

ADMINISTRATIVE PROCEEDING
File Nos. 3-17348, 3-17349

SEC Charges Investment Advisers For Failing To Disclose Conflicts Of Interest Arising From Receipt of Forgivable Loans

July 18, 2016 – The Securities and Exchange Commission today announced charges against two SEC-registered investment advisers for failing to disclose receipt of revenue from a third-party broker-dealer in the form of forgivable loans and the resulting conflicts of interest. Both matters reflect a continued focus by the SEC’s Office of Compliance Inspections and Examinations (OCIE) and the Enforcement Division’s Asset Management Unit on undisclosed compensation arrangements between investment advisers and brokers-dealers.

Advantage Investment Management, LLC

An SEC investigation found that Advantage Investment Management, LLC (AIM), a Cedar Rapids, Iowa-based registered investment adviser, failed to disclose that it had received more than \$3 million in revenue in the form of a forgivable loan made in 2012 by a broker-dealer, and also failed to disclose the conflicts of interest arising from the loan. In August 2012, AIM entered into an agreement with a third-party broker-dealer under which the broker-dealer would become AIM’s new primary broker-dealer, and would provide trade execution, custody, and reporting services for AIM’s clients, as well as sponsor several advisory programs offered by AIM. In connection with the agreement, the broker-dealer issued a loan in excess of \$3 million, forgivable over a five-year period. The SEC’s investigation also found that AIM failed to disclose to its clients and in its Form ADV its receipt of revenue from the broker-dealer and the conflicts of interest created by its agreement with the broker-dealer, in breach of its fiduciary duties.

The SEC’s order finds that AIM violated Sections 206(2) and 207 of the Investment Advisers Act of 1940. Without admitting or denying the SEC’s findings, AIM consented to the entry of the SEC’s order censuring it, and requiring it to cease and desist from further violations and pay a \$60,000 penalty.

The SEC’s investigation was conducted by David Becker and John Farinacci and supervised by Jeffrey Finnell of the Asset Management Unit.

Washington Wealth Management, LLC

A separate SEC investigation found that Washington Wealth Management, LLC (WWM), a San Diego, California-based registered investment adviser, failed to disclose its receipt of more than \$1.8 million in multiple loans it received between October 2012 and March 2013, from WWM’s newly-engaged broker-dealer. In September 2012, WWM entered into an agreement with a broker-dealer to provide trade execution, clearing, custody, and other services for WWM’s clients. In connection with this agreement, WWM received a loan of more than \$1 million in October 2012 and another loan of more than \$66,000 in December 2012. Each of these loans was potentially forgivable over a five-year term. The broker-dealer also made additional loans to

WWM of more than \$485,000 in November 2012 and \$277,000 in March 2013. The SEC's investigation also found that WWM failed to disclose to its clients and in its Form ADV its receipt of the loans until October 13, 2013, after the SEC's examination staff informed WWM of its failure to disclose the loans.

The SEC's order finds that WWM violated Sections 206(2) and 207 of the Advisers Act. Without admitting or denying the SEC's findings, WWM consented to the entry of the SEC's order censuring it, and requiring it to cease and desist from further violations and pay a \$50,000 penalty.

The SEC's investigation was conducted by Eric Brooks and supervised by Jeremy Pendrey of the Asset Management Unit.

See also: [Order](#) – Advantage Investment Management, LLC
 [Order](#) – Washington Wealth Management, LLC