

**STATE OF NORTH CAROLINA
DEPARTMENT OF THE SECRETARY OF STATE
SECURITIES DIVISION**

IN THE MATTER OF:)	
)	FINAL CONSENT ORDER
CARLTON HALL ASSET)	
MANAGEMENT, LLC (CRD # 136957))	17 SEC 048
)	
and CARLTON GRAY HALL, JR.)	
(CRD# 2504874),)	
)	
Respondents.)	

The Secretary of State of the State of North Carolina (the “Administrator”), as the Administrator of the North Carolina Investment Adviser’s Act, (N.C. Gen. Stat. Chapter 78C, the “Investment Adviser’s Act”), has considered the evidence in this matter and finds that it is in the public interest to resolve it on the terms set forth in this Final Consent Order (“Order”). With the consent of Carlton Hall Asset Management, LLC (“CHAM”) and Carlton Gray Hall, Jr. (“Hall”), individually and on behalf of CHAM, the Administrator enters this Order.

1. FINDINGS OF FACT

1. CHAM is a limited liability company organized and existing under and by virtue of the laws of North Carolina, with its principal office and registered mailing address in Winston-Salem, North Carolina.

2. Hall is a citizen and resident of North Carolina and is the Manger, Principal, and Chief Compliance Officer of CHAM.

3. CHAM and Hall provide investment advisory services in North Carolina to individual investors.

4. CHAM is registered with the Administrator pursuant to N.C. Gen. Stat. §78C-16(a) as an investment adviser. CHAM has been assigned registration number 136957. CHAM

registered with the Administrator on September 6, 2005, and has maintained its registration each year.

5. Hall is an “investment adviser representative” as that term is defined under North Carolina law; he is also registered with the Administrator.

6. An investment adviser must supervise its investment adviser representatives to ensure compliance with the Investment Adviser’s Act. N.C. Gen. Stat. §78C-19. 18 NCAC 06A. 1808 requires diligent supervision.

7. On August 5, 2016, CHAM registered an investment adviser representative, “MD”.

Failures Regarding Background Check and Office Inspection

8. Hall and CHAM should have engaged in a sufficiently thorough background check on MD prior to registering him. Hall contends that he engaged in such a background check, but CHAM does not have any supporting documentation. CHAM should have maintained records to confirm it had conducted specific internet searches (or other searches) to identify any possible conflicts of interest, or to identify if there were any factors that would have disqualified MD from being registered with CHAM.

9. CHAM conducted research on MD on the CRD/IARD system.

10. Hall did not, when registering MD, inspect or audit MD’s office despite MD maintaining a separate office in Durham, NC. It was not until March 22, 2017, that Hall conducted an on-site visit of MD’s office.

11. When a Securities Division auditor conducted a books and records examination of CHAM on December 16, 2016, she determined that CHAM did not have any policies or procedures in place for supervising MD.

Failure Regarding Advertising

12. As part of his advisory business, MD operated a proprietary investment model. MD advertised this model and his investment strategy, including his performance using this strategy, on multiple web sites.

13. Hall did not review MD's advertising to confirm compliance with the Investment Adviser's Act and related administrative rules. Since MD was CHAM's investment adviser representative, it and Hall had a duty to review the advertising, including the performance figures MD was using in his advertising.

14. MD's advertising suggested he charged performance fees. MD subsequently confirmed to the auditor that he received fees, including performance fees, from clients which he does not share with CHAM. Under North Carolina law, performance fees raise conflict of interest issues. An investment adviser must disclose performance fees in its Form ADV. Because CHAM and Hall were unaware that MD was charging a performance fee, the fee was not properly disclosed.

Failures Regarding Advisory Contracts

15. On August 2, 2016, MD emailed CHAM a copy of his advisory contract for CHAM to review. CHAM never responded to the email. After CHAM registered him, MD used this contract with a client on January 22, 2017.

16. This advisory contract did not comply with North Carolina law. It contained an impermissible mandatory arbitration clause; described CHAM as being regulated by the Investment Advisers Act of 1940, a federal law; and impermissibly established the governing law of the contract as the State of New York.

17. On February 7, 2017, CHAM's compliance consultant emailed a draft advisory contract to MD. This draft was not identical to the advisory contract that CHAM used with its clients, and it contained a fee of 2.5%, which is excessive under North Carolina law. CHAM should have disclosed this 2.5% fee in its Form ADV Part 2A, but it did not.

18. CHAM was not consistent in its review and use of contracts.

19. Prior to the December books and records examination, the Securities Division examiner contacted Hall to discuss CHAM's registration of MD. In the conversation, Hall repeatedly referred to MD's clients as being solely MD's clients and not CHAM's clients. During the examination Hall repeated that MD had his own clients, and CHAM did not share in the revenue collected from these clients.

20. MD billed his clients separate and apart from CHAM. These clients sent checks to MD; the checks were made payable to MD, not CHAM.

21. MD was CHAM's investment adviser representative. Pursuant to North Carolina law, CHAM and Hall had a duty to ensure that MD's clients executed advisory contracts with CHAM. With the exception of the client described in paragraph 15, above, none of MD's clients executed advisory contracts with CHAM.

22. CHAM's and Hall's failures to supervise MD, as more particularly described above, violate N.C. Gen. Stat. §78C-19(a)(2)(j) and 18 NCAC 06A. 1808.

I. CONCLUSIONS OF LAW

1. CHAM is an "investment adviser" as defined under North Carolina law. N.C. Gen. Stat. § 78C-2(1). CHAM is a registrant under North Carolina law.

