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

11	In the Matter of:	)	CRD NOs.: 170438 and 2576170
12	THE COMMISSIONER OF BUSINESS	)	ACCUSATION IN SUPPORT OF:
13	OVERSIGHT,	)	
14	Complainant,	)	1. ORDER REVOKING THE
15	v.	)	INVESTMENT ADVISER
16	PARAGON PORTFOLIO MANAGEMENT,	)	CERTIFICATE OF PARAGON
17	LLC; and MICHAEL JAMES ALTOBELL,	)	PORTFOLIO MANAGEMENT, LLC
18	Respondents.	)	2. ORDER BARRING MICHAEL JAMES
19		)	ALTOBELL FROM ANY POSITION
20		)	OF EMPLOYMENT, MANAGEMENT,
21		)	OR CONTROL OF ANY
22		)	INVESTMENT ADVISER, BROKER-
23		)	DEALER OR COMMODITY ADVISER
		)	(Corp. Code, §§ 25232, 25232.1)

24 Jan Lynn Owen, the Commissioner of Business Oversight of the State of California  
25 (Commissioner), alleges and charges as follows:

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**I.**  
**Jurisdiction and Venue**

1. The Commissioner is authorized to administer and enforce the provisions of the Corporate Securities Law (CSL) of 1968 (Corp. Code, § 25000 et seq.)<sup>1</sup> and the regulations promulgated under California Codes of Regulations (CCR) (Cal. Code of Regs., tit. 10, § 260.000 et seq.)

2. This action is brought to revoke the investment adviser certificate of Paragon Portfolio Management, LLC (Paragon) under CSL section 25232, subdivisions (e) and (h); and to bar Michael James Altobell (Altobell) from any position of employment, management, or control of any investment adviser, broker-dealer, or commodity adviser under CSL section 25232.1.

**II.**  
**Statement of Facts**

3. An investment adviser owes a fiduciary duty to his or her clients. A licensed investment adviser must comply with various statutes, rules and regulations in order to maintain his or her license. This fiduciary duty and the statutes, rules and regulations are designed to protect an investments adviser’s clients and the investing public.

4. At all relevant times, Paragon was a California limited liability company and located at 3017 Douglas Boulevard, Suite 250-B, Roseville, California 95661, and was an investment adviser, registered through the Central Registration Depository<sup>2</sup> (CRD) with the assigned number 170438. On March 3, 2014, the Commissioner issued an investment adviser certificate to Paragon.

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

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<sup>1</sup> Unless otherwise indicated, all further statutory references are to the Corporations Code.

<sup>2</sup> Central Registration Depository (CRD) is a licensing and registration system for the U.S. securities industry and 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           6.       Altbell, in relation to the investment adviser activities of Paragon, submitted forms  
2 to the Commissioner in which Altbell “agree[s] to comply with all provisions, . . . statutes, . . . rules  
3 and regulations of” the State of California and represents he “will be familiar with the statutes [and]  
4 rules . . . of” this state, and further represents he is “in compliance with the . . . record keeping  
5 requirements of” California.

6           7.       On May 27, 2016, Altbell filed a Form ADV-W<sup>3</sup> to terminate Paragon’s investment  
7 adviser certificate with the Commissioner.

8           8.       On June 22, 2016, the Commissioner sent an email to the email address listed on  
9 Altbell’s Form ADV. In the email, the Commissioner advised Altbell that Paragon’s examination  
10 was scheduled for June 23, 2016 and included a demand to produce records.

11           9.       On June 22, 2016, Altbell sent the Commissioner the following email response:

12                   The reason you haven’t been able to reach me is that I am no longer an  
13                   advisor. I withdrew on May 27, 2016 per an ADV and no longer have  
14                   clients nor do I have an office.

15           10.      On June 22, 2016, the Commissioner sent Altbell a follow-up email stating the  
16 Commissioner has the authority to postpone Paragon’s termination request if necessary. The  
17 Commissioner requested Altbell to provide a written response addressing Paragon’s clients.

18           11.      On June 22, 2016, Altbell provided the Commissioner a signed letter with the  
19 following statements:

20                   I, Michael Altbell, former owner and sole representative of Paragon  
21                   Portfolio Management, LLC (CRD#170438), attest to the following  
22                   statements:

23                   On May 27th, 2016, Paragon Portfolio Management, LLC (“PPM”)  
24                   ceased to conduct business as an investment adviser.

