

1 MARY ANN SMITH
Deputy Commissioner
2 MIRANDA LEKANDER
Assistant Chief Counsel
3 TIMOTHY L. Le BAS (State Bar No. 135565)
Senior Counsel
4 Department of Business Oversight
1515 K Street, Suite 200
5 Sacramento, California 95814
Telephone: (916) 322-2050
6 Facsimile: (916) 445-6985

7 Attorneys for Complainant

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

11 In the Matter of:) CRD Nos.: 134729, 3181603
12 THE COMMISSIONER OF BUSINESS) ACCUSATION IN SUPPORT OF:
13 OVERSIGHT,) (1) ORDER REVOKING INVESTMENT
14 Complainant,) ADVISER CERTIFICATE OF RG CAPITAL
15 v.) MANAGEMENT, LLC PURSUANT TO
16 RG CAPITAL MANAGEMENT, LLC and) CORPORATIONS CODE SECTION 25232
17 RAVI GANJOO,) (2) ORDER BARRING RAVI GANJOO FROM
18 Respondents.) ANY POSITION OF EMPLOYMENT,
19) MANAGEMENT OR CONTROL OF ANY
20) INVESTMENT ADVISER, BROKER-DEALER
21) OR COMMODITY ADVISER PURSUANT TO
CORPORATIONS CODE SECTION 25232.1

22 Jan Lynn Owen, the Commissioner of Business Oversight (Commissioner), alleges and
23 charges as follows:

24 I.

25 INTRODUCTION

26 1. The Commissioner brings this action pursuant to Corporations Code sections 25232 and
27 25232.1 of the Corporate Securities Law of 1968 (CSL) (Corp. Code, § 25000 et seq.) and the rules
28 and regulations promulgated thereunder (Cal. Code Regs., tit. 10, § 260.000 et seq.).

1 2. This action is brought to: (1) revoke the investment adviser certificate issued to RG Capital
2 Management, LLC (RG Capital) and its principal Ravi Ganjoo (Ganjoo) pursuant to Corporations
3 Code section 25232; and, (2) bar Ganjoo from any position of employment, management or control of
4 any investment adviser, broker-dealer or commodity adviser pursuant to Corporations Code section
5 25232.1.

6 **II.**

7 **JURISDICTION AND VENUE**

8 3. The Commissioner is authorized to administer and enforce the provisions of the CSL and the
9 regulations promulgated thereunder which include the licensing and regulation of investment advisers
10 in California.

11 4. RG Capital, a California limited liability company, currently holds a valid investment adviser
12 certificate issued by the Commissioner pursuant to Corporations Code section 25230 (Central
13 Registration Depository No. 134729). Ganjoo is the principal and sole owner of RG Capital and is
14 the Registered Agent of the investment adviser with the Commissioner (Central Registration
15 Depository No. 3181603).

16 **III.**

17 **THE INVESTMENT ADVISER CERTIFICATE OF RG CAPITAL MANAGEMENT, LLC**
18 **SHOULD BE REVOKED PURSUANT TO CORPORATIONS CODE SECTION 25232 AND**
19 **RAVI GANJOO SHOULD BE BARRED FROM ANY POSITION OF EMPLOYMENT,**
20 **MANAGEMENT OR CONTROL OF ANY INVESTMENT ADVISER, BROKER-DEALER**
21 **OR COMMODITY ADVISER PURSUANT TO CORPORATIONS CODE SECTION 25232.1**

22 5. Corporations Code section 25232 provides, in pertinent part:

23 *The commissioner may, after appropriate notice and opportunity for*
24 *hearing, by order censure, deny a certificate to, or suspend for a period not*
25 *exceeding 12 months or revoke the certificate, of an investment adviser, if*
26 *the commissioner finds that the censure, denial, suspension, or revocation*
27 *is in the public interest and that the investment adviser, whether prior or*
28 *subsequent to becoming such, or any partner, officer or director thereof or*
any person performing similar functions or any person directly or
indirectly controlling the investment adviser, whether prior or subsequent
to becoming such, or any employee of the investment adviser while so
employed has done any of the following:...

(h) Has violated any provision of this division or any rules thereunder.

1 [Emphasis added.]

