UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10228 / October 4, 2016

SECURITIES EXCHANGE ACT OF 1934
Release No. 79032 / October 4, 2016

INVESTMENT ADVISERS ACT OF 1940
Release No. 4545 / October 4, 2016

INVESTMENT COMPANY ACT OF 1940
Release No. 32301 / October 4, 2016

ADMINISTRATIVE PROCEEDING
File No. 3-17614

In the Matter of

LAURENCE I. BALTER d/b/a ORACLE INVESTMENT RESEARCH,

Respondent.

ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, SECTIONS 203(f) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, AND SECTIONS 9(b) AND 9(f) OF THE INVESTMENT COMPANY ACT OF 1940

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"), Section 21C of the Securities Exchange Act of 1934 ("Exchange Act"), Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), and Sections 9(b) and 9(f) of the Investment Company Act of 1940 ("Investment Company Act") against Laurence I. Balter doing business as Oracle Investment Research ("the Respondent").

II.

After an investigation, the Division of Enforcement alleges that:

SUMMARY

1. This proceeding involves multiple breaches of fiduciary duty and violations of the antifraud provisions of the federal securities laws from January 2011 to April 2014 (the "Relevant Period") by Laurence I. Balter ("Respondent"), a formerly registered investment adviser to the Oracle Mutual Fund (the "Fund") and between 100 and 120 separate accounts ("Separately Managed Accounts" or "SMAs"). Balter engaged in three distinct schemes. First, he fraudulently allocated profitable trades to his own accounts to the detriment of several client accounts. Second, Balter falsely told his SMA clients who invested in the Fund that they would not pay both advisory fees and Fund management fees for the portions of their accounts invested in the Fund. Third, Balter made trades for the Fund that deviated from two of its fundamental investment limitations. Together, the violations caused significant harm to Balter's clients.

2. By virtue of this conduct, Respondent willfully violated Securities Act Section 17(a), Exchange Act Section 10(b) and Rule 10b-5 thereunder, Advisers Act Sections 206(1), 206(2), 206(4) and 207, and Rule 206(4)-8 thereunder, and Investment Company Act Section 34(b), and willfully aided and abetted and caused violations of Investment Company Act Sections 13(a) and 34(b).

RESPONDENT

3. **Laurence Isaac Balter d/b/a Oracle Investment Research.** Balter, 46 years old, is a resident of Kihei, Hawaii. He was the founder, principal, chief compliance officer, and sole owner of Oracle Investment Research ("Oracle"), which was a sole proprietorship for most of its existence. During most of the Relevant Period, Oracle had its principal place of business in Fox Island, Washington and was registered with the Commission as an investment adviser from June 2, 2010 until August 26, 2013, when it withdrew its investment adviser registration. At its peak, in February 2013, Oracle had $47 million in regulatory assets under management, including the assets of the Fund. Balter held securities license series 7, 24, 63 and 66, and from 2000 to until September 16, 2010, he was a registered representative with two dual registrants. Balter also was registered as an investment adviser with the state of Washington from September 26, 2013 through December 20, 2013, when he withdrew the registration. Balter attempted to register Oracle Investment Research, LLC as an investment adviser in Hawaii beginning in late September 2013, but he never completed the application. Neither Balter nor Oracle is currently registered with the Commission or any other securities authority.

OTHER RELEVANT ENTITY

4. **Oracle Mutual Fund.** The Fund (ticker symbol "ORGAX") was a series of the Oracle Family of Funds, an Ohio statutory business trust registered as an investment company under the Investment Company Act with the Commission from June 8, 2010 until March 6, 2014. Balter served as the President, a Trustee, and the sole employee of the Oracle Family of Funds and as the portfolio manager, chief compliance officer, administrator for and adviser to the Oracle Mutual Fund. The Fund ceased operations on August 31, 2013 and withdrew its registration on November 21, 2013.

BACKGROUND

5. The majority of Balter's advisory clients were individual investors, many of whom were over 60 years old, retired or nearing retirement, and unsophisticated investors with little investment experience. Clients were generally charged an annual fee of 1.50 percent to 1.70 percent of assets under management. Balter used a buy-and-hold strategy for most of his advisory clients and primarily invested those clients in large-cap securities and in the Fund.