- 25                   • PPM no longer has custody or possession of any client assets.
- 26                   • PPM does not owe clients any monies that were borrowed.
- 27                   • PPM is no longer receiving compensation from any activity conducted  
28                   in the capacity of an Investment Adviser.
- PPM has not received complaints, or have any outstanding complaints.

<sup>3</sup> Investment adviser firms registered with the U.S. Securities and Exchange Commission (SEC) and state regulatory agencies must file a Form ADV-W to termination registration with the securities regulator in the state of the adviser’s principal place of business.

- PPM has not been involved in any litigation, regulatory investigation, arbitration, or criminal proceeding.
- PPM has no other pending events of significance.

12. According to Paragon’s Form ADV, Paragon contracted with Charles Schwab & Company, Incorporated (Schwab) for the following services: custody of securities, trade execution, clearance, and settlement of transactions.

13. To confirm Altobell’s representations, on January 30, 2017, the Commissioner sent a letter to Schwab requesting the records of Paragon’s clients.

14. On February 14, 2017, Schwab produced records to the Commissioner. Schwab’s document production included a letter dated March 23, 2016, sent from Schwab to Paragon. In its letter, Schwab notified Altobell that Schwab was terminating Paragon’s platform and its access to client files on May 27, 2016, due to “concerns with trading activity by Paragon.”

15. May 27, 2016 was the same day Altobell filed Paragon’s Form ADV-W to terminate its investment adviser certificate with the Commissioner.

16. On February 24, 2017, the Commissioner sent a second letter to Schwab requesting additional Paragon records.

17. On March 14, 2017, the Commissioner interviewed Altobell. Altobell gave the Commissioner a signed letter with the following statements:

I Michael Altobell did not have any complaints or settlements during my time as an advisor. I failed to maintain proper financials during my time as an advisor. All clients were provided risk disclosures verbally on penny stock selection, not documentations per se. I did not maintain written suitability for clients. After May [27], 2016 I no longer managed any client accounts, billed for services, nor assisted in liquidating client accounts.

18. After reviewing the records provided by Schwab, the Commissioner also learned that Altobell and Paragon committed the following violations: (1) unauthorized access of client accounts using their personal usernames and passwords; (2) breach of fiduciary duty for mismanaging clients’ accounts and recommending unsuitable investments to senior clients that resulted in large losses; and (3) market manipulation by trading penny stocks in clients’ accounts.

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III.

**Paragon’s Investment Adviser Certificate Should Be Revoked Under CSL Section 25232 and Altobell Should Be Barred from Any Position of Employment, Management or Control of Any Investment Adviser, Broker-Dealer, or Commodity Adviser Under CSL Section 25232.1.**

19. Paragraphs 1-18 are hereby realleged and incorporated herein by reference as if set forth in their entirety.

20. CSL section 25232, subdivisions (e) and (h), provides that the Commissioner may revoke an investment adviser certificate for violations of the CSL, which is found in Title 4 of the Corporations Code, or any of its rules. Subdivisions (e) and (h) of section 25232 provides:

(e) Has willfully violated . . . Title 4 (commencing with Section 25000), including the Franchise Investment Law, Division 5 (commencing with Section 31000) or the California Commodity Law of 1990, Division 4.5 (Commencing with Section 29500), or of any rule or regulation under any of those statutes, or any order of the commissioner which is or has been necessary for the protection of any investor. (Footnotes omitted)

...  
(h) Has violated any provision of this division [.]

21. CSL section 25232.1 provides, in relevant part:

The commissioner may, after appropriate notice and opportunity for hearing, by order censure, or suspend for a period not exceeding 12 months, or bar from any position of employment, management or control of any investment adviser, broker-dealer or commodity adviser, any officer, director, partner, employee of, or person performing similar functions for, an investment adviser, or any other person, if he or she finds that such censure, suspension or bar is in the public interest and that the person has committed any act or omission enumerated in subdivision (a), (e), (f), or (g) of Section 25232 [.]

**A. First Cause for Revocation and Bar: Paragon and Altobell Accessed Client Accounts Without Prior Authorization in Violation of CSL Sections 25235, 25238 and CCR, title 10, sections 260.237 and 260.238.**

22. Paragraphs 1-21 are hereby realleged and incorporated herein by reference as if set forth in their entirety.

23. CSL section 25235, provides, in relevant part that:

It is unlawful for any investment adviser, directly or indirectly in this state . . .

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(b) To engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon any client or prospective client.

(c) Acting as a principal for his own account, knowingly to sell any security to or purchase any security from a client for whom he is acting as an investment adviser, . . . knowingly to effect any sale or purchase of any sale for the account of such client, without disclosing to such client in writing before the completion of the transaction the capacity in which he is acting and obtaining the written consent of the client to such transaction.