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3 6. Corporations Code section 25232.1 provides, in pertinent part:

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

13 7. In accordance with Corporations Code sections 25232 and 25232.1, the Commissioner may
14 revoke an investment adviser certificate, and bar any officer or employee of an investment adviser,
15 based on violations of sections of the CSL or rules adopted thereunder. In this case, RG Capital and
16 Ganjoo have violated Corporations Code section 25238, including: (1) California Code of
17 Regulations (CCR), title 10, section 260.238, subsection (a), by recommending unsuitable
18 investments for customers; (2) CCR, title 10, section 260.238, subsection (h), by misrepresenting
19 their investment advisory services; (3) Corporations Code section 25404, subdivision (b), by making
20 false statements to the Commissioner during an examination; and, (4) Corporations Code section
21 25241 and CCR, title 10, section 260.241.3, by failing to maintain books and records.

22 **A. Failing to Promote Fair, Equitable and Ethical Principles by Recommending**
23 **Unsuitable Investments is Grounds for Revocation Under Corporations Code**
24 **Section 25232, Subdivision (e), and Bar Under Corporations Code Section 25232.1**

25 8. Corporations Code section 25238 provides that:

26 *No investment adviser licensed under this chapter and no natural person*
27 *associated with the investment adviser shall engage in investment advisory*
28 *activities, or attempt to engage in investment advisory activities, in this*
state in contradiction of such rules as the commissioner may prescribe
designed to promote fair, equitable and ethical principles. [Emphasis
added.]

9. Further, CCR, title 10, section 260.238, subdivision (a) provides that the following activities
do not promote fair, equitable and, ethical principles:

1 *Recommending to a client to whom investment supervisory, management*
2 *or consulting services are provided the purchase, sale or exchange of any*
3 *security without reasonable grounds to believe that the recommendation is*
4 *suitable for the client on the basis of information furnished by the client*
5 *after reasonable inquiry concerning the client's investment objectives,*
6 *financial situation and needs, and any other information known or*
7 *acquired by the adviser after reasonable examination of such of the*
8 *client's records as may be provided to the adviser. [Emphasis added.]*

9 10. Ganjoo, as sole principal of RG Capital, managed client investment accounts on a discretionary
10 basis through Scottrade, Inc. and Fidelity Investments. Clients authorized RG Capital and Ganjoo to use
11 sole discretion in buying and selling investments on their behalf.

12 11. RG Capital and Ganjoo did not have a reasonable basis for recommending the purchase and sale
13 of securities to its clients, due to the poor performance of these investments over time.

14 12. Despite knowing their poor performance based on client records, RG Capital and Ganjoo
15 continued to engage in a pattern and practice of trading securities that carried more risk and more
16 volatility such as options, exchange-traded funds, small to mid-cap investments, and by creating a less
17 diversified portfolio for clients. The trading practices of RG Capital and Ganjoo resulted in catastrophic
18 losses for at least five investors, as described below.

19 **Investor #1 - SH**

20 13. On or about July 26, 2011, Investor #1 signed an investment management agreement with RG
21 Capital and Ganjoo. During August 2011, Investor #1 transferred four mutual funds totaling over
22 \$186,000.00 to RG Capital's Scottrade account. After the four mutual funds were liquidated on or about
23 August 9, 2011, RG Capital and Ganjoo immediately began trading securities in this client's account. A
24 review of trading during August and September 2011 shows that RG Capital and Ganjoo invested in call
25 options, leveraged exchange traded funds, and small to mid-cap securities, all of which carry a higher
26 degree of investment risk. By September 30, 2011, less than two months after transferring his mutual
27 funds to Ganjoo, Investor #1 suffered an investment loss of nearly 60 percent. The account balance of
28 Investor #1 dropped from approximately \$186,154.04 to \$75,286.54. By December 2013, the client's
account suffered a catastrophic total loss of approximately 99.85 percent of its value, leaving Investor #1
with a balance of \$280.56. At this time, Investor #1 was 62 years old. Investor #1 stated he never

1 invested in options before, and believed that RG Capital would manage his account in a “conservative”
2 manner. During this investment period, the portfolio of Investor #1 was 19 times as volatile as the
3 Standard & Poor’s 500 Index (S&P 500).

