alternatives to the insurance policy used in the Original Program. Unable to locate any insurers willing to provide a financial guarantee, Jimerson purchased an errors and omissions insurance policy from a new insurance company (“E&O Policy”).

14. Errors and omissions insurance (aka professional liability insurance) does not provide the same coverage as financial guarantee insurance. Errors and omissions insurance indemnifies the insured against a loss sustained because of an error or oversight on the part of the insured; it does not protect an insured against financial loss (such as a change in market conditions) if there are no errors or oversights.

15. Immediately after the E&O Policy became effective on April 25, 2003, Jimerson promoted the insurer as the underwriter for NIA's insured program, notified his network of solicitors, and published information on NIA's website about a new five-year insured management program (the "5-Year Program"). Jimerson promoted the insurance carrier as an A-rated insurer whose insurance policy for the 5-Year Program would guarantee preservation of principal if a client stayed in the program for five years.

16. Jimerson sent 5-Year Program enrollment documents to each existing client of the 7-Year Program to sign, telling them that NIA had been able to negotiate better terms with the insurance carrier. Every 7-Year Program client signed the documents and converted to the 5-Year Program, which left no one in the 7-Year Program. The management fees NIA charged for the 5-Year Program were identical to the management fees it charged for the 7-Year Program.

17. In September 2003, the insurance company learned that NIA was representing on its website that the E&O Policy operated as a financial guarantee. The insurance company notified NIA that it needed to stop referring to the E&O Policy as a form of financial guarantee and to eliminate all references to the insurance company. After six weeks passed with no action by NIA, the insurance company sent a cease-and-desist letter to NIA dated November 12, 2003 that recited, among other things, "there is no component of the Investment Advisor's Management Liability Coverage that conforms to the description of such insurance as contained on the web sites ... we believe the description provided by NIA suggesting and/or implying that [the insurance company] is providing some form of financial guarantee insurance coverage is incorrect and perhaps fraudulent."

18. In response to the insurance company's November 2003 letter, Jimerson removed all mention of the insurance company from NIA's web site. Jimerson and NIA never disclosed the existence or substance of the November 2003 letter to its clients. Several months later, in April 2004, the insurance company renewed the E&O Policy with NIA.

19. In the fall of 2004, the insurance company became aware that NIA was again misrepresenting the coverage provided by the E&O Policy. The insurance company saw an April 16, 2004 letter that NIA had sent to its clients enrolled in the Original Program, in which NIA marketed the E&O Policy as a replacement for the policy in the Original Program and urged clients to convert from the Original Program to the 5-Year Program.

20. The insurance company felt that NIA's April 2004 letter mischaracterized the coverage provided by the E&O Policy. On October 28, 2004, the insurance company ended its relationship with NIA by voiding the E&O Policy *ab initio* and returning to NIA the entire policy

premium of \$105,060 that NIA paid for the policy renewal in April 2004. Not only did NIA fail to inform its clients that the insurance on which the 5-Year Program was based had been voided, but NIA also failed to return refunded policy premiums to its investors.

21. After the insurance company voided its policy with NIA, Jimerson sought out a new insurance policy so that NIA could continue to offer an insured investment product. A Houston, Texas-based insurance company extended terms to NIA for an errors and omissions policy with limited coverage that specifically excluded the type of coverage NIA needed to run an “insured” program. Nonetheless, NIA purchased a policy from the Houston-based company with an annual premium of \$38,000, and then offered and sold an insured investment program based on the new insurance (“Final Program”).

22. From at least 2002 through 2005, NIA collected at least \$703,730 as a three-percent management fee from investors in the 7-Year Program, the 5-Year Program, and the Final Program. One-third of the management fee (\$234,456) was forwarded to solicitors for referring clients to NIA. Two-thirds of the management fee (\$468,913) was retained by NIA, split evenly between its own advisory fee and funds purportedly to purchase insurance for the insured programs. NIA required pre-payment of its fees more than six months in advance.

23. NIA and Jimerson improperly retained at least \$234,456 that should have been spent on insurance to protect clients in the 7-Year Program, 5-Year Program, and Final Program against loss of principal, but was not, and retained at least \$234,456 in advisory fees from clients who were told by NIA and Jimerson that their investment was being guaranteed against loss of principal by proper insurance.

24. Jimerson and NIA misrepresented to clients that NIA had an insurance policy to underwrite the 7-Year Program, when in fact it did not. Jimerson and NIA also misrepresented to clients that the respective insurance policies for the 5-Year Program and the Final Program would protect clients against loss of principal, when in fact the insurance policies were only errors & omissions policies and did not protect clients against loss of principal. Jimerson and NIA also failed to disclose to its clients that NIA’s liabilities exceeded its assets, and that if any client submitted a claim to NIA to recoup losses incurred from the 7-Year, Five-Year or Final Programs, NIA did not have the capital to fulfill its obligation to cover the claim.

25. In its Forms ADV filed with the Commission on January 27, 2004 and October 28, 2004, NIA stated that all of its assets under management were non-discretionary. In fact, a large portion of NIA’s assets under management, including all funds invested in NIA’s insured programs, were discretionary.

26. In its Forms ADV filed with the Commission on January 27, 2004 and October 28, 2004, NIA stated that it had \$165 million of assets under management. In fact, NIA had less than \$100 million of assets under management.

27. During at least 2004, NIA failed to maintain certain required information, including records showing which NIA clients have a position in certain securities and records showing the securities purchased and sold for each NIA client.