(d) To engage in any act, practice, or course of business which is fraudulent, deceptive, or manipulative [.]

24. CSL section 25238 provides, in relevant part:

No investment adviser licensed under this chapter and no natural person associated with the investment adviser shall engage in investment advisory activities, or attempt to engage in investment advisory activities, in this state in contradiction of such rules as the commissioner may proscribe designed to promote fair, equitable, and ethical principles.

25. CCR, title 10, section 260.237 provides, in relevant part:

(a) Safekeeping required. It is unlawful and deemed to be fraudulent, deceptive, or manipulative act, practice or course of business within the meaning of Section 25235 of the Code for an investment adviser licensed or required to be licensed, to have custody of client funds or securities unless:

(1) Notice to the Commissioner. The investment adviser notifies the Commissioner that the investment adviser has or may have custody [.]

(2) Qualified custodian. A qualified custodian maintains those funds and securities . . . .

(3) Notice to clients. If the investment adviser opens an account with a qualified custodian on the investment adviser’s client’s behalf, under the client’s name, under the investment adviser’s name as agent or trustee, or under the name of a pooled investment vehicle, the investment adviser shall notify the client in writing . . . .

(4) Account statements. The investment adviser has a reasonable basis, after due inquiry, for believing that the qualified custodian sends an account statement, at least quarterly, to each client for which it maintains funds or securities . . . .

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(6) Independent Verification. The client funds and securities of which the investment adviser has custody are verified by actual examination at least once during each calendar year[.]

26. CCR, title 10, section 260.238 provides, in relevant part:

The following activities do not promote “fair, equitable or ethical principles” . . . (b) Placing an order to purchase or sell a security for the account of a client without authority to do so [.]

**Investor #1 – D.K.**

27. On or around April 25, 2017, the Department interviewed D.K., a former Paragon client. When D.K. hired Paragon in 2013, Altobell created a personal online Schwab brokerage account for D.K. D.K. told Altobell that he did not need an online brokerage account because D.K. would not trade on his own. Altobell told D.K. that Paragon or Altobell would not access D.K.’s account. Because Altobell created D.K.’s online account, Paragon and Altobell knew D.K.’s personal username and password.

28. On or around July 2016, Schwab contacted D.K. to verify whether D.K. made certain trades in his account. D.K. informed Schwab he never made any of the aforementioned trades. Schwab froze D.K.’s account due to unauthorized access.

29. The Commissioner reviewed D.K.’s account statements for his account after Schwab terminated Paragon’s trading platform and after Schwab removed Altobell as his authorized investment adviser on May 27, 2016. The July 2016 statement for D.K.’s account showed Paragon and Altobell executed QSEP trades in D.K.’s account between July 24, 2016 and July 28, 2016 without D.K.’s prior authorization. D.K. told the Department that he never accessed nor executed trades in his online account.

**Investor #2 – W.M.**

30. On May 2, 2017, the Commissioner interviewed W.M., a former client of Paragon. Altobell told W.M. he needed W.M.’s username and password to access the W.M.’s online brokerage account to make trades, enhance his portfolio, and to properly manage his account. Altobell gave W.M. the impression it was a customary practice for investment advisers to

1 manage a client's account online using the client's personal username and password. W.M. told the  
2 Commissioner he has never accessed his online account to make any trades and that all trading  
3 activity was done by Altobell.

4 31. The Commissioner reviewed the statements of W.M.'s account after Paragon was  
5 terminated from Schwab's trading platform and after Altobell was removed as W.M.'s authorized  
6 investment adviser on May 26, 2017. W.M.'s account statements showed that Altobell used W.M.'s  
7 username and password to access W.M.'s online account without prior client authorization. The  
8 account statements for July, August, September, and October 2016 showed unauthorized trades in  
9 QSEP.

10 32. CCR, title 10, section 260.237, subdivision (a)(1) - (4), specifies additional conduct  
11 by investment advisers that constitutes fraudulent, deceptive, and manipulative practices under CSL  
12 25235. Paragon and Altobell violated the aforementioned provision as: Paragon had custody and  
13 control of client funds and securities; Altobell was required to file a Form ADV with the  
14 Commissioner; and Altobell was required to provide notices and account statements to his clients.  
15 Paragon and Altobell did not file the Form ADV with the Commissioner and did not provide account  
16 statements or notices to their clients.