4 **Investor #2 - AB Trust**

5 14. Another investor, Investor #2, consisted of a family trust created for the benefit of an elderly
6 woman who is now 92 years old. Her trust had an asset value of approximately \$171,087.00. On or
7 about July 15, 2009, the trust assets were transferred to RG Capital’s Scottrade account. A review of
8 trading from May 1, 2010 to August 31, 2010 shows that RG Capital and Ganjoo invested heavily for
9 this client in leveraged exchange traded funds, all of which carry a higher degree of investment risk. For
10 example, the prospectus for one of the exchange traded funds states, in part, that it is “different and much
11 riskier than most exchange-traded funds.” By June 2010, nearly 75 percent of the portfolio of Investor
12 #2 consisted of leveraged exchange traded securities. From July 2009 to July 2012, the account of
13 Investor #2 suffered a catastrophic loss of approximately 83 percent of its value, leaving the trust with a
14 balance of \$15,019.61. During this investment period, the portfolio of Investor #2 was three times as
15 volatile as the S&P 500.

16 **Investors #3 and #4 - SD and RD**

17 15. Investors #3 and #4, nearing retirement (ages 58 and 55), jointly invested \$250,000.00 in a
18 Scottrade account with RG Capital and Ganjoo on or about November 12, 2013. By November 15,
19 2013, RG Capital and Ganjoo began trading in the account. A review of the trading between November
20 2013 and March 2015 shows a lack of diversification of investments mainly in call options, Gilead
21 Science, Apple and Facebook. However, by August 2014, the portfolio of Investors #3 and #4 was
22 comprised almost solely of call options, all of which carry a higher degree of investment risk. By April
23 2015, the account of these investors suffered a catastrophic loss of approximately 93.43 percent of its
24 value, leaving them with a balance of \$16,414.85. Investor #3 indicated he had never invested in options
25 before and wanted “safe investment returns.” During this investment period, the portfolio of Investors
26 #3 and #4 was 16 times as volatile as the S&P 500.

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Investor #5 - R Trust

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2 16. On or about July 31, 2007, another elderly investor, Investor #5 who is currently 86 years old,
3 transferred trust funds of approximately \$866,000.00 to RG Capital's Fidelity Investments Account.
4 At the time of the transfer, the securities were well versified. However, RG Capital and Ganjoo
5 immediately started selling off these securities and investing in a limited range of investments with
6 three semiconductor companies and exchange traded funds, with margin trading. Subsequently, RG
7 Capital and Ganjoo invested heavily in options (24.6 percent of client's portfolio) and Potash Corp.
8 (62.4 percent of client's portfolio). This investment activity increased the investment risk to Investor
9 #5. As an example, in only one month (December 31, 2007 to January 31, 2008), the account of
10 Investor #5 incurred a loss of approximately 49.86 percent. By March 2008, the amount in the
11 client's account dropped to 657,100.00, with double digit percentage losses each month, until October
12 2008. As of July 31, 2009, the account balance was only \$5,893.29. Investor #5 suffered a
13 catastrophic loss of approximately 95 percent. During this investment period, the portfolio of
14 Investor #5 was 11 times as volatile as the S&P 500.

15 17. Given the severe losses to the accounts of all five investors over time, and given the high degree
16 of risk and volatility of these investments as shown by client records, RG Capital and Ganjoo did not
17 have a reasonable basis to continue trading in these investments on behalf of their clients. Accordingly,
18 RG Capital and Ganjoo violated Corporations Code section 25238 and CCR, title 10, section 260.238,
19 subdivision (a).

20 **B. Failing to Promote Fair, Equitable and Ethical Principles by Misrepresenting**
21 **the Nature of Services is Grounds for Revocation Under Corporations Code Section**
22 **25232, subdivision (e), and Bar Under Corporations Code Section 25232.1**

23 18. Corporations Code section 25238 provides, in pertinent part:

24 *No investment adviser licensed under this chapter and no natural person*
25 *associated with the investment adviser shall engage in investment advisory*
26 *activities, or attempt to engage in investment advisory activities, in this*
27 *state in contradiction of such rules as the commissioner may prescribe*
28 *designed to promote fair, equitable and ethical principles. [Emphasis*
added.]

1 19. Further, CCR, title 10, section 260.238, subdivision (h) provides that the following activities
2 do not promote fair, equitable and, ethical principles:

3 Misrepresenting to any advisory client, or any prospective advisory client,
4 the qualifications of the adviser, its representatives or employees, or
5 *misrepresenting the nature of the advisory services being offered* or fees to
6 be charged for such service, or omitting to state a material fact necessary
7 to make the statements made regarding the qualifications, services or fees,
in light of the circumstances under which they are made, not misleading.
[Emphasis added.]

