I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act"), Sections 15(b) and 21C of the Securities Exchange Act of 1934 ("Exchange Act"), Sections 203(e), 203(f) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), and Section 9(b) of the Investment Company Act of 1940 ("Company Act") against Gualario & Co., LLC ("Gualario & Co.") and Ronald Gualario ("Gualario") (collectively, "Respondents").

II.

After an investigation, the Division of Enforcement alleges that:
A. **SUMMARY**

1. These proceedings involve Respondents’ fraudulent sale of promissory notes to advisory clients of Gualario & Co., a former registered investment adviser, Respondents’ receipt of transaction-based fees in the sale of securities without registration of either Respondent as a broker-dealer, and Respondents’ breach of fiduciary duty by failing to disclose to their advisory clients a material change in Respondents’ hedge fund investment strategy.

2. Gualario founded Gualario & Co. in 1998 and was its sole principal at all times. In July 2006, Gualario induced an advisory client with limited assets (Client A) to invest a significant portion of her retirement funds in a $100,000 promissory note purportedly issued by a company affiliated with Gualario’s cousin (“Company A”). Gualario failed to disclose to Client A that he owed his cousin $50,000 and was recommending the investment to benefit himself. After Client A invested her $100,000, Gualario instructed his cousin to retain $50,000 as repayment of Gualario’s debt and to transfer the remaining $50,000 to Gualario. Afterwards, Gualario told Client A that Gualario & Co. would assume responsibility for the note from Company A. Ultimately, Company A and Gualario & Co. failed to repay the note, leaving Client A with a complete loss on her investment.

3. Also in 2006, Respondents raised capital to start a hedge fund. They offered a series of promissory notes, principally to pre-existing advisory clients, and obtained $1.17 million of proceeds (the “Offering”). A subscription agreement prepared by Gualario for the Offering stated that Offering proceeds would be used to launch a hedge fund business and to provide additional working capital. Contrary to these representations, Gualario used a substantial portion of the proceeds for risky options trading in the firm’s proprietary account and lost $347,409. Gualario also failed to disclose material information regarding Gualario & Co.’s precarious financial condition. Eventually, Gualario & Co. defaulted on the notes and owes its clients more than $900,000.

4. In August 2007, Respondents launched the SPX Select Hedge Fund (the “Fund”). Gualario raised $7.1 million for the Fund from five pre-existing advisory clients based on his representations that the Fund would follow a conservative trading strategy. When the Fund lost money in September 2007, however, Gualario tried to recoup the Fund’s losses by engaging in high-risk options trading, a radical change in investment strategy. In breach of their fiduciary duty to the preexisting advisory clients who invested in this Fund, Respondents failed to disclose the radical change in the Fund’s investment strategy. By the end of October 2007, the Fund had lost 98% of its assets as a result of Respondents’ high-risk trading.

5. Respondents also arranged for the sale of securities in the form of limited partnership interests in real estate ventures to investors and advisory clients of Gualario & Co. and received at least $89,000 in transaction-based fees in connection with these sales. Gualario & Co. was not registered as a broker-dealer and Gualario was not associated with a registered broker-dealer at the time they engaged in these transactions.
B. RESPONDENTS

6. **Gualario & Co.** is a New York corporation with its principal place of business at Gualario’s residence in Basking Ridge, New Jersey. Established in February 1998, Gualario & Co. was registered with the Commission as an investment adviser until August 12, 2009. It served as investment adviser to Gualario’s individual clients and to the Fund. Gualario is the founder of Gualario & Co. and has served as its President and CEO since its formation.

7. **Ronald Gualario**, age 44, is a resident of Basking Ridge, New Jersey. He is the founder, President and CEO of Gualario & Co. and the Managing Member of Gualario Capital Partners, LLC, the general partner of the Fund.

C. OTHER RELEVANT ENTITIES

8. **SPX Select Fund** was a hedge fund, organized as a limited partnership under the laws of Delaware in May 2007. It was launched by Gualario & Co. in August 2007. The Fund consisted of a general partner, Gualario Capital Partners, LLC, and five high net worth individual investors, all of whom were pre-existing advisory clients of Gualario & Co. The Fund collapsed in October 2007 and ceased operations in 2008.

9. **Gualario Capital Partners, LLC**, is an affiliate of Gualario & Co. and the general partner of the Fund. It was established by Gualario for the stated purpose of providing managerial services to the Fund. Gualario is the Managing Member and sole owner of Gualario Capital Partners, LLC.