17 33. CCR, title 10, section 260.237, subdivision (a)(6), states it is "deemed to be a  
18 fraudulent, deceptive, or manipulative act, practice or course of business" for an investment adviser  
19 to have custody of client funds or securities unless independent audited examinations are conducted  
20 each calendar year. Paragon and Altobell violated CCR, title 10, section 260.237, subdivision (a)(6),  
21 as independent audited examinations were never performed on their clients' accounts.

22 34. Paragon, by and through the actions of Altobell, willfully violated CSL section  
23 25235, subdivisions (b) and (d); CSL section 25238; CCR, title 10, section 260.237, subdivision (a);  
24 and CCR, title 10, section 260.238, subdivision (b), by placing an order to purchase or sell a security  
25 for the account of a client without the authority to do so; failing to follow safekeeping procedures  
26 while having custody of client funds or securities; and engaging in a practice or course of business  
27 that is fraudulent, deceptive, and manipulative. The aforementioned conduct constitutes a failure to  
28 promote "fair, equitable or ethical principles," as required in CSL section 25238 and CCR, title 10,



1 section 260.238, subdivision (b). Therefore, cause exists to revoke Paragon’s investment adviser  
2 certificate under CSL section 25232, subdivisions (e) and (h); and to bar Altobell from any position  
3 of employment, management or control of any investment adviser, broker-dealer, or commodity  
4 adviser under CSL section 25232.1 for acts committed as specified under CSL section 25232,  
5 subdivision (e).

6 **B. Second Cause for Revocation and Bar: Paragon and Altobell Breached Their Fiduciary**  
7 **Duties Recommending Unsuitable Investments and Guaranteeing a Client a Specific**  
8 **Result in Violation of CSL Section 25238 and CCR, title 10, section 260.238.**

9 35. Paragraphs 1-34 are hereby realleged and incorporated herein by reference as if set  
10 forth in their entirety.

11 36. CCR, title 10, section 260.238 provides, in relevant part:

12 The following activities do not promote “fair, equitable or ethical  
13 principles,” as that phrase is used in Section 25238 of the Code:

14 . . .

15 (a) Recommending to a client to whom investment supervisory, management  
16 or consulting services are provided the purchase, sale or exchange of any  
17 security without reasonable grounds to believe that the recommendation is  
18 suitable for the client on the basis of information furnished by the client  
19 after reasonable inquiry concerning the client’s investment objectives,  
20 financial situation and needs, and any other information known or  
21 acquired by the adviser after reasonable examination of such of  
22 the client’s records as may be provided to the adviser.

23 . . .

24 (e) Inducing trading in the client’s account that is excessive in size and  
25 frequency in view of the financial resources, investment objectives and  
26 character of the account.

27 . . .

28 (l) Guaranteeing a client that a specific result will be achieved (e.g., a  
gain or no loss) as a result of the advice which will be rendered.

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

3 38. Paragon and Altobell recommended to the clients of Paragon unsuitable investments  
4 in QSEP. Since 2007, QSEP has not generated any revenue.

5 39. On August 5, 2013, QSEP stock price closed at \$1.75. By February 28, 2017, QSEP’s  
6 stock price had dropped to \$0.10. On a percentage basis, QSEP’s stock price dropped by 94 percent.  
7 From March 2014 through February 2017, the majority of Paragon’s executed securities transactions  
8 involved penny stock positions in QSEP.

9 **Investor #3 – D.B.**

10 40. On February 2, 2008, D.B. signed a Schwab brokerage application. At the time, D.B.  
11 was 55 and unemployed. Neither Paragon or Altobell maintained suitability information and did not  
12 provide D.B. with written risk disclosures concerning QSEP. Between April 1, 2014 and June 30,  
13 2014, QSEP composed 95 percent of her portfolio. When Paragon was removed as the investment  
14 adviser on May 27, 2016, D.B.’s QSEP stock positions suffered a total loss of \$538,360.46, a total  
15 loss of 40 percent.

16 41. From May 27, 2016, when Schwab terminated Paragon’s access to D.B.’s accounts,  
17 until September 3, 2016, when D.B. fully liquidated her accounts, D.B.’s portfolio suffered an  
18 additional total loss of \$46,764.00, representing a 10-percent loss in the account. In addition to the  
19 purely speculative nature of the QSEP investments, Paragon’s trading strategies were not suitable for  
20 a 55-year-old unaccredited investor. Paragon breached its fiduciary duty as an investment adviser by  
21 failing to manage investment risk for D.B. as she suffered a total loss of \$585,124.46, representing a  
22 43-percent loss in D.B.’s portfolio.