8 20. The investment management agreements provided to Investors #1, #3 and #4 state the
9 following investment objectives:

10 Focus on consistent growth while *reducing volatility of returns*;
11 Outperform the S&P 500 over a full market cycle *with less risk*; and
12 Provide *competitive returns* regardless of which investment style is in
favor. [Emphasis added.]

13 21. As discussed above, RG Capital and Ganjoo did not follow its own stated investment
14 objectives. For Investor #1, Ganjoo started with a client account balance of \$186,154.04 and ended
15 with a balance of \$280.86. Under Ganjoo's management, the account of Investor #1 consisted of call
16 options, leveraged exchange traded funds, and small to mid-cap securities, all of which carry a higher
17 degree of investment risk. By September 30, 2011, less than two months after transferring his mutual
18 funds to Ganjoo, Investor #1 suffered an investment loss of nearly 60 percent. By December 2013, the
19 account suffered a catastrophic total loss of 99.85 percent of its value. Also, the portfolio of Investor #1
20 was 19 times as volatile as the S&P 500.

21 22. For Investors #3 and #4, Ganjoo did not follow its own stated investment objectives. Ganjoo
22 started with a client account balance of \$250,000.00 and ended with a balance of \$16,414.85. A review
23 of trading by Ganjoo between November 2013 and March 2015 shows a lack of diversification of
24 investments mainly in call options, Gilead Science, Apple and Facebook. However, by August 2014, the
25 portfolio of Investors #3 and #4 was comprised almost solely of call options, all of which carry a higher
26 degree of investment risk. By April 2015, the account of these investors suffered a catastrophic loss of
27 93.43 percent of its value. In addition, the portfolio of Investors #3 and #4 was 16 times as volatile as the
28 S&P 500.

1 23. To further demonstrate the risk of investment imposed by RG Capital and Ganjoo on the
2 accounts of Investors #1, #3 and #4, a review of the Scottrade account statements for these investors
3 show frequent trading in exchange traded funds including, but not limited to, Direxion (FAS). The
4 prospectus of Direxion states, in pertinent part:

5 The Fund seeks daily leveraged investment results and does not seek to
6 achieve its stated investment objective over a period of time greater than
7 one day. The Fund is different and *much riskier* than most exchange-
8 traded funds. [Emphasis added.]

9 24. As demonstrated above, RG Capital and Ganjoo misrepresented to Investors #1, #3 and #4
10 that there would be a reduction of risk and volatility when, in fact, the continuous trading activity
11 showed otherwise. Moreover, RG Capital and Ganjoo failed to disclose to Investors #1 through
12 Investors #5 that their client accounts would be subject to investments with a higher degree of risk
13 and volatility. Accordingly, RG Capital and Ganjoo violated Corporations Code section 26238 and
14 CCR, title 10, section 260.238 when it made misrepresentations of material fact concerning the
15 advisory services or omitted material facts necessary to make the statements not misleading.

16 **C. Making False Statements to the Commissioner During an Examination is**
17 **Grounds for Revocation Under Corporations Code Section 25232, subdivision (e),**
18 **and Bar Under Corporations Code Section 25232.1**

19 25. Corporations Code Section 25404, subdivision (b) states:

20 It is unlawful for any person to knowingly make an untrue statement to the
21 commissioner during the course of licensing, investigation, or
22 examination, with the intent to impede, obstruct, or influence the
23 administration or enforcement of any provision of this division.

24 26. On or about January 23, 2015, one client of RG Capital and Ganjoo provided the
25 Commissioner's examiner with a copy of a settlement agreement between that investor and RG
26 Capital and Ganjoo. The settlement agreement was for the purpose of settling a claim for
27 \$150,000.00 against RG Capital and Ganjoo. The date of the execution of the settlement agreement
28 is December 20, 2012.

29 27. However, during November 2013, an examiner of the Department interviewed Ganjoo
30 wherein he was specifically asked whether or not he had any complaints, arbitrations or lawsuits in

1 that last five years. Ganjoo's response was "no." Further, Ganjoo followed up this response with a
2 written response in which he indicated that, "There is no complaint, arbitration or litigation matter
3 with any past or present clients. There is currently nothing pending with any regulatory agency."

4 28. Ganjoo's statements made to the Commissioner's examiner in 2013 directly contradict the 2012
5 settlement agreement information given to the Commissioner.

6 29. Further, the settlement agreement and underlying complaint are not listed on Ganjoo's Form U4
7 with the Investment Adviser Registration Depository (IARD), the nationwide licensing system for
8 investment advisers. Ganjoo's U4 was last updated in 2011, but he has a continuing duty to update his
9 information as it occurs.