D. MATERIAL MISREPRESENTATIONS AND OMISSIONS IN THE SALE OF A PROMISSORY NOTE TO CLIENT A

10. In 1998, Gualario started Gualario & Co. as an investment adviser providing investment management services to individuals and institutions. From 1998 until 2007, Gualario & Co. grew from one client with $20,000 in assets under management to more than 200 clients with in excess of $40 million in assets under management. Before forming the Fund, Gualario & Co. provided investment advisory services through separately managed accounts using two investment styles: (1) large cap U.S. equities for the discretionary accounts (“Large Cap Accounts”); and (2) investments in promissory notes and real estate for the non-discretionary accounts.

11. In the first half of 2006, Gualario & Co. earned approximately $380,000 in advisory fees. However, Gualario depleted much of this income through high-risk options and day trading activities. The market value of the company’s proprietary trading account dropped from approximately $262,000 at the end of June 2006 to $162 at the end of July 2006. As a result, by late July 2006, Gualario & Co. was in a precarious financial condition. It had to meet a margin call of approximately $25,000 in its proprietary trading account. To meet the margin call, on July 24, 2006, Gualario borrowed $25,000 from his cousin, who was a partner at Company A.
12. In late July 2006, Gualario recommended to one of his advisory clients, Client A, that she invest in a $100,000 promissory note purportedly issued by Company A at an interest rate of 12% interest per year. Client A, a retired teacher and recent cancer survivor, had given Gualario her entire savings and retirement funds – approximately $500,000 – to manage. Without the knowledge of Client A, Gualario had structured the transaction to benefit himself by indirectly obtaining money from Client A to repay money he owed to his cousin.

13. Gualario developed a form of promissory note purportedly issued by Company A and an authorization that he asked Client A to execute. The authorization contained the following representation:

In making my investment decision, I have relied solely on my own examination of this offering including the merits and risks involved. I acknowledge and understand that GUALARIO & CO., LLC (“GUALARIO”) is acting solely as the Investment Advisor of my investment funds and have [sic] in no way whatsoever influenced my investment decision other than to act as my Investment Advisor. I also understand that GUALARIO has no business relationship with the sponsor of this investment [Company A]; does not endorse this, or any investment; is not compensated by the investment sponsor; and has no responsibility for the investment nor its results.

14. Client A executed the authorization and authorized Gualario to wire $100,000 from her IRA account to Company A. On August 8, 2006, at Gualario’s direction, Gualario’s cousin wired $50,000 to Gualario and retained $50,000 as repayment of the $25,000 he had lent Gualario on July 24, 2006 and another $25,000 Gualario owed him.

15. In soliciting Client A to invest in the note, Gualario failed to disclose that the investment was designed to benefit Gualario & Co. and that all of the investment proceeds would inure to the benefit of Respondents. Contrary to the express representations in the authorization, Gualario intended from the outset for Gualario & Co. to assume responsibility for the note. When Gualario discussed the note with his cousin, he told his cousin not to worry -- that Gualario & Co. would be responsible for repayment of the note. Moreover, the authorization’s representation that Gualario & Co. had no business relationship with Company A was misleading because Gualario -- Gualario & Co.’s sole principal -- and his cousin -- a partner of Company A -- had prior and existing business relationships in that Gualario had borrowed from and at the time owed $50,000 to his cousin and Gualario structured the transaction to repay this debt.

16. Client A received only a couple of interest payments on the note and did not receive the principal payment when the note became due in August 2007. After unsuccessfully attempting to reach Gualario’s cousin, Client A called Gualario, who told her that Gualario & Co. would assume responsibility for the note. On or around January 14, 2008, Gualario sent Client A a letter stating: “Please note that the promissory note issued to you by [Company A] will be assumed by Gualario & Co (sic) LLC in February of 2008. I anticipate paying all unpaid interest on the note to your IRA account during that month.” By the time Gualario sent the letter to Client A, Gualario & Co. had few assets and owed hundreds of thousands of dollars on promissory notes issued in the
Offering. In addition, the Fund had collapsed after losing approximately $7 million in October 2007. Respondents failed to disclose any of this information to Client A. Gualario & Co. failed to pay the interest or principal owed on the $100,000 note purchased by Client A.

E. FRAUDULENT OFFER AND SALE OF PROMISSORY NOTES TO ADVISORY CLIENTS

17. From September 2006 through November 2007, Respondents conducted the Offering and obtained $1.17 million through the sale of promissory notes issued by Gualario & Co. (the “Notes”) to eight investors, most of whom were advisory clients. The Offering purported to raise money to launch a hedge fund.

