

**STATE OF ILLINOIS  
SECRETARY OF STATE  
SECURITIES DEPARTMENT**

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**IN THE MATTER OF: MICHAEL RUSSO**  
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)  
) **File No. C0500357**  
)

**TO THE RESPONDENT:**

Michael A. Russo  
(CRD# 2353710)  
9200 W. 191st Street, Suite 3  
Mokena, Illinois 60448

C/o Brian J. Riordan  
Clausen Miller P.C.  
10 South LaSalle Street  
Chicago, Illinois 60603-1098

**CONSENT ORDER**

WHEREAS, Respondent on the 6th day of November 2009 executed a certain Stipulation to Enter Consent Order (the "Stipulation"), which hereby is incorporated by reference herein.

WHEREAS, by means of the Stipulation, Respondent has admitted to the jurisdiction of the Secretary of State and service of the Notice of Hearing of the Secretary of State, Securities Department, dated February 17, 2009 in this proceeding (the "Notice") and Respondent has consented to the entry of this Consent Order ("Consent Order").

WHEREAS, by means of the Stipulation, the Respondent acknowledged, while neither admitting nor denying the truth thereof, that the following allegations contained in the Notice of Hearing shall be adopted as the Secretary of State's Findings of Fact:

1. American General Securities, Inc., ("AGSI") is a Securities Broker-Dealer registered as a Securities Dealer in the State of Illinois from July 27, 1983 to the present.
2. Chicago Investment Advisory Council, Inc. ("CIAC") is registered as an investment adviser in the State of Illinois, with a last known address of 40W320 La Fox Rd., St. Charles, Illinois 60175.

3. Respondent Michael A. Russo ("Russo") is an individual whose last known address is 9200 W. 191st Street, Suite 3, Mokena, Illinois 60448. At all relevant times, Respondent Russo was registered as an investment adviser representative with CIAC in the State of Illinois. Respondent Russo is currently registered as an investment adviser representative with Chicago Investment Advisory Group in the State of Illinois.
4. At all relevant times, Respondent Russo was registered as a salesperson with AGSI in the State of Illinois. Respondent Russo was registered in Illinois as a salesperson with AGSI from October 1, 2002 until September 4, 2007.
5. VS and ES are residents of Illinois.
6. On or about December 27, 2002, VS and ES opened a securities account with AGSI. VS and ES were 61 years old and 59 years old, respectively. Investor VS is retired and Investor ES is a homemaker.
7. VS and ES's initial account application indicated that VS and ES's annual income was under \$50,000.00 and net worth was between \$500,001.00 and \$1,000,000.00, which included the value of their residence.
8. VS and ES reported on their account opening application more than a 10-year history of experience in investing in the market.
9. VS and ES's initial account opening application dated December 31, 2002, indicated that their risk tolerance was moderate and investment objectives were income, growth and growth/income.
10. In January 2004, Respondent Russo recommended after discussion with VS and ES that VS and ES transfer their funds from AGSI and participate in CIAC's Active Asset Management Program (AAMP).
11. According to VS and ES, Respondent Russo told them that AAMP investment program was suitable for them.
12. On January 30, 2004, VS and ES completed an account application with Ameritrade indicating their investment objects as growth and speculation.
13. Prior to the recommendation, VS and ES held four MFS mutual funds in their securities account with AGSI. Two of the funds were invested in stock, one in growth stocks and one in high yield bonds. The funds were invested in (1) MFS Value B, (2) MFS Mass Inv Growth Stock B, (3) MFS Strategic Income B and (4) MFS Total Return B.

