

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

**INVESTMENT ADVISERS ACT OF 1940**  
**Release No. 3324 / November 28, 2011**

**INVESTMENT COMPANY ACT OF 1940**  
**Release No. 29874 / November 28, 2011**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-14644**

**In the Matter of**

**Asset Advisors, LLC,**

**Respondent.**

**ORDER INSTITUTING ADMINISTRATIVE  
AND CEASE-AND-DESIST PROCEEDINGS  
PURSUANT TO SECTIONS 203(e) AND  
203(k) OF THE INVESTMENT ADVISERS  
ACT OF 1940 AND SECTION 9(b) OF THE  
INVESTMENT COMPANY ACT OF 1940,  
MAKING FINDINGS, AND IMPOSING  
REMEDIAL SANCTIONS AND A CEASE-  
AND-DESIST ORDER**

**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 Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”) against Asset Advisors, LLC (“Asset Advisors” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) 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 it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 and Section 9(b) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds<sup>1</sup> that

#### Summary

From October 2004 through April 2007, Asset Advisors, a registered investment adviser, failed to adopt written compliance policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules, as required by Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder. In May 2007, Asset Advisors adopted written compliance policies and procedures only after the Commission's exam staff alerted Asset Advisors to its compliance failures. Thereafter, Asset Advisors failed to fully implement a compliance program, taking minimum steps to satisfy its compliance obligations only when the exam staff notified it of an impending exam. Similarly, from January 2005 through April 2007, the firm failed to adopt a written code of ethics, as required under Section 204A of the Advisers Act and Rule 204A-1 thereunder. In May 2007, after the exam staff alerted the firm of its obligations, Asset Advisors adopted a code of ethics. Nevertheless, the firm failed to maintain and enforce the code by failing to collect written acknowledgements of the code's receipt from supervised persons and failing to periodically collect from access persons the required securities reports.

#### Respondent

1. **Asset Advisors**, was founded in 1999 by Carl Gill ("Gill") and registered with the Commission as an investment adviser in May 2002. The firm is located in Troy, Michigan and, according to its most recent Form ADV filed on May 4, 2011, has 325 discretionary accounts and nearly \$27 million in assets under management ("AUM"). The firm focuses on investing clients' money in mutual funds, variable annuities, blue chip stocks and REITs. The firm has six employees.

#### Other Relevant Persons

2. **Carl Gill**, age 57, resides in Troy, Michigan and is Asset Advisors' owner, managing member and Chief Compliance Officer ("CCO"). Gill is the only firm employee that provides investment advice to clients. He holds series 3, 7, 63 and 65 securities licenses and a license for selling life, disability and variable insurance contracts. Prior to Asset Advisors, Gill worked as a registered representative at various broker-dealers. He had no previous experience as an investment advisory representative or a compliance officer before Asset Advisors. Gill also is a registered representative of an unaffiliated broker-dealer, which

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<sup>1</sup> The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

shares office space with Asset Advisors. Gill supervises two registered representatives located in other offices.

### **Background**

3. Effective October 5, 2004, Rule 206(4)-7, promulgated under Section 206(4) of the Advisers Act, requires that a registered investment adviser: (1) “[a]dopt and implement written policies and procedures reasonably designed to prevent violation” of the Advisers Act and its rules; (2) review the adequacy of the written policies and procedures and the effectiveness of their implementation on at least an annual basis; and (3) designate a CCO.

4. Effective January 7, 2005, Rule 204A-1, promulgated under Section 204A of the Advisers Act, requires that a registered investment adviser establish, maintain and enforce a written code of ethics that includes: (1) a standard of business conduct reflecting the adviser’s and its supervised persons’ fiduciary obligations; (2) the requirement that all staff comply with the federal securities laws; (3) requirements that access persons submit for review a securities transaction report on a quarterly basis and a securities holdings report upon hiring and then at least annually thereafter, and submit for pre-approval any purchase of securities in an initial public offering or limited offering; (4) the requirement that supervised persons report any code violations to the CCO; and (5) the requirement that the code and any amendments are provided to supervised persons and the supervised persons provide a written acknowledgement of their receipt.