18. The initial Subscription Agreement prepared by Gualario set a maximum Offering amount of $500,000 and a sunset date of December 31, 2006 for the Offering. With respect to use of proceeds, the Subscription Agreements provided, in pertinent part:

   The Company specializes in institutional and retail investment management services and currently manages approximately $US 40 million of client assets through its Separately Managed Accounts Program (“SMAP”). The Company is in the process of transitioning a portion of its SMAP business to a hedge fund model and believes that such transition will enable it to better serve its existing clients and attract a significant amount of new institutional investors. A successful transition of assets to, and the successful development of, the hedge fund model will require the Company to, incur significant legal and accounting fees, increase staffing (including Chief Compliance Officer and Chief Financial Officer, both of which positions are presently held by Ronald Gualario), retain an outside hedge fund administrator and relocate to larger office space. The Company will use the proceeds of the Offering to meet the expenses related to the above requirements and to provide it with additional working capital. The Company does not anticipate that such expenses will exceed the Maximum Offering Amount.

19. Between September 15 and November 20, 2006, Gualario sold eight Notes totaling $490,000 to six clients. Contrary to the representations in the Subscription Agreements, however, Gualario used virtually none of the $490,000 raised towards the development of the hedge fund business. Shortly after receiving the Offering proceeds, Gualario used $333,500 to engage in options trading in Gualario & Co.'s proprietary trading account and lost almost all of it. In addition, Gualario used approximately $150,000 of the $490,000 to pay for non-hedge fund related expenses, including personal expenses.

20. Having used most of the money he raised between September and November 20, 2006 for options trading and other non-hedge fund-related purposes, Gualario still required money to develop the hedge fund, and he then solicited more of his clients to invest in the Notes. Gualario twice modified the Subscription Agreements to increase the maximum Offering amount and to extend the sunset date. Gualario sold an additional $680,000 in Notes during the later phases of
the Offering. Although Gualario used the bulk of the proceeds raised during the later phases of the
Offering for hedge fund expenses, he also used a significant amount for options trading and
personal use. In total, Gualario transferred $525,809 of the Offering proceeds to Gualario & Co.’s
proprietary account for options trading and lost $347,409.

21. Respondents did not disclose to their clients that they were using Offering proceeds
for options trading in Gualario & Co.’s proprietary trading account, rather than to establish the
hedge fund.

22. Respondents also did not disclose to their advisory clients that Gualario & Co. was
in a precarious financial condition.

23. Between March and August of 2006, only months before the Offering, Gualario
transferred close to $300,000 from Gualario & Co.’s business account for his personal use, leaving
Gualario & Co. in a precarious financial condition. A few weeks before the Offering, Gualario, on
behalf of Gualario & Co., borrowed $75,000 to pay business and personal expenses, including two
margin calls totaling $45,000. In early to mid-September 2006, just prior to issuing the first set of
Notes, Gualario & Co. had approximately $7,000 in its business account and had issued several
checks that bounced.

24. Gualario & Co. defaulted on the Notes and owes approximately $970,000 in
principal, plus past due interest.

F. FAILURE TO DISCLOSE MATERIAL CHANGE IN HEDGE FUND TRADING
STRATEGY

Private Placement Memorandum (“PPM”), subscription agreements, Limited Partnership
Agreements, and a PowerPoint presentation, which were provided to prospective investors. In July
2007, Gualario sent a letter to several prospective investors along with the PPM and a subscription
agreement. Gualario also spoke directly with prospective investors. Ultimately, Gualario
successfully solicited five existing advisory clients to invest a total of $7,115,154.99 in the Fund.
The clients who invested in the Fund continued to retain Gualario & Co. as investment adviser for
their separately managed accounts and Respondents continued to render investment advice directly
to the clients. Most of the clients who invested in the Fund were at or nearing retirement age and
invested retirement money from IRA, 401K and/or pension accounts they held with Gualario.

26. Although the offering materials, including the PPM, contained standard warnings
that investment in the Fund was highly speculative and that Respondents might employ a wide
range of trading strategies, including high-risk strategies such as options trading and day trading,
Respondents represented to investors orally and in writing that the Fund would follow a
conservative trading strategy.