10 30. For these reasons, RG Capital and Ganjoo violated Corporations Code section 25404 by
11 making false statements in providing misinformation regarding having a lawsuit and/or complaint
12 filed against him in 2012, and also by failing to update his responses on his Form U4.

13 **D. Failing to Maintain Books and Records is Grounds for Revocation Under**
14 **Corporations Code Section 25232, subdivision (e), and Bar Under Corporations Code**
15 **Section 25232.1**

16 31. Corporations Code section 25241 provides, in pertinent part:

17 Every...investment adviser...shall make and keep accounts,
18 correspondence, memorandums, papers, books and other records...as the
19 commissioner by rule requires....

20 32. CCR, title 10, section 260.241.3 requires:

21 (a) Every licensed investment adviser shall make and keep true, accurate
22 and current the following books and records relating to such person's
23 investment advisory business:

24 (1) A journal or journals, including cash receipts and disbursements
25 records, and any other records of original entry forming the basis of
26 entries in any ledger.

27 (2) General and auxiliary ledgers (or other comparable records) reflecting
28 asset, liability, reserve, capital, income and expense accounts.

(3) A memorandum of each order given by the investment adviser for the
purchase or sale of any security, of any instruction received by the
investment adviser from a client concerning the purchase, sale, receipt or
delivery of a particular security, and of any modification or cancellation of
any such order or instruction. Such memoranda shall show the terms and

1 conditions of the order, instruction, modification or cancellation; shall
2 identify the person connected with the investment adviser who
3 recommended the transaction to the client and the person who placed such
4 order; and shall show the account for which entered, the date of entry, and
5 the bank or broker-dealer by or through whom executed where
6 appropriate. Orders entered pursuant to the exercise of a power of attorney
7 shall be so designated.

8 (4) All check books, bank statements, cancelled checks and cash
9 reconciliations of the investment adviser.

10 (5) All bills or statements (or copies thereof), paid or unpaid, relating to
11 the business of the investment adviser as such.

12 (6) All trial balances, financial statements, worksheets that contain
13 computations of minimum financial requirements required under Section
14 260.237.2, of these rules, and internal audit working papers relating to the
15 business of such investment adviser.

16 33. When the Commissioner conducted a non-routine exam of RG Capital and Ganjoo beginning
17 in November 2013, the Commissioner requested copies of records including a balance sheet, an
18 income statement, a general ledger, bank reconciliation and minimum financial requirement
19 declaration. The Commissioner, in turn, was told by Ganjoo that he did not have the records
20 requested and followed that up with a declaration that the requested records were unavailable due to
21 technical reasons, and due to the fact that such records were not backed up.

22 34. Consequently, RG Capital and Ganjoo violated Corporations Code section 25241 and CCR,
23 title 10, section 260.241.3 by failing to maintain and provide requisite books and records relating to
24 their business.

25 **IV.**

26 **CONCLUSION**

27 35. Based upon the foregoing, the Commissioner finds that grounds exist, and that it is in the
28 public interest, to enter orders: (1) revoking the investment adviser certificate of RG Capital
Management, LLC, Inc. pursuant to Corporations Code section 25212; and (2) barring Ravi Ganjoo
from any position of employment, management or control of any investment adviser, broker-dealer or
commodity adviser pursuant to Corporations Code section 25212.1. The Commissioner hereby
notifies RG Capital Management, LLC, Inc. and Ravi Ganjoo of her intention to make such orders
final.

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PRAYER

WHEREFORE, good cause showing, the Commissioner prays for relief, as follows:

1. For an order, pursuant to Corporations Code section 25232, revoking the RG Capital Management, LLC, investment adviser certificate and prohibiting Ravi Ganjoo from accepting new investment adviser business or making any additional investment of client funds, but permitting him to continue servicing existing RG Capital client accounts in order to allow a winding down and liquidation of the RG Capital Management, LLC, and to return the funds to each of the investors as soon as practically feasible; and,
2. For an order, pursuant to Corporations Code section 25232.1, barring Ravi Ganjoo from any position of employment, management or control of any broker-dealer, investment adviser or commodity adviser.

Dated: January 20, 2017
Sacramento, California

JAN LYNN OWEN
Commissioner of Business Oversight

By: _____
Timothy L. Le Bas
Senior Counsel