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8 BEFORE THE DEPARTMENT OF BUSINESS OVERSIGHT
9 OF THE STATE OF CALIFORNIA

10
11 In the Matter of:) CRD NO.: 2576170
)
12 THE COMMISSIONER OF BUSINESS) ORDER BARRING MICHAEL JAMES
13 OVERSIGHT,) ALTOBELL FROM ANY POSITION OF
) EMPLOYMENT, MANAGEMENT OR
14 Complainant,) CONTROL OF ANY INVESTMENT
) ADVISER, BROKER-DEALER OR
15 v.) COMMODITY ADVISER
)
16 MICHAEL JAMES ALTOBELL,)
17)
18 Respondent.)
19)

20 TO: Michael James Altobell
21 3017 Douglas Boulevard, Suite 250-B
22 Roseville, CA 95661

23 1. On July 30, 2018, the Commissioner of Business Oversight (Commissioner) brought
24 an action to bar Michael James Altobell (Altobell) from any position of employment, management
25 or control of any investment adviser, broker-dealer or commodity adviser under Corporations Code
26 section 25232.1.

27 2. The Commissioner issued an investment adviser certificate to Paragon Portfolio
28 Management, LLC (Paragon) on March 3, 2014, pursuant to Corporations Code section 25230.

1 Paragon was a California limited liability company and located at 3017 Douglas Boulevard, Suite
2 250-B, Roseville, California 95661, and was an investment adviser, registered through the Central
3 Registration Depository¹ (CRD) with the assigned number 170438.

4 3. Altobell was an investment adviser representative, with the assigned CRD number
5 2576170, and was the managing member and 100-percent owner of Paragon. Altobell managed
6 Paragon client accounts on a discretionary basis – he had control over client funds and securities.

7 4. The Commissioner finds that on or around July 2016, and continuing through at least
8 May 2017, Paragon, by and through Altobell, accessed client accounts without prior authorization in
9 violation of Corporations Code sections 25235, 25238 and California Code of Regulations (CCR),
10 title 10, sections 260.237 and 260.238.

11 5. The Department of Business Oversight (Department) interviewed D.K., a former
12 Paragon client. D.K. told the Department that he never accessed nor executed trades in his online
13 account. The Department reviewed D.K.'s account statements for his account after Charles Schwab
14 & Company Inc. (Schwab) terminated Paragon's trading platform and after Schwab removed
15 Altobell as his authorized investment adviser on May 27, 2016. The July 2016 statement for D.K.'s
16 account showed Paragon and Altobell executed QSEP trades in D.K.'s account between July 24,
17 2016 and July 28, 2016 without D.K.'s prior authorization.

18 6. The Department interviewed W.M., a former client of Paragon. W.M. told the
19 Department he has never accessed his online account to make any trades and that all trading activity
20 was done by Altobell. The Commissioner reviewed the statements of W.M.'s account after Paragon
21 was terminated from Schwab's trading platform and after Altobell was removed as W.M.'s
22 authorized investment adviser on May 26, 2017. W.M.'s account statements showed that Altobell
23 used W.M.'s username and password to access W.M.'s online account without prior client
24 authorization. The account statements for July, August, September, and October 2016 showed
25 Paragon, by and through Altobell, executed unauthorized trades in QSEP.

26
27 ¹ Central Registration Depository (CRD) is a licensing and registration system for the U.S. securities industry and
28 regulators. CRD system contains the registration records, qualification, employment, and disclosure histories of active
registered individuals. CRD system facilitates the processing and payment of registration-related fees such as form
filings, fingerprint submissions, qualification exams, and continuing education sessions.

1 7. CCR, title 10, section 260.237, subdivision (a)(1) - (4), specifies additional conduct
2 by investment advisers that constitutes fraudulent, deceptive, and manipulative practices under
3 Corporations Code section 25235. Paragon and Altobell violated the aforementioned provision as
4 Paragon had custody and control of client funds and securities; Altobell was required to file a Form
5 ADV with the Commissioner; and Altobell was required to provide notices and account statements
6 to his clients. Paragon and Altobell did not file the Form ADV with the Commissioner and did not
7 provide account statements or notices to their clients.

8 8. CCR, title 10, section 260.237, subdivision (a)(6), states it is “deemed to be a
9 fraudulent, deceptive, or manipulative act, practice or course of business” for an investment adviser
10 to have custody of client funds or securities unless independent audited examinations are conducted
11 each calendar year. Paragon and Altobell violated CCR, title 10, section 260.237, subdivision (a)(6),
12 as independent audited examinations were never performed on their clients’ accounts.

13 9. Paragon, by and through the actions of Altobell, willfully violated Corporations Code
14 section 25235, subdivisions (b) and (d); Corporations Code section 25238; CCR, title 10, section
15 260.237, subdivision (a); and CCR, title 10, section 260.238, subdivision (b), by placing an order to
16 purchase or sell a security for the account of a client without the authority to do so; failing to follow
17 safekeeping procedures while having custody of client funds or securities; and engaging in a practice
18 or course of business that is fraudulent, deceptive, and manipulative. The aforementioned conduct
19 constitutes a failure to promote “fair, equitable or ethical principles,” as required in Corporations
20 Code section 25238 and CCR, title 10, section 260.238, subdivision (b). Therefore, cause exists to
21 bar Altobell from any position of employment, management or control of any investment adviser,
22 broker-dealer or commodity adviser under Corporations Code section 25232.1.

