

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 82282 / December 11, 2017

INVESTMENT ADVISERS ACT OF 1940
Release No. 4826 / December 11, 2017

ADMINISTRATIVE PROCEEDING
File No. 3-18305

In the Matter of

COASTAL EQUITIES, INC.
and COASTAL
INVESTMENT ADVISORS,
INC.

Respondents.

ORDER INSTITUTING ADMINISTRATIVE
PROCEEDINGS, PURSUANT TO SECTION
15(b) OF THE SECURITIES EXCHANGE
ACT OF 1934 AND SECTION 203(e) OF THE
INVESTMENT ADVISERS ACT OF 1940,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) against Coastal Equities, Inc. (“Coastal Equities”); and pursuant to Section 203(e) of the Investment Advisers Act of 1940 (“Advisers Act”) against Coastal Investment Advisors, Inc. (“Coastal IA”) (collectively, Coastal Equities and Coastal IA are referred to herein as “Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have 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 them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative Proceedings, Pursuant to Section 15(b) of the Securities Exchange Act of 1934 and Section 203(e) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions (“Order”), as set forth below.

III.

On the basis of this Order and Respondents' Offer, the Commission finds¹ that:

Summary

These proceedings arise out of Respondents' failure reasonably to supervise Michael Donnelly ("Donnelly"), the former President, CEO and CCO of Coastal Equities and Coastal IA, with a view to preventing and detecting his violations of the federal securities laws during the period from at least 2009 through 2014. Donnelly, who was also a registered representative and an investment adviser representative at Coastal Equities and Coastal IA, respectively, stole over \$1.5 million from at least 12 individuals who were advisory clients, and most of whom were also brokerage customers (collectively, the "Clients"). Donnelly operated his scheme by making materially false and misleading statements that convinced the Clients to invest in certain securities. Donnelly instructed the Clients to write a check payable to an entity he solely controlled so he could allegedly purchase the securities on the Clients' behalf. Instead of investing the money as promised, Donnelly deposited the checks into a bank account he controlled and used the money for his own personal and business purposes. Donnelly concealed his theft from the Clients, in part, by manually inputting fictitious investments into consolidated financial reports which were generated by using a tool available to him through the Respondents. Donnelly provided the consolidated reports to several of the Clients which falsely led them to believe that he had purchased the securities on their behalf.

By engaging in the misconduct described above, Donnelly violated Section 17(a) of the Securities Act of 1933 ("Securities Act"), Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 206(1) and (2) of the Advisers Act.

During the time of Donnelly's fraud, Respondents did not have policies and procedures reasonably designed to prevent and detect Donnelly's misuse of the consolidated reports to perpetrate a securities fraud upon the Clients. Coastal IA had no policies explicitly governing the creation, use, and review of these consolidated reports and Coastal Equities did not have any such policies in place until 2013. Donnelly used these reports to give his victims the false impression that they owned the fictitious securities along with their other legitimate investment holdings. But the Respondents would likely have uncovered Donnelly's fraud if they had established reasonable policies and procedures governing the consolidated reports during the relevant period. Even a cursory review of these reports generated by Donnelly would have revealed highly questionable rates of returns and securities not offered or approved by the Respondents.

¹ The findings herein are made pursuant to Respondents' Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Respondents

1. Coastal Equities, Inc. has been a registered broker-dealer since 1989, and is headquartered in Wilmington, Delaware.
2. Coastal Investment Advisors, Inc., formerly known as Donnelly Steen & Co., has been a registered investment adviser since 2007, and is headquartered in Wilmington, Delaware.

Other Relevant Individual

3. Michael Donnelly, age 48, pled guilty to one count of securities fraud and one count of wire fraud, was sentenced to 99 months imprisonment and is currently incarcerated in a federal correctional institution in Fairton, New Jersey. From approximately 2007 through 2014, Donnelly was an investment adviser representative and the President of Coastal IA, and, from 2007 through 2013, served as Coastal IA's Chief Compliance Officer. From approximately 2009 through 2014, Donnelly was a registered representative at Coastal Equities and served as Coastal Equities' President from approximately 2010 through 2014, and Chief Compliance Officer from approximately 2010 through 2013. Donnelly was terminated by Coastal IA and Coastal Equities in September 2014.

Donnelly's Fraudulent Scheme

4. From at least 2009 through 2014, while acting in his capacity as a registered representative and investment adviser representative, Donnelly stole approximately \$1.5 million from 12 of Respondents' Clients. As part of his scheme, Donnelly convinced the Clients to invest in certain fictitious securities, including stocks and certificates of deposit ("CDs"). For instance, Donnelly offered some Clients high-yielding bank CDs that purportedly provided as much as five times the returns of other bank CDs. In reality, these CDs were a complete fabrication. Donnelly then instructed the Clients to write a check payable to Donnelly Advisors Group, an entity he solely controlled, so that he could purportedly purchase the securities on the Clients' behalf. Instead of investing the money as promised, Donnelly deposited the Clients' checks in a Donnelly Advisors Group bank account and used the money for his own personal and business purposes.