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14. Participation in the AAMP resulted in a shift in VS and ES prior investment strategies.
15. On or about February 6, 2004, VS and ES transferred to an account with CIAC through Ameritrade, approximately \$150,677.00, funds redeemed from the sale of mutual funds and stocks. These assets were put into the newly opened CIAC AAMP account.
16. Throughout the period of its operation in or about February 2004 through October 2004, Respondent Russo acted as portfolio manager of AAMP and made the investment decisions for VS and ES's AAMP account.
17. Respondent Russo began trading in VS and ES's AAMP account, including purchasing and selling equity securities outright without stop/loss limits in place.
18. According to Respondent Russo, loss limits on AAMP accounts of between 5 percent and 10 percent are set on a case-by-case basis, a loss limit of 10 percent was set for VS and ES's AAMP account and AAMP was suitable for the VS and ES because it was a measured risk with limited amount of capital.
19. That AAMP is comprised of active rather than passive management, which can expose investment accounts to "in and out" trading to maintain loss limits.
20. Between the periods of February 6, 2004 through June 14, 2004, Respondent Russo executed 212 trades in VS and ES's AAMP account, resulting in a turnover ratio of 6.6 for the account.
21. According to VS and ES in or around May 2004, VS and ES contacted Respondent Russo regarding the volatility in the market. Respondent Russo told them that in his professional opinion that they should be patient.
22. According to VS and ES, Respondent Russo continue to trade in VS and ES's CIAC AAMP account until on or about June 8, 2004, when VS and ES requested that Respondents stop trading in their account and to close out their AAMP account with CIAC.
23. That on or about June 17, 2004, Respondent CIAC through Ameritrade issued to VS and ES a check in the amount of \$135,360.37, representing the remaining balance in VS and ES's AAMP account with CIAC.

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24. That Respondent's activities described above involve the offer or sale of stock and/or investment contract, and thus are securities, under section 2.1 and 2.5 of the Act.
25. That Section 130.853 of the Rules and Regulations under the Illinois Securities Law of 1953 provides, *inter alia*, that effecting or causing to be effected by or for any client's account, any transactions of purchase or sale which are excessive in size or frequency or unsuitable in view of the financial resources and character of the account, shall constitute an act, practice, or course of business on the part of the registered investment advisor or its representative effecting such transactions or causing the transactions to be effected that is fraudulent, deceptive or manipulative.
26. That Section 12.G of the Act provides, *inter alia*, that it shall be a violation of the provisions of the Act for any person to "obtain money or property through the sale of securities by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading."
27. That VS and ES's participation in CIAC's AAMP was a departure from the investors' previous investments through AGSI.
28. That Respondent Russo lead VS and ES to believe their investments through the CIAC's Active Asset Management Program would be as conservative as their previous investments through AGSI.
29. That upon recommendation of Respondent Russo and with the authorization of VS and ES, Respondent Russo switched their investment account from AGSI to Respondents' AAMP.
30. That given their financial situation, investment objectives and needs, Respondents did not have reasonable grounds to believe that his recommendations and the transactions were suitable for the VS and ES.

WHEREAS, by means of the Stipulation, the Respondent acknowledged, without admitting or denying the truth thereof, that the Secretary of State has adopted the following additional Finding of Fact:

1. That Section 11.E (4) of the Act provides that in addition to any other sanction or remedy contained in this subsection E, the Secretary of State, after finding that any provision of this Act has been violated, may impose a fine as provided by rule, regulation or order not to exceed \$10,000.00, for each violation of this Act, may issue an order of public censure against the violator, and may charge as costs of investigation all reasonable expenses, including attorney's fees and witness fees.

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2. Section 8.E.1(e)(i) of the Act provides, inter alia, that subject to the provisions of subsection F of Section 11 of the Act, the registration of a salesperson may be suspended or revoked if the Secretary of State finds that the salesperson has failed reasonably to supervise the securities activities of any of its salespersons or other employees and the failure has permitted or facilitated a violation of Section 12 of the Act.

WHEREAS, by means of the Stipulation Respondent has acknowledged, while neither admitting or denying the truth thereof, that the following shall be adopted as the Secretary of State's Conclusions of Law:

1. Respondent Russo has violated Section 12.G, of the Illinois Securities Law of 1953 (815 ILCS 5/1 *et seq.*);
2. By virtue of the foregoing, Respondent Russo is potentially subject to the entry of an Order which revokes his registration as a salesperson and investment advisor representative in the State of Illinois pursuant to the authority provided under Section 8.E.1(e)(i) of the Act.
3. The Respondent Russo is potentially subject to a FINE pursuant to Section 11.E(4) of the Act.

WHEREAS, by means of the Stipulation, Respondent shall, within 45 days of the entry of the aforesaid Consent Order, pay restitution in the amount of \$12,750.73, that such payment will be made by money order or cashier's check payable to VS and ES in the amount specified above, that said check will be bailed or delivered in a timely manner to VS and/or ES and that a copy of said check will be mailed in a timely manner to Felicia H. Simmons-Stovall, Illinois Department of Securities, 69 W. Washington Street, Suite 1220, Chicago, Illinois 60602.

