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## *Texas State Securities Board*

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MEMBER

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MEMBER

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Austin, Texas 78701-2407  
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MIGUEL ROMANO, JR.  
MEMBER

IN THE MATTER OF  
THE DEALER REGISTRATION OF  
THE INVESTMENT CENTER, INC.

§  
§  
§

**Order No. IC16-CAF-13**

TO: Ralph J. Devito, President  
The Investment Center, Inc. (CRD No. 17839)  
1420 Route 206 North, Suite 210  
Bedminster, NJ 07921

### **CONSENT ORDER**

Be it remembered that The Investment Center, Inc. ("Respondent") appeared before the Securities Commissioner of the State of Texas ("Securities Commissioner") and consented to the entry of this order ("Order") and the Findings of Fact and Conclusions of Law contained herein. The Findings of Fact and Conclusions of Law contained herein are not intended to indicate that Respondent engaged in any fraudulent, criminal, malicious, purposeful or intentional error or omission, or a willful violation of the laws described herein. This Order is entered into solely for the purpose of resolving the investigation by the Texas State Securities Board, and is not intended to be used for any other purpose. For any person or entity not a party to the Order, this Order does not limit or create any private rights as remedies against Respondent, limit or create liability of Respondent, or limit or create defenses of Respondent, to any claims.

### FINDINGS OF FACT

1. Respondent has waived (a) Respondent's rights to notice and hearing in this matter; (b) Respondent's rights to appear and present evidence in this matter; (c) Respondent's rights to appeal this Order; and (d) all other procedural rights granted to the Respondent by The Securities Act, Tex. Rev. Civ. Stat. Ann. arts. 581-1 to 581-44 (West 2010 & Supp. 2015)("Texas Securities Act"), and the Administrative Procedure Act, Tex. Gov't Code Ann. §§ 2001.001 to 2001.902 (West 2008 & Supp. 2015)("Administrative Procedure Act").

### Summary

2. On July 28, 1986, Respondent registered with the Securities Commissioner as a dealer. This registration is currently effective.

3. The staff of the Texas State Securities Board received a complaint from a Texas resident (“Complainant”) regarding Respondent and a former agent (“Agent”) of Respondent.
4. The Agent was registered with the Securities Commissioner as an agent of the Respondent from July 9, 1991 through September 2, 2014. The Agent is not currently registered in any capacity with the Securities Commissioner.
5. Between January 2010 and March 2014 (the “Relevant Period”), the Agent recommended that certain clients purchase securities that raised red flags related to the suitability of the Agent’s recommendations for those clients based on their investment profiles.
6. Despite the red flags raised by the Agent’s sales activity, Respondent failed to reasonably supervise this activity.

#### Trading Activity

7. During the Relevant Period, the Agent recommended that certain clients invest in publicly traded, low-priced securities issued by energy companies.
8. During the Relevant Period, accounts belonging to a number of the Agent’s clients’ were concentrated in the energy sector due to the investments recommended by the Agent.
9. At certain times, some of these clients’ accounts were not holding investments in multiple energy companies, but were often invested in only one company at a time. The Agent had recommended these positions to the clients.
10. The Staff reviewed the trading activity in multiple accounts of the Agent’s clients for the Relevant Period. At the start of the Relevant Period the accounts had individual values ranging from approximately \$3,000 and \$1.33 million.
11. Yet, for the majority of the Relevant Period, the investments recommended by the Agent resulted in:
  - a. A majority of the reviewed clients holding over 95% of their total assets with Respondent in equities;
  - b. A majority of the reviewed clients’ equity positions being 100% concentrated in the energy sector; and
  - c. The equity positions in most of the accounts reviewed were 100% concentrated in one company at certain times;
12. At the point in time that the Agent started recommending that clients invest almost exclusively in low-priced securities in the energy sector, certain relevant clients indicated a low or moderate tolerance for risk.