6. In addition to advising individuals, Balter also managed the Oracle Mutual Fund, in which he invested the majority of his SMA clients. The Fund's stated investment objective, as set forth in its Prospectus, was "long-term capital appreciation while secondarily striving for income." The Fund generally held between 13 and 18 securities in sectors focused on supply chain growth in the developing world. Balter was entitled to receive, as adviser to the Fund, management fees of 0.70 percent of average daily net assets and, as administrator to the Fund, fees of 0.20 percent of average net assets. However, to the extent that the Fund's operating expenses, including Balter's management and administrator fees, exceeded 1.00 percent (1.50 percent after January 1, 2013) of the Fund's average net assets, Balter agreed to waive those fees.

A. Balter Cherry-Picked Profitable Trades For Himself Without His Clients' Knowledge

7. In May 2012 Balter began to employ a day-trading strategy for himself and a few of his SMA clients. Balter executed these day trades through omnibus accounts at two different brokerage firms, one of which was the custodian for Balter's advisory client accounts from June 2010 through June 2013 ("Broker 1") and another from July 2013 through December 2013 ("Broker 2"). In June 2013 Broker 1 unilaterally terminated its relationship with Balter/Oracle and Balter/Oracle began its relationship with Broker 2.

8. Balter's Forms ADV Part 2A, Item 11 filed on March 23, 2011, January 5, 2012 and July 22, 2013 state that "client trades are placed prior to any advisor personal transactions." Similarly, Balter's Compliance Manual, which was effective for all relevant periods and which he certified receiving and reviewing, required him to make "an equitable allocation of the securities to the client" before "contemporaneously purchasing the same securities as a client."

9. Further, Balter's Compliance Manual provided that "[c]lients must always receive the best price, in relation to employees, on same day transactions." It required him to "first give priority on all purchases and sales of securities to [his] clients, prior to the execution of transactions for [his] proprietary accounts" and mandated that "personal trading must be conducted so as not to conflict with the interests of a client."

10. However, Balter regularly executed trades for himself and one client ("Client A"), and occasionally executed trades for himself and other clients in the same omnibus account, without pre-allocating or making an equitable allocation of the trades. Indeed, in virtually all instances in which Balter made trades in the omnibus trading account, he did not allocate the trades until after they were executed—in other words, after he knew the profitability of the trade. Moreover, Balter disproportionately allocated profitable trades to his own accounts and unprofitable trades to his client accounts, primarily those of Client A.

11. Despite Balter's representation in his Form ADV that he would trade for his clients before he traded for himself, during the Relevant Period there are multiple days on which he traded before his clients in the same securities. On many of those days, he received a better price for his trade than he did for his clients' trades. Almost all of the trades in which Balter traded before his clients and received a better price for the same security were made from his omnibus account and then allocated manually to his and his clients' accounts, respectively, later in the day.

12. None of Balter's clients, including Client A, was aware that Balter was executing his own trades in a single account that also included his clients' trades, or that he was cherry-picking the profitable trades from that account. Balter sent daily emails to Client A, purporting to report the results from that day's trading in Client A's accounts, that underreported the losses that Client A sustained from Balter's cherry-picking scheme.

13. Balter knew, or was reckless in not knowing, that his day-trading strategy disproportionately allocated profitable trades to his personal accounts and losing trades to his clients' accounts. Moreover, Balter knew or should have known that his trading in the omnibus account conflicted with the disclosures in his Form ADV and was inconsistent with his written policies and procedures. These misrepresentations and omissions constituted breaches of Balter's fiduciary duty to his clients.

14. Balter allocated a disproportionate number of profitable trades to his own accounts and a disproportionate number of unprofitable trades to client accounts, thereby profiting from this scheme. From April 21, 2012 to May 30, 2013, when Balter's personal and SMAs were at Broker 1, Balter earned first-day returns in the omnibus account of approximately $220,000, or about a 0.63 percent return on his investment. At the same time, Client A suffered first-day losses of approximately $1,365,000, or about a -0.38 percent return. Other clients collectively suffered total losses of more than $34,000, representing about a -0.14 percent return on their investments. From July 22, 2013 to December 27, 2013, when Balter's personal and SMAs were at Broker 2, his account had total net profits of approximately $118,000, or about a 1.39 percent return on his investment, while Client A had total losses of more than $700,000, or about a -0.78 percent return. Ultimately, Balter reaped approximately $490,000 in ill-gotten gains from his cherry-picking scheme.