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25 <sup>4</sup> “A security sold for less than \$5 per share, traded over the counter, and not listed or authorized for quotation on a  
26 NASDAQ market exchange. Penny stocks are issued by companies with short or erratic history of revenues and  
27 earnings, and therefore, such stocks are more volatile than those of large, well-established firms traded on the New York  
28 Stock Exchange. Many brokerage houses have special precautionary rules about trading in penny stocks and the United  
States Securities & Exchange Commission (SEC) require brokers implement suitability rules in writing and obtain  
written consent from investors.” (Barron’s Dict. of Finance and Investment Terms (9th ed. 2014) pp. 543-544.)

**Investor #4 – J.B.**

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2 42. On September 3, 2009, J.B. signed a Schwab brokerage application. J.B. was a 58-  
3 year-old executive; had an annual net income above \$100,000.00 and a liquid net worth of  
4 \$400,000.00. Neither Paragon or Altobell maintained suitability information and did not provide J.B.  
5 with written risk disclosures concerning QSEP. Between April 1, 2014 and June 30, 2014, QSEP  
6 was 97.16 percent of J.B.'s portfolio. When Paragon was removed as the investment adviser on May  
7 27, 2016, J.B.'s QSEP stock positions suffered a total loss of \$252,465.50, representing a 54-percent  
8 loss.

9 43. Between May 27, 2016, when Paragon was removed as the investment adviser on  
10 J.B.'s accounts, until February 28, 2017, J.B.'s portfolio suffered an additional loss of \$87,380.00,  
11 an additional 41-percent loss. In addition to the purely speculative nature of the QSEP investments,  
12 Paragon's trading strategies were not suitable for a 58-year-old, unaccredited investor. Paragon  
13 breached its fiduciary duty as an investment adviser to manage investment risk as demonstrated by  
14 the total loss of \$339,845.50, representing a 73-percent loss in J.B.'s portfolio.

**Investor # 1 – D.K. and J.K.**

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16 44. On or April 25, 2013, D.K. and J.K. signed a Schwab account application. D.K. was  
17 64 and retired. J.K. was 61 and a registered nurse. The annual net income for D.K. and J.K. was  
18 above \$100,000.00 and they had a joint liquid net worth of \$600,000.00. D.K. and J.K. had limited  
19 investment experience. Neither Paragon or Altobell maintained investment suitability information  
20 and did not provide written risk disclosures to either D.K. or J.K. regarding QSEP, which was a  
21 significant portion of their portfolio.

22 45. On or around April 25, 2017, the Department interviewed D.K. D.K. told Altobell his  
23 investment objective was to be very conservative, not aggressive, and to earn about a two to three  
24 percent return per year. D.K. stated he does not understand or have any knowledge of what a "penny  
25 stock" is. D.K. confirmed that Paragon and Altobell did not provide any written risk disclosures  
26 pertaining to QSEP. D.K. stated he would not have hired Paragon as his investment adviser had he  
27 known Paragon and Altobell would invest his money in penny stocks.

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1 subdivisions (e) and (h); and to bar Altobell from any position of employment, management or  
2 control of any investment adviser, broker-dealer, or commodity adviser under CSL section 25232.1  
3 for acts committed as specified under CSL section 25232, subdivision (e).

4 **C. Third Cause for Revocation and Bar: Paragon and Altobell Engaged in Unlawful**  
5 **Market Manipulation in Violation of CSL Sections 25235 and 25400.**

6 57. Paragraphs 1-56 are hereby realleged and incorporated herein by reference as if set  
7 forth in their entirety.

8 58. CSL section 25400 provides, in relevant part:

9 It is unlawful for any person, directly or indirectly, in this state:

10 (a) For purposes of creating a false or misleading appearance of active  
11 trading in any security or a false or misleading appearance with respect  
12 to the market for any security . . . (2) to enter an order or orders for the  
13 purchase of any security with the knowledge that an order or orders of  
14 substantially the same size, at substantially the same time and at  
15 substantially the same price, for the sale of such securities, has been or  
16 will be entered by or for the same or difference parties, or (3) to enter  
17 an order or orders for the sale of any security with the knowledge that  
18 an order or orders of substantially the same size, at substantially the  
19 same time and at substantially the same price, for the purchase of any  
20 security, has been or will be entered by or for the same or different  
21 parties.

(b) To effect, alone or with one or more other persons, a series of  
transactions in any security creating actual or apparent active trading  
in such security or raising or depressing the price of such security, for  
the purpose of inducing the purchase or sale of such security by others.

