ADMINISTRATIVE PROCEEDING
File No. 3-18305

SEC: Coastal Investment Advisors and Coastal Equities, Inc. Failed to Supervise Their Former President

December 11, 2017 – The Securities and Exchange Commission today announced that Wilmington, Del. based Coastal Investment Advisors, Inc. and its affiliated broker-dealer, Coastal Equities, Inc., have agreed to settle charges that they failed reasonably to supervise their former president, Michael Donnelly. The SEC charged Donnelly in 2015 with fraud for stealing nearly $2 million from his advisory clients and brokerage customers.

An SEC investigation found that from at least 2009 through 2014, Donnelly stole client funds by lying to clients in order to convince them to invest in certain securities. Instead of investing the money as promised, Donnelly used the money for his own personal and business purposes. Donnelly concealed his fraud and theft, in part, by manually inputting fictitious investments into consolidated financial reports which he generated by using a tool available to him through Coastal Equities and Coastal Investment Advisors. Donnelly provided the consolidated reports to clients which falsely led them to believe that he had purchased the securities on their behalf.

Throughout Donnelly's fraud, Coastal Investment Advisors had no policies governing the creation, use, and review of these consolidated reports and Coastal Equities did not have any such policies in place until 2013.

The SEC's order finds that Coastal Equities and Coastal Investment Advisors 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, and that Coastal Investment Advisors willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder. Without admitting or denying the findings in the SEC's order, Coastal Equities and Coastal Investment Advisors each agreed to a censure and to pay a $40,000 civil penalty. The SEC considered the firm's self-reporting and cooperation in determining to accept their settlement offers.

The SEC's investigation was conducted by Burk Burnett and Scott A. Thompson and supervised by Kelly L. Gibson and G. Jeffrey Boujoukos.

See also: Order