### Red Flags Raised Regularly in Multiple Accounts

13. There were numerous “red flags” related to the Agent’s activity, including:
  - a. The holdings in relevant client accounts generated numerous exception report alerts based on the concentrated position(s) in the accounts;
  - b. Exception report alerts were also generated based on the declines in value of relevant client accounts;
  - c. Respondent mailed numerous letters to the relevant clients based on the alerts described above. Some of these letters were acknowledged and signed by clients and others were not; and
  - d. A pattern of amending relevant clients’ customer profile information in response to the letters and alerts described above to include “speculation” as an investment objective and/or acceptable level of risk.
14. Certain of the new account forms used to amend the clients’ customer profile information were signed by the Agent as both the representative and Respondent’s Principal with respect to the accounts. Respondent updated relevant client profile information based on forms containing the Agent’s signature in both capacities after the client’s customer profile information was reviewed and approved by home office compliance personnel.
15. Respondent did not speak with any of the clients to confirm that the activity in their accounts was in line with their objectives and risk tolerances or that the Agent was seeking the clients’ pre-approval prior to purchasing the concentrated positions.
16. Respondent’s written supervisory procedures required Respondent to “ensure that trained individuals utilize [exception reports] to undertake investigations of possible fraudulent or non-compliant activities.”
17. Respondent did not conduct a reasonable investigation into the Agent’s activity in response to the exception reports and other red-flags associated with the Agent’s recommendations to clients. Respondent only discussed the trades with the Agent and sent letters to clients seeking their agreement that they understood their accounts were concentrated in the energy sector and/or had declined in value. Although a number of these letters were signed and returned by the clients, some were not. Respondent did not follow-up with the clients when they did not sign and return the letters.
18. During the course of the Staff’s investigation, Respondent paid the Complainant \$98,000 to resolve the issues associated with the complaint filed with the Staff.

### CONCLUSIONS OF LAW

1. Respondent violated §115.10(b)(1) of the Rules and Regulations of the Texas State Securities Board (“Board Rules”).

2. Pursuant to Section 14.A(6) of the Texas Securities Act, Respondent's violations of a Board Rule constitute bases for the issuance of an Order reprimanding Respondent.
3. Pursuant to Section 23-1 of the Texas Securities Act, Respondent's violations of a Board Rule constitute bases for the assessment of an administrative fine against Respondent.

ORDER

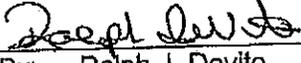
1. It is therefore ORDERED that The Investment Center, Inc. is hereby REPRIMANDED.
2. It is further ORDERED that The Investment Center, Inc. shall pay an ADMINISTRATIVE FINE in the amount of Fifty Thousand Dollars (\$50,000.00) to the general fund of the State of Texas within ten (10) days of the entry of this Order.

SIGNED AND ENTERED BY THE SECURITIES COMMISSIONER this 2nd  
day of August, 2016.

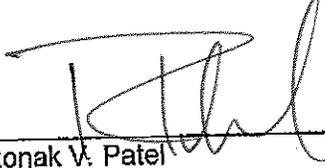
  
JOHN MORGAN  
Securities Commissioner

Respondent:

The Investment Center, Inc.

  
By: Ralph J. Devito  
President

Approved as to Form:

  
Ronak V. Patel  
Deputy Securities Commissioner

**ACKNOWLEDGMENT**

On the 29<sup>th</sup> day of July, 2016, The Investment Center, Inc. ("Respondent"), by and through Ralph J. Devito, appeared before me, executed the foregoing Order, and acknowledged that:

1. Ralph J. Devito is duly authorized to enter into the foregoing Order on behalf of Respondent;
2. Ralph J. Devito has read the foregoing Order;
3. Respondent has been fully advised of its rights under the Texas Securities Act and the Administrative Procedure Act;
4. Respondent knowingly and voluntarily consents to the entry of the foregoing Order and the Findings of Fact and Conclusions of Law contained therein; and
5. Respondent, by consenting to the entry of the foregoing Order, has knowingly and voluntarily waived its rights as set forth therein.

[affix notary seal here]



  
Notary Public in and for  
the State of New Jersey

My commission expires on: 4-2-18