21 **1. Paragon and Altobell Willfully Executed Market-On-Close Orders.**

22 59. Market-on-close order (marking the close) is defined as:

23 Order to buy or sell stocks or futures and options contract as near as  
24 possible to when the market closes for the day. Such an order may be a  
25 limit order which has not yet been executed during the trading day.  
(Barron’s Dict. of Finance and Investment Terms (9th ed. 2014) pp. 440)

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1           60. Schwab produced to the Department a trade blotter which recorded all QSEP trades  
2 for Paragon’s clients. The QSEP trade blotter provided the following information: client name,  
3 account, order quantity, execution price, event date, and time. The Department reviewed the QSEP  
4 trade blotter and it showed Paragon and Altobell engaged in multiple forms of market manipulation  
5 to falsely inflate the price of QSEP and to create an artificial demand for the penny stock.

6           61. QSEP is traded through the over-the-counter market, Monday through Friday from  
7 9:30 a.m. to 4:00 p.m. eastern time. Market participants are free to quote and trade at any time as  
8 long as they comply with Financial Industry Regulatory Authority (FINRA) Best Execution Rule  
9 5310.<sup>5</sup>

10           62. On March 25, 2014, QSEP closed at \$0.88. QSEP had a total of 67 trades involving  
11 165,568 shares. Paragon executed a total of 14 trades involving 27,000 shares on March 25, 2014,  
12 which totaled 20.9 percent of the daily trading volume and 16.3 percent of all shares purchased in  
13 QSEP. In the last 10 minutes of trading, the price of QSEP increased by 3 percent.

14           63. On March 31, 2015, QSEP closed at \$0.44. QSEP had a total of 28 trades involving  
15 126,890 shares. Paragon executed a total of 12 trades involving 52,500 shares on March 31, 2015,  
16 which totaled 42.9 percent of the daily trading volume and 41.4 percent of all shares purchased in  
17 QSEP. From 3:57 p.m. to 4:01 p.m., the price of QSEP increased by 9.3 percent. On March 31,  
18 2015, Altobell continued trading after the market closed at 4:00 p.m. Altobell purchased 19,400  
19 shares at \$0.45899 at 4:01 p.m. At 9:30 a.m. on April 1, 2015, QSEP’s stock price opened at \$0.425,  
20 overnight the stock price had fallen by 7.4 percent.

21           64. On December 31, 2015, QSEP closed at \$0.188. QSEP had a total of 38 trades  
22 involving 395,569 shares. Paragon executed a total of 18 trades involving 235,000 shares on  
23 December 31, 2015, which totaled 47.4 percent of the daily trading volume and 59.4 percent of all  
24 shares purchased in QSEP. In the last 12 minutes of trading, the price of QSEP increased by 10.7  
25 percent.

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28 <sup>5</sup> “[I]n any transaction for or with a customer or a customer of another broker-dealer, a member and persons associated with a member shall use reasonable diligence to ascertain the best market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions.” (FINRA, Rule 5310)

1           65.     On January 29, 2016, QSEP closed at \$0.1799. QSEP had a total of 64 trades  
2 involving 399,452 shares. Paragon executed a total of 19 trades involving 130,600 shares on January  
3 29, 2016, which totaled 29.7 percent of the daily trading volume and 32.7 percent of all shares  
4 purchased in QSEP. In the last two minutes of trading, the price of QSEP increased by 19.41  
5 percent.

6           66.     Paragon, by and through the actions of Altobell, willfully violated CSL section  
7 25400, subdivision (a)(2), by entering an order or orders for the purchase of any security with the  
8 knowledge that an order or orders of substantially the same size, at substantially the same time and at  
9 substantially the same price, for the sale of such securities, has been or will be entered by or for the  
10 same or different parties; and CSL section 25235, subdivision (d), by executing market-on-close  
11 orders – an act, practice or course of business which is fraudulent, deceptive, and manipulative to  
12 increase the price of QSEP by placing buy orders near, or at the close of trading. Therefore, cause  
13 exists to revoke Paragon’s investment adviser certificate under CSL section 25232, subdivisions (e)  
14 and (h); and to bar Altobell from any position of employment, management or control of any  
15 investment adviser, broker-dealer, or commodity adviser under CSL section 25232.1 for acts  
16 committed as specified under CSL section 25232, subdivision (e).