5. On April 30, 2007, the Commission’s exam staff contacted Gill to announce an on-site exam of Asset Advisors. During the call, Gill first learned that Asset Advisors was required to adopt and implement a written compliance program under Rule 206(4)-7. Asset Advisors hired a consultant to conduct a risk assessment and draft the compliance manual, which was delivered to the exam staff at the end of the exam in May 2007.

6. Asset Advisors also adopted its first code of ethics in May 2007 in response to the exam staff’s comments. The code provided that access persons must report personal securities holdings and transactions to Gill as CCO, and the firm’s compliance manual detailed the specific reporting requirements. Asset Advisors collected holdings reports from employees one week before the 2007 exam began.

7. Asset Advisors’ September 4, 2007 response to the exam staff’s deficiency letter – which was written by the firm’s consultant and signed by Gill as CCO – stated that the firm “recognize[s] that compliance is not a project, but a process, and the importance of devoting appropriate time and resources.” The letter further stated that Gill, “[a]s [CCO], . . . will ensure that all personal trading and holding reports are collected and reviewed as required and as set forth in our 2007 Policies and Procedures Manual.”

8. Gill reluctantly became CCO by default in mid-2007, since there was no one else to fill the role. Gill had no prior experience in compliance and, other than talking to Asset Advisors’ consultant, he did not do anything to prepare himself for the CCO role.

Furthermore, he did not attend any training or continuing education on compliance after he assumed the CCO position. As CCO, Gill referred to the manual about twice a year and was not aware of any of his staff regularly referring to it in executing their job responsibilities. No one else at Asset Advisors had any compliance responsibilities.

9. Asset Advisors took no steps to implement the compliance policies and procedures in any meaningful way, aside from distributing the compliance manual to employees in May 2007. The firm did not provide any training on the compliance manual. In fact, during the years 2007 through 2010, Asset Advisors' implementation was limited to holding semiannual meetings with its staff. And, during those meetings, discussion of compliance issues was limited to antifraud and privacy policy issues. Typically, materials were not distributed during the meetings, although the compliance manual would be on hand.

10. In 2008, Asset Advisors failed to conduct an annual review of its compliance manual and did not collect any securities transactions or holdings reports, as required by its code of ethics.

11. Despite its promise to devote the proper time and resources to its compliance program, the firm waited until November 2009 to amend the compliance manual to incorporate comments made by the exam staff during the 2007 exam. The comments related to the firm's policies regarding stock selection, fees, custody and marketing materials. The timing of the amendments coincided with the exam staff announcing its 2009 exam of Asset Advisors. Aside from distributing the amended manual and holding its semiannual meeting, Asset Advisors did nothing to train staff or to implement the manual's amended policies and procedures.

12. In October 2009, Asset Advisors' consultant conducted an annual review, and the firm collected annual holding reports. These activities only occurred because the exam staff had announced an on-site exam for the latter part of 2009.

13. In 2010, the firm again failed to conduct an annual review and to collect any securities reports. No Commission exam occurred during that year.

14. On June 30, 2010, the exam staff sent a deficiency letter to Asset Advisors based upon the December 2009 exam. Among other things, the exam staff noted that the amended version of the compliance manual did not address certain aspects of Asset Advisors' business and was largely written in general terms that did not provide any detail as to how compliance processes would be executed. The staff also found the manual deficient in setting forth policies and procedures relating to portfolio management processes, suitability of variable annuity products, safeguarding client assets, safeguarding clients' private information and implementation of policies and procedures. Finally, the staff noted that the 2009 annual review was inadequate. The staff wrote that the review was merely a summary of policies and procedures followed by a risk management review matrix, which listed and described what types of forensic testing the firm could perform. The staff found that the review was not customized to reflect Asset Advisors' business risks and did not adequately describe records reviewed, analysis performed or findings resulting from the review.