15. In December 2013, Broker 2 advised Balter that it had concerns about the trading it observed in his block account, including the fact that trading in the same account as his clients was inconsistent with the disclosures he made in Item 11 of Form ADV Part 2A. Shortly thereafter, Broker 2 notified Balter that it was terminating its relationship with him and that he would need to move his client accounts off of Broker 2's platform. Balter did not disclose to his clients that he had previously traded alongside client accounts and continued to execute his own personal trades in a single account that also included Client A's trades, without making an equitable allocation of the trades beforehand. He did not tell Client A that Broker 2 had raised concerns about trading for himself and Client A in the block account.

B. Balter Misrepresented the Fund's Management Fees to Investors

16. In offering and selling the Fund to his SMA clients, Balter materially misrepresented the fees that he would charge his clients in connection with an investment in the Fund. He told many of his clients in emails and verbal conversations that he would not "double-dip" by charging them both advisory fees (which were based on a percentage of assets under management in the client's account) and Fund management fees (which were based on a percentage of assets under management in the Fund) for the portions of their accounts invested in the Fund. In addition, all of Balter's Form ADVs similarly stated that there was no "'double dipping' on the fee" and that his clients would "get [a] proration of the fund management fee credited to the account."

17. Contrary to his representations, Balter did not apply any such credit to the quarterly advisory fees he manually deducted from his clients' accounts. Balter knew, or was reckless in not knowing, when he offered and sold interests in the Fund that his representations about applying a management fee credit to his clients' accounts were false. Moreover, he knew or should have known that no such credit was provided to his clients. By making these misrepresentations, Balter breached his fiduciary duty to his clients. It was important to clients to have complete and accurate information regarding the fees associated with an investment in the Fund before making an investment decision.

C. Balter Caused the Fund to Deviate from its Fundamental Investment Limitations

18. Section 8(b) of the Investment Company Act requires that a registered investment company's registration statement contain a recital of certain investment policies, including (1) its subclassification as a "diversified" or "non-diversified" company under Investment Company Act Section 5(b) and (2) its concentration of investments in a particular industry or group of industries. Once a registered investment company subclassifies itself as a "diversified" company and recites a concentration policy, Section 13(a)(1) and (3) of the Investment Company Act requires it to obtain authorization by a vote of a majority of its outstanding voting securities to change "its subclassification from a diversified to a non-diversified company" or to "deviate from its policy in respect of concentration of investments in any particular industry or group of industries as recited in its registration statement."

19. The Fund's Statement of Additional Information (the "SAI"), which was first filed with the SEC on January 3, 2011 as part of its registration statement and "should be read in conjunction" with the Fund's prospectus and incorporated therein by reference, designated the Fund as "diversified" under the requirements of Investment Company Act Section 5(b)(1) and touted its diversified nature as something that would make it "less subject to the risk that its performance may be hurt disproportionately by the poor performance of relatively few securities." The SAI further identified the diversified subclassification set forth in Investment Company Act Section 5(b)(1) as a fundamental investment limitation that could not be changed without the favorable vote of the holders of a majority of the outstanding voting securities of the Fund. The registration statement containing the SAI and identical disclosures was further filed with the SEC on December 30, 2011 and December 28, 2012.

20. The SAI also disclosed that the Fund "may not … invest 25% or more of its net assets, calculated at the time of purchase and taken at market value, in securities of issuers in any one industry" and stated that this restriction was a fundamental investment limitation that could not be changed without the favorable vote of the holders of a majority of the outstanding voting securities of the Fund.

21. As president and sole employee of the Fund, Balter was responsible for preparing and approving the SAI disclosures described in paragraphs 19 and 20. He also approved them in his capacity as a member of the Fund's Board of Trustees.

22. As investment adviser to the Fund, Balter was responsible for day-to-day management of the Fund's portfolio and bound by the investment limitations set forth in the SAI. Specifically, as set forth in the Fund's written compliance manual, he was required to ensure that the Fund's portfolio was in compliance with all of its investment objectives, policies and restrictions, including those concerning diversification and industry concentration.

23. However, in many quarters of the Fund's existence, Balter made investments for the Fund that resulted in the Fund changing from a diversified to a non-diversified company, and in many quarters, he also purchased securities that caused the Fund to deviate from its concentration policy. Balter knew, or was reckless in not knowing, that the Fund was not "diversified," as promised to investors in the SAI. Moreover, as the Fund's adviser, Balter knew or should have known that the Fund had deviated from its concentration policy. By making these investments, Balter breached his fiduciary duty to his clients.