17           **2. Paragon and Altobell Willfully Engaged in Cross-Trading.**

18           67.     Crossed trade (cross-trading) is defined as:

19                     Manipulative practice prohibited on major exchanges whereby buy and  
20                     sell orders are offset without recording the trade on the exchange, thus  
21                     perhaps depriving the investor of the chance to trade at a more  
22                     favorable price. (Barron’s Dict. of Finance and Investment Terms (9th  
                          ed. 2014) pp. 165)

23           68.     On October 26, 2015, December 30, 2015, January 26, 2016, and February 24, 2016,  
24 Paragon engaged in cross-trading – an unlawful manipulative practice where buy and sell orders are  
25 offset without recording the trade on the exchange. Cross-trading deprives the investor of the chance  
26 to trade at a more favorable price.

27           69.     On October 26, 2015, at 11:04:17 a.m., Paragon sold 12,100 shares of QSEP at  
28 \$0.195 from R.M.’s account and bought 12,100 shares of QSEP at \$0.195 for W.M.’s account.



1           70.     On December 30, 2015, at 9:47:06 a.m., Paragon sold 12,000 shares of QSEP at  
2 \$0.155 from R.M.’s account; and at the same time bought 12,000 shares of QSEP at \$0.155 for  
3 W.M.’s account.

4           71.     On January 26, 2016, at 3:49:59 p.m., Paragon sold 11,000 shares of QSEP at \$0.134  
5 from R.M.’s account; and bought 11,000 shares of QSEP at \$0.134 for D.K.’s account.

6           72.     On February 24, 2016, at 2:42:06 p.m., Paragon sold 5,700 shares of QSEP at \$0.81  
7 from R.M.’s account; and bought 5,700 shares of QSEP at \$0.181 for P.S.’s account.

8           73.     Paragon, by and through the actions of Altobell, willfully violated CSL section  
9 25235, subdivision (b), and CSL section 25400, subdivision (b), by fraudulently cross-trading buy  
10 and sale orders for QSEP, without recording the trade on the exchange, which prevented Paragon’s  
11 clients from receiving the best execution price. Therefore, cause exists to revoke Paragon’s  
12 investment adviser certificate under CSL section 25232, subdivisions (e) and (h); and to bar Altobell  
13 from any position of employment, management or control of any investment adviser, broker-dealer,  
14 or commodity adviser under CSL section 25232.1 for acts committed as specified under CSL section  
15 25232, subdivision (e).

16           **3. Paragon and Altobell Willfully Engaged in Cross-Trading and Front-Running.**

17           74.     Crossed trade (cross-trading) is defined as:

18                   Manipulative practice prohibited on major exchanges whereby buy and  
19                   sell orders are offset without recording the trade on the exchange, thus  
20                   perhaps depriving the investor of the chance to trade at a more  
21                   favorable price. (Barron’s Dict. of Finance and Investment Terms (9th  
22                   ed. 2014) pp. 165)

23           75.     Front running is defined as:

24                   Illegal practice of buying or selling security for a [investment  
25                   adviser’s] personal account before placing a similar order for a  
26                   customer. (Barron’s Dict. of Finance and Investment Terms (9th ed.  
27                   2014) pp. 646)

28           ///

          ///

1           76.     The Commissioner’s review of the Paragon trade blotter also revealed that Altobell  
2 engaged in cross-trading and front-running – treating his parents’ investment accounts more  
3 favorably over the accounts of Paragon’s clients.

4           77.     From June 5, 2009 to March 1, 2011, Altobell purchased 1,575,500 shares of QSEP  
5 (price per shares purchased ranged between \$0.22 and \$0.88) on behalf of his parents’ accounts, G.A  
6 & J.A TTEE Altobell Family Trust Accounts (Altobell Family Trust Account). The only QSEP  
7 shares sold during this time were 11,000 QSEP shares sold on March 24, 2010.

8           78.     From June 5, 2009 to March 1, 2011, Altobell was also actively buying QSEP for  
9 various client accounts that Paragon was managing.

10          79.     From June 5, 2009 to March 20, 2014, Paragon purchased 9,680,411 shares of QSEP  
11 for client accounts. From these purchased shares, only 8,475 QSEP shares were sold.

12          80.     On or around March 1, 2011, Altobell began selling shares of QSEP from the Altobell  
13 Family Trust Account. This was the only account that Altobell managed from which he sold shares  
14 of QSEP. For all other clients, Altobell continued to purchase shares of QSEP.

15          81.     In April and May 2013, Altobell purchased 1,218,081 shares of QSEP for Paragon  
16 clients – S.S.’s and D.S.’s account.

17          82.     During April and March 2013, the only shares of QSEP Altobell sold were purchased  
18 from the Altobell Family Trust Account.

19          83.     On April 26, 2013, Altobell sold 4,700 shares of QSEP from the Altobell Family  
20 Trust Account.