15. The firm once again waited a number of months before it amended its compliance manual to reflect the exam staff's comments. In March 2011 – or nine months after the firm received the deficiency letter and around the same time that the Enforcement staff opened its investigation – the firm finally incorporated the exam staff's comments into its compliance manual.

16. Before March 2011, Asset Advisors did not collect from its staff written acknowledgements that the staff received the code of ethics. Additionally, before March 2011, the firm did not collect any quarterly transaction reports from any of its access persons and did not pre-clear any of its access person's transactions in initial public offerings or limited offerings.

17. As a result of the conduct described above, Asset Advisors willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, which requires that a registered investment adviser: (1) implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules; and (2) review at least annually its written policies and procedures and the effectiveness of their implementation.

18. As a result of the conduct described above, Asset Advisors willfully violated Section 204A of the Advisers Act and Rule 204A-1 thereunder, which requires that a registered investment adviser maintain and enforce a written code of ethics that at a minimum includes provisions requiring: (1) access persons to submit for review a securities transaction report on a quarterly basis and a securities holdings report upon hiring and then at least annually thereafter; (2) access persons to submit for pre-approval any purchase of securities in an initial public offering or limited offering; and (3) to provide the code and any amendments to supervised persons and to collect from such persons written acknowledgement of their receipt.

### **Undertakings**

19. Respondent Asset Advisors undertakes to:

a. Within thirty (30) days of the entry of this Order, and subject to completion of the undertakings listed in paragraphs 19.c. through 19.e., close operations and dissolve itself as a limited liability company;

b. Within thirty (30) days of the entry of this Order, and subject to completion of the undertakings listed in paragraphs 19.c. through 19.e., file a Form ADV-W with the Commission to fully withdraw its registration as an investment adviser;

c. Subject to client consent, transfer existing advisory accounts to an investment adviser (the "new firm") registered with the Commission that has (1) established, fully-developed and fully-implemented written compliance policies and procedures; (2) an established, fully-developed, fully-enforced and maintained written

code of ethics; and (3) a designated CCO responsible for administering the written compliance policies and procedures;

d. Within thirty (30) days of the entry of the Order, provide a copy of this Order to each of its advisory clients existing as of the date of the Order – or clients that had transferred from Asset Advisors to the new firm within the sixty (60) day period preceding this Order – via mail, electronic mail, or such other method as may be acceptable to Commission staff, together with a cover letter in a form not unacceptable to Commission staff; and

e. Certify (through Gill), in writing, compliance with the undertaking(s) set forth above. The certification shall identify the undertaking(s), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent (through Gill) agrees to provide such evidence. The certification and supporting material shall be submitted to Paul Montoya, Assistant Regional Director, Asset Management Unit, Chicago Regional Office, Securities and Exchange Commission, 175 W. Jackson Blvd., Suite 900, Chicago, Illinois, 60604, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

20. In determining whether to accept the Offer, the Commission has considered these undertakings.

#### IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Asset Advisors' Offer.

Accordingly, pursuant to Sections 203(e) and 203(k) of the Advisers Act and Section 9(b) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent Asset Advisors cease and desist from committing or causing any violations and any future violations of Sections 204A and 206(4) of the Advisers Act and Rules 204A-1 and 206(4)-7 promulgated thereunder.

B. Respondent Asset Advisors is censured.

C. Respondent shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of \$20,000 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Such payment shall be: (A) made by wire transfer, United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Securities and Exchange Commission, Office of Financial Management, 100 F

St., NE, Stop 6042, Washington, DC 20549; and (D) submitted under cover letter that identifies Asset Advisors as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Bruce Karpati, Co-Chief, Asset Management Unit, Securities and Exchange Commission, 3 World Financial Center, Suite 400, New York, New York 10281-1022.

By the Commission.

Elizabeth M. Murphy  
Secretary