27. Gualario conveyed this conservative strategy to prospective investors in written
materials and in conversations. The PPM described the investment goal of the Fund as “short-term
capital appreciation” regardless of market direction. It stated that the Fund would invest in both
long and short equity positions of select companies that are in the S&P 500 Index. Similarly, Gualario & Co.’s Form ADV indicated that the Fund’s investment strategy would be risk averse and would include holding both long and short equity positions of select S&P 500 companies for investment gain and hedging. The Form ADV indicated that the Fund would use essentially the same conservative investment strategy for both the Large Cap Accounts and the Fund, except for a slight variation in the use of margin. Furthermore, Gualario’s PowerPoint presented the same strategy and emphasized the goal of reducing volatility. Similar representations were made in a press release issued by Gualario & Co. on August 2, 2007 announcing the launch of the Fund.

28. Both the PowerPoint and press release described the Fund’s risk management policies. The PowerPoint stated that the Fund would employ well-established quantitative and qualitative techniques to evaluate and manage the risk inherent in investment activities and further described those risk management guidelines. The press release likewise stated that the Fund would offer portfolio downside protection, employ risk management measures to generate its investment returns and focus primarily on asset protection. The press release also promised that the Fund’s investments would be hedged against systemic risk.

29. One client who invested in the Fund (“Client B”) specifically asked Gualario whether the Fund would engage in any of the high risk strategies discussed in the PPM and Gualario assured him that it would not. Gualario assured him that the Fund’s strategy would be similar to the long-only strategy of the Large Cap Accounts, except that the Fund would have the ability to take short positions for investment gain. Client B, who was about to retire, invested virtually all of his 401(K) retirement savings in the Fund.

30. Respondents launched the Fund on August 8, 2007 and initially followed the conservative strategy that they had represented to their clients. The Fund realized a profit of about 9% for August 2007. However, in September 2007, the Fund incurred a net loss of approximately 20%. Gualario then felt pressure to recoup the losses, particularly from one client, a real estate developer who had indicated that he and his brother might invest tens of millions of dollars with Gualario if the Fund performed well (“Client C”). According to Gualario, Client C called him frequently after the start of the Fund to check on the Fund’s performance.

31. To recoup the Fund’s September losses, Gualario engaged in high-risk unhedged options trading of individual stocks. Gualario hoped to recoup the losses before he received another call from Client C. Concerned that he would lose his most important client, Client C, if he did not recoup the losses quickly, Gualario continued to engage in massive unhedged options and day trading, putting all of the Fund’s assets at high risk of loss.

32. As a result of this high-risk trading strategy, by the end of October, the Fund had lost 98% of its value, leaving it with just $126,328. The impact on most of the clients who invested in the Fund was devastating. Three of the five clients lost a substantial portion of their retirement funds.

33. While Gualario had conversations with his advisory clients who invested in the Fund, he never disclosed the radical change in the Fund’s investment strategy until after the Fund had lost almost all its assets.
34. Following the collapse of the Fund, in email communications with his clients, Gualario acknowledged that the Fund was supposed to follow a conservative strategy, that he failed to follow risk management measures, and that he breached his fiduciary duty to his clients in the Fund. In an October 31, 2007 email to clients, Gualario wrote:

> It is with great disappointment and regret that I am informing you that during the month of October, our fund, the Gualario SPX Select Fund, LP, lost 98% of its value. I understand full well my fiduciary responsibilities to you and recognize that I failed you in fulfilling my role.

The fund was intended to be conservative in nature, utilizing a disciplined and well thought out long/short investment strategy. We launched the fund in August during a time of market turmoil and, despite our first months (sic) good returns, we were never able to structure the portfolio according to our investment methodology. Following a very disappointing month of September, I pushed harder to make up the prior month’s loss. During this time our risk management measures went by the wayside, with particular positions over-weighted, utilization of excessive margin, derivatives left uncovered and a portfolio that resembled nothing like our investment model. As losses mounted our discipline and performance continued to erode.

35. Respondents charged management fees from the Fund, including approximately $4,388 for August 2007, $13,065 for September 2007 and $10,250 for October 2007.

G. **FAILURE TO REGISTER AS BROKER-DEALER IN THE SALE OF LIMITED PARTNERSHIP INTERESTS**

36. As part of Gualario & Co.’s non-discretionary account management activities, Respondents effected the sale of numerous limited partnership interests to investors without registering with the Commission as a broker-dealer or being associated with a registered broker-dealer. From at least January 2006 through October 2007, Gualario facilitated numerous purchases of limited partnership interests or “Membership Interests” in real estate investments offered by real estate enterprises. These transactions were effected in mostly IRA accounts of clients of Gualario & Co. Respondents served as a middleman in these securities transactions for which they received a one-time fee of the lesser of 1% or $1,000 per transaction. Respondents received at least $89,000 in transaction-based fees from investors for arranging the sale of the limited partnership interests.