WHEREAS, by means of the Stipulation, Respondent has acknowledged and agreed that within 30 days of the entry of the aforesaid Consent Order, Respondent will have implemented or will implement procedures to disclose, in writing, to new and existing CIAG clients inside any managed asset programs (formerly Active Asset Management Program ("AAMP")) the following: the risks associated with any managed asset programs of CIAG; any active trading involved in the managed asset programs; and any and all charges associated with the managed asset accounts, including but not limited to ticket charges, advisory fees, etc.

WHEREAS, by means of the Stipulation, Respondent has acknowledged and agreed that Respondent will forward to the Department, within 15 days from the entry of the aforesaid order, a copy of the risk disclosure letter to be sent to all Investment

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Advisory clients in any managed asset program. If the Department finds the letter not to be objectionable, the Respondent Russo will mail the letter to said investors, within 10 days of being so notified by the Department.

WHEREAS, by means of the Stipulation, Respondent has acknowledged and agreed that the Respondent Russo shall only offer, solicit or recommend the investment in any of CIAG's managed asset programs to investors with generally five (5) or more years of investing experience.

WHEREAS, by means of the Stipulation, Respondent shall be fined for violation of the Act the amount of Five Thousand dollars (\$5,000.00). Said fine shall be paid by certified or cashier's check, made payable to the Secretary of State, Securities Audit and Enforcement Fund, within 30 days of the entry of the aforesaid Consent Order.

WHEREAS, by means of the Stipulation Respondent shall collect and maintain suitability documentation for clients in any managed asset program.

WHEREAS, the Secretary of State, by and through his duly authorized representative, has determined that the matter related to the aforesaid formal hearing may be dismissed without further proceedings.

NOW THEREFORE IT SHALL BE AND IS HEREBY ORDERED THAT:


1. Acknowledges and agrees that Respondent Russo shall, within 45 days of the entry of the aforesaid Consent Order, pay restitution in the amount of \$12,750.73, that such payment will be made by money order or cashier's check payable to VS and ES in the amount specified above, that said check will be mailed or delivered in a timely manner to VS and/or ES and that a copy of said check will be mailed in a timely manner to Felicia H. Simmons-Stovall, Illinois Department of Securities, 69 W. Washington Street, Suite 1220, Chicago, Illinois 60602.
2. The Respondent is fined for violation of the Act the amount of Five Thousand Dollars (\$5,000.00), payable to the Office of the Secretary of State, Securities Audit and Enforcement Fund, within ten (10) days from the entry of the Consent Order.
3. To the extent that Respondent has not yet implemented, procedures to disclose, in writing, to new and existing CIAG clients inside any managed asset programs (formerly Active Asset Management Program ("AAMP")), the following: the risks associated with the AAMP; the active trading of AAMP; and any and all charges associated with the AAMP, including but not limited to ticket charges, advisory fees, etc. within 30 days of the date of entry of this Consent Order.

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4. The Respondent shall forward to the Department, within 15 days from the entry of the aforesaid order, a copy of the risk disclosure letter to be sent to investors in any CIAG managed asset programs. If the Department finds the letter not to be objectionable, the Respondent Russo will mail the letter(s) to investors in any CIAG managed asset programs, within 10 days of being so notified by the Department.
5. The Respondent Russo shall only offer, solicit or recommend the investment in any of CIAG's managed asset programs to investors with generally five (5) or more years of investing experience.
6. The Respondent shall collect and maintain suitability documentation for clients in any managed asset program.
7. The Notice of Hearing issued in this matter is hereby dismissed.

ENTERED: This 10<sup>th</sup> day of November 2009.



JESSE WHITE  
Secretary of State  
State of Illinois



NOTICE: Failure to comply with the terms of this Order shall be a violation of Section 12(D) of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act"). Any person or entity who fails to comply with the terms of this Order of the Secretary of State, having knowledge of the existence of this Order, shall be guilty of a Class 4 felony.

Attorney for the Secretary of State:  
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Hearing Officer:  
James L. Kopceky  
190 S. LaSalle, Suite 850-A  
Chicago, Illinois 60603  
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