23 10. The Commissioner further finds that Paragon, by and through Altobell, breached their
24 fiduciary duties recommending unsuitable investments and guaranteed a client a specific result in
25 violation of Corporations Code section 25238 and CCR, title 10, section 260.238. Paragon and
26 Altobell guaranteed W.M. that QSEP was a safe, low-risk investment, and that W.M. would not lose
27 his retirement. Altobell “talked up the stock,” stating that QSEP was a “safe bet” and would be
28 W.M.’s “big retirement out.” When W.M. noticed his portfolio decreased, he confronted Altobell.

1 Paragon and Altobell reassured W.M. that QSEP would “bounce back.”

2 11. Paragon and Altobell owed a fiduciary duty to its clients. Paragon and Altobell
3 breached their fiduciary duties by conducting authorized discretionary trading on other clients’
4 accounts in an unsuitable manner that was excessive in size and frequency in view of the financial
5 resources, investment objectives, and character of each client account. Paragon and Altobell failed to
6 manage risk by investing client funds in the penny stock QSEP – even though most of Paragon’s
7 clients are retired, unaccredited investors.

8 12. The Commissioner finds that Paragon, by and through the actions of Altobell,
9 willfully violated Corporations Code section 25238 and CCR, title 10, section 260.238, subdivisions
10 (a), (e), and (l), by breaching its fiduciary duty by conducting discretionary trading on clients’
11 accounts in an unsuitable manner; failing to manage investment risk regarding the use of penny
12 stocks; and guaranteeing a client a specific result. The aforementioned conduct constitutes a failure
13 to promote “fair, equitable or ethical principles.” Therefore, cause exists to bar Altobell from any
14 position of employment, management or control of any investment adviser, broker-dealer or
15 commodity adviser under Corporations Code section 25232.1.

16 13. The Commissioner further finds that Paragon and Altobell engaged in multiple forms
17 of market manipulation to falsely inflate the price of QSEP and to create an artificial demand for the
18 penny stock in violation of Corporations Code sections 25235 and 25400. The Department reviewed
19 the QSEP trade blotter and it showed Paragon and Altobell engaged in unlawful market
20 manipulation.

21 14. Paragon, by and through the actions of Altobell, willfully violated Corporations Code
22 section 25400, subdivision (a)(2), by entering an order or orders for the purchase of any security
23 with the knowledge that an order or orders of substantially the same size, at substantially the same
24 time and at substantially the same price, for the sale of such securities, has been or will be entered by
25 or for the same or different parties; and Corporations Code section 25235, subdivision (d), by
26 executing market-on-close orders – an act, practice or course of business which is fraudulent,
27 deceptive, and manipulative to increase the price of QSEP by placing buy orders near, or at the close
28 of trading. Therefore, cause exists to bar Altobell from any position of employment, management or

1 control of any investment adviser, broker-dealer or commodity adviser under Corporations Code
2 section 25232.1.

3 15. Paragon, by and through the actions of Altobell, willfully violated Corporations Code
4 section 25235, subdivision (b), and Corporations Code section 25400, subdivision (b), by
5 fraudulently cross-trading buy and sale orders for QSEP, without recording the trade on the
6 exchange, which prevented Paragon’s clients from receiving the best execution price. Therefore,
7 cause exists to bar Altobell from any position of employment, management or control of any
8 investment adviser, broker-dealer or commodity adviser under Corporations Code section 25232.1.

9 16. Paragon, by and through the actions of Altobell, willfully violated Corporations Code
10 section 25235, subdivisions (b), (c), and (d), and Corporations Code section 25400, subdivision (a),
11 by unlawfully cross-trading and front-running the Altobell Family Trust Accounts – giving his
12 parents profitable QSEP execution prices over Paragon’s client accounts. Therefore, cause exists to
13 bar Altobell from any position of employment, management or control of any investment adviser,
14 broker-dealer or commodity adviser under Corporations Code section 25232.1.

15 17. Finally, the Commissioner finds that Altobell, by and through his actions as the sole
16 managing member and 100-percent owner of Paragon, willfully violated Corporations Code section
17 25404, subdivision (b), by knowingly making untrue statements to the Commissioner during the
18 course of licensing, investigation, or examination, with the intent to impede, obstruct, or influence
19 the administration or enforcement of any provision of this division. Therefore, cause exists to bar
20 Altobell from any position of employment, management or control of any investment adviser,
21 broker-dealer or commodity adviser under Corporations Code section 25232.1.

22 18. On August 1, 2018, the Department personally served Altobell the following: Notice
23 of Intention to Issue Order Barring Michael James Altobell from Any Position of Employment,
24 Management or Control of Any Investment Adviser, Broker-Dealer or Commodity Adviser Under
25 Corporations Code Section 25232.1; Accusation; Statement to Respondents; Government Code
26 sections 11507.5, 11507.6, and 11507.7; and a blank form Notice of Defense. Altobell has not
27 requested a hearing and the time to request a hearing has now expired.

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19. The above-described violations constitute grounds under the Corporations Code section 25232.1 to bar Altobell from any position of employment, management or control of any investment-adviser, broker-dealer or commodity- adviser. The Commissioner hereby finds that, by reason of the foregoing, it is in the public interest to bar Altobell from any position of employment, management or control of any investment adviser, broker-dealer or commodity adviser.

THEREFORE, GOOD CAUSE APPEARING, IT IS ORDERED that Michael James Altobell is barred in the State of California from any position of employment, management or control of any investment adviser, broker-dealer or commodity adviser pursuant to Corporations Code section 25232.1. This order is effective immediately.

Dated: September 14, 2018
Sacramento, California

JAN LYNN OWEN
Commissioner of Business Oversight

By _____
MARY ANN SMITH
Deputy Commissioner
Enforcement Division