H. **VIOLATIONS**

37. As a result of the conduct described above, Respondents willfully violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase or sale of securities. Respondents violated these provisions in the sale of the promissory note to Client A and in the Offering.
38. As a result of the conduct described above, Respondents willfully violated Section 15(a)(1) of the Exchange Act, which prohibits any entity from making use of the mails or any means or instrumentality of interstate commerce to effect transactions in securities without registering as a broker-dealer or, if a natural person, without being associated with broker-dealer. Respondents violated these provisions in the sale of the limited partnership interests to investors.

39. As a result of the conduct described above, Respondents willfully violated Sections 206(1) and 206(2) of the Advisers Act, which prohibit fraudulent conduct by an investment adviser. Respondents violated these provisions when they sold the promissory note to Client A and the Offering Notes to their clients, and by failing to disclose the material change in the Fund’s investment strategy.

40. As a result of the conduct described above, Gualario & Co. willfully violated and Gualario caused and willfully aided and abetted Gualario & Co.’s violation of Section 206(4) of the Advisers Act, which prohibit fraudulent conduct by an investment adviser, and Rule 206(4)-4(a)(1) thereunder, which requires that an investment adviser disclose any financial condition that is likely to impair the adviser’s ability to meet its contractual obligations to clients over whose funds the adviser exercises discretionary authority or has custody. Gualario & Co. violated these provisions, and Gualario aided and abetted Gualario & Co.’s violations, by failing to disclose Gualario & Co.’s precarious financial condition to their advisory clients.

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate in the public interest that public administrative and cease-and-desist proceedings be instituted to determine:

A. Whether the allegations set forth in Section II are true and, in connection therewith, to afford Respondents an opportunity to establish any defenses to such allegations;

B. What, if any, remedial action is appropriate in the public interest against Respondents pursuant to Sections 15(b) of the Exchange Act including, but not limited to, disgorgement and civil penalties pursuant to Section 21B of the Exchange Act;

C. What, if any, remedial action is appropriate in the public interest against Respondents pursuant to Sections 203(e) and 203(f) of the Advisers Act including, but not limited to, disgorgement and civil penalties pursuant to Sections 203(i) and 203(j) of the Advisers Act;

D. What, if any, remedial action is appropriate in the public interest against Respondents pursuant to Section 9(b) of the Company Act;

E. Whether, pursuant to Section 8A of the Securities Act, Section 21C of the Exchange Act and Section 203(k) of the Advisers Act Respondents should be ordered to cease and desist from committing or causing violations of and any future violations of Section 17(a) of the Securities Act, Sections 10(b) and 15(a)(1) of the Exchange Act and Rule 10b-5 thereunder, and Sections 206(1),
206(2) and 206(4) of the Advisers Act and Rule 206(4)-4(a)(1) thereunder and whether Respondent should be ordered to pay disgorgement pursuant to Section 8A(e) of the Securities Act, Section 21C(e) of the Exchange Act and Section 203(j) of the Advisers Act.

IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondents shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If Respondents fail to file the directed answer, or fail to appear at a hearing after being duly notified, the Respondents may be deemed in default and the proceedings may be determined against them upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon Respondents personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission’s Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not “rule making” within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Elizabeth M. Murphy
Secretary
Service List

Rule 141 of the Commission's Rules of Practice provides that the Secretary, or another duly authorized officer of the Commission, shall serve a copy of the Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Sections 15(b) and 21C of the Securities Exchange Act of 1934, Sections 203(e), 203(f) and 203(k) of the Investment Advisers Act of 1940, and Section 9(b) of the Investment Company Act of 1940 and Notice of Hearing (“Order”), on the Respondents and their legal agents.

The attached Order has been sent to the following parties and other persons entitled to notice:

Honorable Brenda P. Murray
Chief Administrative Law Judge
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-2557

Ibrahim S. Bah, Esq.
New York Regional Office
Securities and Exchange Commission
3 World Financial Center, Suite 400
New York, NY 10281

Gualario & Co. LLC
c/o Mr. Ronald Gualario
110 Constitution Way
Basking Ridge, NJ 07920

Mr. Ronald Gualario
110 Constitution Way
Basking Ridge, NJ 07920