## **VIOLATIONS**

28. As a result of the conduct set forth above, NIA and Jimerson willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in connection with the purchase or sale of securities.

29. As a result of the conduct set forth above, NIA and Jimerson willfully violated Sections 206(1) and 206(2) of the Advisers Act, which prohibit an investment adviser from, directly or indirectly, employing any device, scheme or artifice to defraud any client or prospective client, or engaging in any transaction, practice or course of business that operates as a fraud or deceit upon any client or prospective client.

30. As a result of the conduct set forth above, NIA, acting through Jimerson, willfully violated Section 206(4) of the Advisers Act, which prohibits an investment adviser from engaging in any act, practice or course of business that is fraudulent, deceptive or manipulative, as defined by the rules and regulations thereunder, and Rule 206(4)-1(a)(5) thereunder, which prohibits an investment adviser from, directly or indirectly, publishing, circulating, or distributing any advertisement that, among other things, contains any untrue statement of material fact, or that is otherwise false or misleading.

31. As a result of the conduct set forth above, Jimerson willfully aided and abetted and caused NIA's violations of Section 206(4) of the Advisers Act and Rule 206(4)-1 thereunder.

32. As a result of the conduct set forth above, NIA, acting through Jimerson, willfully violated Rule 206(4)-4(a)(1) of the Advisers Act, which requires investment advisers registered or required to be registered with the Commission to disclose to clients all material facts with respect to financial conditions that are reasonably likely to impair the adviser's ability to meet contractual commitments to clients if the adviser has discretionary authority or custody over such client's funds or securities, or requires prepayment of advisory fees of more than \$500 from such client, six months or more in advance.

33. As a result of the conduct set forth above, Jimerson willfully aided and abetted and caused NIA's violations of Rule 206(4)-4(a)(1) of the Advisers Act.

34. As a result of the conduct set forth above, NIA, acting through Jimerson, willfully violated (a) Section 204 of the Advisers Act, which requires investment advisers to make and keep certain records for prescribed periods of time and to furnish such records to the Commission; (b) Rule 204-1(a) of the Advisers Act, which requires investment advisers to annually file an amendment to their Form ADV, and (c) Rule 204-2(c)(1), which requires that investment advisers make and keep true, accurate, and current certain books and records relating to its investment advisory business.

35. As a result of the conduct set forth above, Jimerson willfully aided and abetted and caused NIA's violations of Section 204 of the Advisers Act and Rules 204-1(a) and 204-2(c)(1) thereunder.

36. As a result of the conduct set forth above, NIA and Jimerson willfully violated Section 207 of the Advisers Act, which makes it unlawful for any person willfully to make any untrue statement of material fact in any registration application or report filed with the Commission, or willfully to omit to state in any such application or report any material fact which is required to be stated therein.

### **DISGORGEMENT AND CIVIL PENALTIES**

37. Respondent NIA has submitted a sworn Statement of Financial Condition dated July 24, 2007 and other evidence and has asserted its inability to pay disgorgement, prejudgment interest, or a civil penalty.

38. Respondent Jimerson has submitted a sworn Statement of Financial Condition dated July 19, 2007 and other evidence and has asserted his inability to pay disgorgement, prejudgment interest, or a civil penalty.

### **IV.**

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in NIA's and Jimerson's respective Offers of Settlement.

Accordingly, pursuant to Section 21C of the Exchange Act, and Sections 203(e), 203(f), and 203(k) of the Advisers Act it is hereby ORDERED that:

A. Respondent NIA cease and desist from committing or causing any violations and any future violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 204, 206(1), 206(2), 206(4), and 207 of the Advisers Act and Rules 204-1, 204-2, 206(4)-1, and 206(4)-4 thereunder.

B. Respondent Jimerson cease and desist from committing or causing any violations and any future violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 204, 206(1), 206(2), 206(4) and 207 of the Advisers Act and Rules 204-1, 204-2, 206(4)-1, and 206(4)-4 thereunder.

C. Respondent NIA's registration as an investment adviser shall be, and hereby is, revoked.

D. Any reapplication for registration by NIA will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any

disgorgement ordered against NIA, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served the basis for the Commission order.

E. Respondent Jimerson be, and hereby is, barred from association with any investment adviser.

F. Any reapplication for association by Jimerson will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against Jimerson, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served the basis for the Commission order.

G. Respondents NIA and Jimerson shall pay, jointly and severally, disgorgement of \$468,913 plus prejudgment interest of \$84,644.11, but payment of such amounts is waived, and no penalties imposed, based upon Respondents' sworn representations in their Statements of Financial Condition and Financial Information dated July 24, 2007 and July 19, 2007, respectively, and other documents submitted to the Commission.

H. The Division of Enforcement ("Division") may, at any time following the entry of this Order, petition the Commission to: (1) reopen the matter to consider whether Respondents provided accurate and complete financial information at the time such representations were made; (2) seek an order directing payment of disgorgement and pre-judgment interest; and (3) seek an order directing payment of the maximum civil penalty allowable under the law. No other issue shall be considered in connection with this petition other than whether the financial information provided by Respondents was fraudulent, misleading, inaccurate, or incomplete in any material respect. Respondents may not, by way of defense to any such petition: (1) contest the findings in this Order; (2) assert that payment of disgorgement, interest, or a penalty should not be ordered; (3) contest the amount of disgorgement and interest to be ordered; (4) contest the imposition of the maximum penalty allowable under the law; or (5) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Nancy M. Morris  
Secretary