24. Balter made material misstatements regarding the Fund's subclassification as a diversified company and its concentration policy in the offer and sale of interests in the Fund. He misled prospective and existing investors by causing the Fund's registration statements to misrepresent the Fund's subclassification as a diversified company and its concentration policy. Also, he misled the Board of Trustees, which asked him at every one of the Board's quarterly meetings whether the Fund was in compliance with its fundamental investment limitations regarding diversification and industry concentration and to which he repeatedly represented that the Fund was compliant and that holdings appearing to exceed the diversification or industry concentration thresholds were a result of market fluctuations, not of the violative trades that he caused to be executed.

25. Balter's violations had a significant impact on the Fund's performance. As a result, the Fund's investors suffered harm as a result of the Fund's failure to comply with the diversification and industry concentration limitations.

VIOLATIONS

26. As a result of the conduct described above, Respondent willfully violated Section 17(a) of the Securities Act, which prohibits fraudulent conduct in the offer and sale of securities.

27. As a result of the conduct described above, Respondent 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.

28. As a result of the conduct described above, Respondent willfully violated Sections 206(1) and 206(2) of the Advisers Act, which prohibit fraudulent and deceptive conduct by an investment adviser with respect to any client or prospective client.

29. As a result of the conduct described above, Respondent willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder, which prohibit making an untrue statement of a material fact or omitting any material fact to any investor or prospective investor in a pooled investment vehicle and engaging in any act, practice or course of business that is fraudulent or deceptive with respect to any investor or prospective investor in a pooled investment vehicle.

30. As a result of the conduct described above, Respondent willfully violated Section 207 of the Advisers Act, which makes it "unlawful for any person willfully to make any untrue statement of a 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."

31. As a result of the conduct described above, Respondent willfully aided and abetted and caused the Fund's violations of Section 13(a) of the Investment Company Act, which requires that any change in an investment company's classification from diversified to non-diversified under Investment Company Act Section 5(b) or any deviation from an investment company's policy in respect of concentration of investments in any particular industry be authorized by the vote of a majority of outstanding voting securities.

32. As a result of the conduct described above, Respondent willfully violated and aided and abetted and caused the Fund's violations of Section 34(b) of the Investment Company Act, which prohibits any person from making any untrue statement of a material fact in any report filed pursuant to the Investment Company Act.

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 hereof are true and, in connection therewith, to afford Respondent an opportunity to establish any defenses to such allegations;

B. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 203(f) of the Advisers Act including, but not limited to, disgorgement and civil penalties pursuant to Section 203 of the Advisers Act;

C. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 9(b) of the Investment Company Act including, but not limited to, disgorgement and civil penalties pursuant to Section 9 of the Investment Company Act; and

D. Whether, pursuant to Section 8A of the Securities Act, Section 21C of the Exchange Act, Section 203(k) of the Advisers Act, and Section 9(f) of the Investment Company Act, Respondent 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, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, Sections 206(1), 206(2), 206(4) and 207 of the Advisers Act and Rule 206(4)-8 thereunder, and Sections 13(a) and 34(b) of the Investment Company Act, whether Respondent should be ordered to pay a civil penalty pursuant to Section 8A(g) of the Securities Act, Section 21B(a) of the Exchange Act, Section 203(i) of the Advisers Act, and Section 9(d) of the Investment Company Act, and whether Respondent should be ordered to pay disgorgement pursuant to Section 8A(e) of the Securities Act, Sections 21B(e) and 21C(e) of the Exchange Act, Section 203 of the Advisers Act, and Section 9 of the Investment Company 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 Respondent 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 Respondent fails to file the directed answer, or fails to appear at a hearing after being duly notified, the Respondent may be deemed in default and the proceedings may be determined against him 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 Respondent as provided for in the Commission's Rules of Practice.

IT IS FURTHER ORDERED that, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice, 17 C.F.R. § 201.360(a)(2), the Administrative Law Judge shall issue an initial decision no later than 120 days from the occurrence of one of the following events: (A) The completion of post-hearing briefing in a proceeding where the hearing has been completed; (B) Where the hearing officer has determined that no hearing is necessary, upon completion of briefing on a motion pursuant to Rule 250 of the Commission's Rules of Practice, 17 C.F.R. § 201.250; or (C) The determination by the hearing officer that a party is deemed to be in default under Rule 155 of the Commission's Rules of Practice, 17 C.F.R. § 201.155 and no hearing is necessary.

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.

Brent J. Fields
Secretary