21          84.     On May 23, 2013, Altobell sold 6,200 shares of QSEP from the Altobell Family Trust  
22 Account.

23          85.     On May 31, 2013, Altobell sold 3,500 shares of QSEP from the Altobell Family Trust  
24 Account.

25          86.     From 2009 to 2011, Altobell invested in shares of QSEP for the Altobell  
26 Family Trust Accounts. Altobell then stopped purchasing shares of QSEP in Altobell Family Trust  
27 Account, and then Altobell exercised discretionary authority in client accounts purchasing QSEP  
28 shares – while slowly selling QSEP shares from the Altobell Family Trust Account.

1           87. Paragon, by and through the actions of Altobell, willfully violated CSL section  
2 25235, subdivisions (b), (c), and (d), and CSL section 25400, subdivision (a), by unlawfully cross-  
3 trading and front-running the Altobell Family Trust Accounts – giving his parents profitable QSEP  
4 execution prices over Paragon’s client accounts. Therefore, cause exists to revoke Paragon’s  
5 investment adviser certificate under CSL section 25232, subdivisions (e) and (h); and to bar Altobell  
6 from any position of employment, management or control of any investment adviser, broker-dealer  
7 or commodity adviser under CSL section 25232.1 for acts committed as specified under CSL section  
8 25232, subdivision (e).

9 **D. Fourth Cause for Revocation and Bar: Paragon and Altobell Made False Statements to**  
10 **the Commissioner in Violation of CSL Section 25404, subdivision (b).**

11           88. Paragraphs 1-87 are hereby realleged and incorporated herein by reference as if set  
12 forth in their entirety.

13           89. CSL section 25404, subdivision (b) provides, in relevant part:

14                   (b) It is unlawful for any person to knowingly make an untrue  
15 statement to the commissioner . . .

16           90. On June 22, 2016, Altobell provided the Commissioner a signed letter and an email  
17 stating that after May 27, 2016, Paragon ceased to conduct business as an investment adviser;  
18 Altobell does not manage any client accounts or bill for services; and Paragon “is no longer  
19 receiving compensation from any activity conducted in the capacity of an Investment Adviser.”

20           91. On or around April 25, 2017, D.K. provided the Commissioner a copy of a Paragon  
21 invoice dated July 1, 2016, that billed D.K. and J.K. for asset management services in the amount of  
22 \$2,361.00 from July 1, 2016 through September 30, 2016.

23           92. On or around May 15, 2017, W.M. provided the Commissioner a copy of an email  
24 sent by Altobell discussing Paragon’s transition to move client accounts to Fidelity and billing W.M.  
25 for asset management services in the amount of \$2,800.00 from April 1, 2017 through June 30,  
26 2017.

27           93. Paragon, by and through the actions of Altobell, willfully violated CSL 25404,  
28 subdivision (b), by knowingly making untrue statements to the Commissioner during the course of

1 licensing, investigation, or examination, with the intent to impede, obstruct, or influence the  
2 administration or enforcement of any provision of this division. Therefore, cause exists to revoke  
3 Paragon’s investment adviser certificate under CSL section 25232, subdivisions (e) and (h); and to  
4 bar Altobell from any position of employment, management or control of any investment adviser,  
5 broker-dealer, or commodity adviser under CSL section 25232.1 for acts committed as specified  
6 under CSL section 25232, subdivision (e).

7 **IV.**  
8 **Prayer**

9 WHEREFORE, based upon the foregoing, the Commissioner finds it is in the public interest  
10 to revoke the investment adviser certificate of Paragon Portfolio Management, LLC pursuant to CSL  
11 section 25232, subdivisions (e) and (h); and to bar Michael James Altobell from any position of  
12 employment, management, or control of any investment adviser, broker-dealer, or commodity  
13 adviser pursuant to CSL section 25232.1.

14 WHEREFORE, IT IS PRAYED that Paragon Portfolio Management, LLC’s investment  
15 adviser certificate be revoked under CSL section 25232, subdivisions (e) and (h); and that Michael  
16 James Altobell be barred from any position of employment, management, or control of any  
17 investment adviser, broker-dealer, or commodity adviser pursuant to CSL section 25232.1 for acts  
18 committed as specified under CSL section 25232, subdivision (e).

19 Dated July 30, 2018  
20 Los Angeles, California

JAN LYNN OWEN  
Commissioner of Business Oversight

21  
22 By \_\_\_\_\_  
23 Vanessa T. Lu  
24 Counsel  
25 Enforcement Division  
26  
27  
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