5. To conceal his theft from several of the Clients, Donnelly used an electronic system maintained by Coastal Equities that enabled their registered representatives, and investment adviser representatives of Coastal IA (collectively referred to as "financial representatives"), to create a consolidated financial report, known as a "Portfolio Report." These Portfolio Reports were able to consolidate all the holdings of a particular Client, including those within Coastal Equities brokerage accounts and Coastal IA advised accounts, which were derived from direct systematic updates from Respondents, as well as the Client's assets held away by outside financial institutions. As for the assets held away, the Portfolio Report software allowed financial representatives to manually enter the data. Donnelly manually inputted into the Portfolio Reports false information concerning the fraudulent investments, such as the fictitious high-yielding CDs, including their purported name, value and interest rate. None of Donnelly's Portfolio Reports were subject to mandatory review by the Respondents.

6. In approximately July 2014, Donnelly's fraud unraveled when a Client informed him that she intended to move all of her investments to a different financial institution, including several fictitious CDs that she believed she owned. Unable to transfer the non-existent CDs, and having already spent the Client's money on personal and business expenses, Donnelly stole approximately \$267,000 from another Client and used that money as purported payments for the CDs. Another Coastal IA employee reported this suspicious transaction to the Respondents' Chief Legal Officer who investigated the matter and detected Donnelly's larger fraud. Shortly thereafter, Respondents reported Donnelly's conduct to the Commission staff and the criminal authorities.

7. On December 21, 2015, Donnelly pled guilty to one count of securities fraud and one count of wire fraud in a parallel criminal proceeding. On April 11, 2016, Donnelly was sentenced to 99 months imprisonment, three years of supervised release and ordered to pay \$1.99 million in restitution to his Clients.

8. On January 20, 2016, a final judgment was entered by consent against Donnelly, permanently enjoining him from future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 206(1) and (2) of the Advisers Act in the civil action entitled Securities and Exchange Commission v. Michael Donnelly, Civil Action Number 2:15-CV-05673, in the United States District Court for the Eastern District of Pennsylvania. Donnelly also agreed to settle a follow-on administrative proceeding by which he consented to permanent bars from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical ratings organization, and from participating in any penny stock offering.

Respondents Failed Reasonably to Supervise Donnelly

9. During the relevant period, Respondents failed reasonably to supervise Donnelly by not having in place reasonable policies and procedures for the creation, use and review of the consolidated in-house reporting system, which was used to create the Portfolio Reports. The cover page of each Portfolio Report listed the financial representative's name, title, "Coastal Equities, Inc.," and the Respondents' address.

10. Respondents knew that their financial representatives provided Portfolio Reports to their Clients and that the financial representatives were able to manually enter information into those reports. The Portfolio Reports were available for use by all of Respondents' financial representatives since as early as 2009.

11. Nevertheless, Coastal Equities did not have any policies or procedures in place concerning consolidated reports until October 2013, and Coastal IA never had any procedures in place with respect to consolidated reports throughout the period of Donnelly's fraud. For example, no person at Coastal Equities or Coastal IA had responsibility for overseeing the content of the Portfolio Reports or for reviewing the reports before being sent to Respondents' Clients. There was never any review of the Portfolio Reports created by Donnelly, including the manually entered data in the reports.

12. Because the Respondents lacked reasonable policies and procedures governing the creation, use, and review of consolidated reports, they failed to prevent and detect Donnelly's fraud. Indeed, as part of the investigation into Donnelly's suspicious transaction, the Respondents for the first time reviewed the Portfolio Reports that Donnelly created and immediately detected the unusually high interest rates of the fraudulent CDs, which led to the detection of Donnelly's fraud and the Respondents notifying the Commission.

Respondents' Supervisory Failures

13. As a result of the conduct described above, Coastal Equities failed reasonably to supervise Donnelly with a view to preventing and detecting Donnelly's violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and Sections 206(1) and 206(2) of the Advisers Act.

14. As a result of the conduct described above, Coastal IA failed reasonably to supervise Donnelly with a view to preventing and detecting Donnelly's violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and Sections 206(1) and 206(2) of the Advisers Act.

15. As a result of the conduct described above, Coastal IA willfully² violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, which require, among other things, that registered investment advisers adopt and implement written policies and procedures reasonably designed to prevent violations by the investment adviser and its supervised persons of the Advisers Act and the rules thereunder.

Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondents, the self-reporting of the conduct and cooperation afforded the Commission staff.

IV.

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

Accordingly, pursuant to Section 15(b) of the Exchange Act and Section 203(e) of the Advisers Act, it is hereby ORDERED that:

² A willful violation of the securities laws means merely "that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Id.* (quoting *Gearhart & Otis, Inc. v. SEC*, 348 F.2d 798, 803 (D.C. Cir. 1965)).

A. Respondents Coastal Equities and Coastal IA are censured.

B. Respondent Coastal Equities shall pay a civil money penalty in the amount of \$40,000 which will be satisfied by paying \$5,000 within 10 days of the entry of this Order and the remaining \$35,000 balance within 360 days of the entry of this Order. The payments will be made to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

C. Respondent Coastal IA shall pay a civil money penalty in the amount of \$40,000 which will be satisfied by paying \$5,000 within 10 days of the entry of this Order and the remaining \$35,000 balance within 360 days of the entry of this Order. The payments will be made to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

- (1) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondents may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondents may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Respondents in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to G. Jeffrey Boujoukos, Division of Enforcement, Securities and Exchange Commission, 1617 JFK Boulevard, Suite 520, Philadelphia, PA 19103.

D. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Brent J. Fields
Secretary