2. Hall is an "investment adviser representative" as defined under North Carolina law and an agent of CHAM. N.C. Gen. Stat. § 78C-2(3).

3. As an investment adviser and investment adviser representative in North Carolina, CHAM and Hall were required to comply with North Carolina's laws, administrative rules, and regulations, and to submit themselves to the jurisdiction and oversight of the Administrator.

4. An investment adviser must supervise its investment adviser representatives to ensure compliance with the Investment Adviser's Act. N.C. Gen. Stat. §78C-19(a)(2)(j).

5. Pursuant to 18 NCAC 06A. 1808:

(a) An investment adviser shall be responsible for the acts, practices, and conduct of its investment adviser representatives in connection with advisory services until such time as the investment adviser representatives have been properly terminated as provided by Rule .1710.

(b) Every investment adviser shall exercise diligent supervision over the advisory activities of all of its investment adviser representatives.

(c) Every investment adviser representative employed by an investment adviser shall be subject to the supervision of a supervisor designated by such investment adviser. The supervisor may be the investment adviser in the case of a sole proprietor, or a partner, officer, office manager or any qualified investment adviser representative in the case of entities other than sole proprietorships. . . .

6. CHAM was responsible for supervising MD while he was registered with CHAM.

7. Hall, as CHAM's Chief Compliance Officer was also responsible for supervising MD while he was registered with CHAM.

8. As more particularly described above, CHAM and Hall failed to supervise MD and thereby violated N.C. Gen. Stat. §78C-19(a)(2)(j) and 18 NCAC 06A. 1808.

9. This Order is in the public interest, is for the protection of investors, and is consistent with the purposes fairly intended by the policy and provisions of the Investment Adviser's Act. It is also in the public interest, for the protection of investors, and consistent with the purposes fairly intended by the policy and provisions of the Investment Adviser's Act that the Administrator impose a civil penalty in this matter.

10. The Administrator has the authority to enter this Order.

II. JURISDICTION, CONSENT AND WAIVER

CHAM and Hall, as evidenced by the authorized signatures on the *Consent to Entry of Order*, below, affirmatively state and agree that:

1. The Administrator has jurisdiction over CHAM and Hall and the subject matter of this Order.

2. CHAM and Hall voluntarily consent to the entry of this Order and understand this is a public document.

3. CHAM and Hall have read the contents of this Order and have had the opportunity to consult with an attorney prior to the signing of this Order.

4. CHAM and Hall freely sign this Order, and state and agree that no threats, promises, or offers of any kind, other than as stated in this document, have been made by the Administrator, Deputy Securities Administrator, any member of the staff of the Securities Division, or any agent or employee of the North Carolina Department of the Secretary of State in connection with the signing of this Order.

5. This Order contains the entire agreement between the undersigned, and CHAM and Hall understand its effect.

6. CHAM and Hall permanently waive any and all rights under the Securities Act, the Investment Adviser's Act, the North Carolina Administrative Procedure Act (N.C. Gen. Stat. Chapter 150B), and any other law, to a *Notice of Hearing*, a hearing, and any other proceedings before the Administrator or other entity to which they may be entitled related to the subject of this Order, including any court of competent jurisdiction. CHAM and Hall also permanently waive their rights to seek judicial review of this Order under N.C. Gen. Stat. Chapter 150B, to

appeal this Order, or to otherwise challenge either the validity or entry of this Order in any court or administrative agency. This Order resolves this matter without further administrative proceedings.

7. The execution, delivery, and performance of this Order has been duly authorized and signed by a person who meets the statutory or other binding approval to sign on behalf of CHAM as named in this Order.

8. The presentation of this Order to the Administrator and any subsequent discussion of the Order prior to its entry without CHAM, Hall, or their counsel being present shall not constitute an improper *ex parte* communication between the Administrator and the Securities Division or counsel for the Securities Division.

NOW, THEREFORE, the Administrator, pursuant to and under all authority granted by the North Carolina Securities Act and North Carolina Investment Adviser's Act, based upon the forgoing Findings of Fact, Conclusions of Law, and Jurisdiction, Consent and Waiver, and with CHAM's and Hall's express written consent to the entry of this Order, orders the following:

III. ORDER

1. CHAM and Hall shall immediately and permanently cease and desist from violating N.C. Gen. Stat. §78C-19(a)(2)(j) and 18 NCAC 06A. 1808.

2. CHAM and Hall shall immediately and permanently cease and desist from violating any other provisions of the North Carolina Investment Adviser's Act and any administrative rules promulgated under the Act.

3. CHAM and Hall shall pay to the Securities Division a civil penalty in the amount of ONE-THOUSAND AND 00/100 DOLLARS (\$1,000.00) within ten (10) business days of the date of entry of this Order.

4. CHAM and Hall shall not take any action, or make, or permit to be made, any public statement, denying, directly or indirectly, any finding in this Order or creating the impression that this Order is without factual basis.

5. This Order shall become final upon entry and shall be binding upon CHAM and Hall and their successors and assigns as well as their affiliates and their successors and assigns with respect to all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.

WITNESS MY HAND AND THE OFFICIAL SEAL of the North Carolina

Department of the Secretary of State, this the 30TH day of NOVEMBER 2017.

Time of entry: 1:30 P. .M.



ELAINE F. MARSHALL
SECRETARY OF STATE OF NORTH CAROLINA and
SECURITIES ADMINISTRATOR, by



KEVIN M. HARRINGTON
Deputy Securities Administrator