

BEFORE THE SECURITIES COMMISSIONER
STATE OF COLORADO

Case No. 2024-CDS-013

CONSENT ORDER

IN THE MATTER OF MCGEHEE WEALTH MANAGEMENT, INC. AND
JAMES MCGEHEE,

Respondents.

THIS MATTER is before Tung Chan, Securities Commissioner for the State of Colorado (“Commissioner”), on the Stipulation for Consent Order (“Stipulation”) between the Staff of the Colorado Division of Securities (the division, “Division” and the staff, “Staff”) and McGehee Wealth Management Inc. (IARD# 283927) and James McGehee (CRD# 5562429) (collectively, “Respondents”). After reviewing the Stipulation and grounds therein, the Commissioner makes the following Findings and enters the order as follows:

FINDINGS

1. The Commissioner has jurisdiction over the Respondents and this matter pursuant to the provisions of the Colorado Securities Act, §§ 11-51-101 through 803, C.R.S.
2. By entering into the Stipulation, Respondents waive the following rights: (1) to have a formal hearing pursuant to §§ 11-51-606(1), 24-4-104 and 24-4-105, C.R.S.; (2) to be represented by counsel in that action; (3) to present a defense through oral or documentary evidence; (4) to cross-examine witnesses at such hearing; and (5) to seek judicial review of the Consent Order as provided in §§ 11-51-607 and 24-4-106, C.R.S.
3. Respondents further waive the findings required by § 11-51-410(1), C.R.S. and do not contest that pursuant to § 11-51-704(2), C.R.S. entry of this Consent Order is necessary and appropriate in the public interest and is consistent with the purposes of the Colorado Securities Act.

ORDER

NOW, THEREFORE, based on the foregoing, it is ORDERED as follows:

1. The terms of the attached Stipulation are incorporated and made a part of this Consent Order.

2. Respondents shall comply with all agreements, undertakings, and directives contained in the Stipulation, to the extent any such agreements, undertakings, or directives remain unsatisfied on the date of this Consent Order.
3. The following sanctions are imposed against Respondents:
 - i. The permanent revocation of the Colorado investment adviser license of McGehee Wealth Management, Inc. (IARD# 283927);
 - ii. The permanent revocation of the Colorado investment adviser representative license of James McGehee (CRD# 5562429);
 - iii. James McGehee will be permanently barred and will never reapply for a securities license of any kind in the State of Colorado;
 - iv. James McGehee shall not make recommendations or otherwise render advise to clients in or from Colorado regarding securities and shall not manage securities accounts or portfolios for clients in or from Colorado.
4. The Commissioner shall retain jurisdiction over this action to ensure Respondents' compliance with this Consent Order and reserves the power to enter additional orders as needed to ensure the compliance by the Respondents with this Consent Order.
5. In the event Respondents fail to comply with any of the terms or conditions set forth in this Stipulation or the Consent Order, the Commissioner or the Staff, in their sole discretion, may initiate formal enforcement proceedings against Respondents for such noncompliance. The Stipulation and this Consent Order shall be admissible as evidence in any such proceeding.
6. This Consent Order, and the terms and conditions herein, shall be binding on all successors and assigns.

DATE: June 7, 2024



Tung Chan
Securities Commissioner

STIPULATION FOR CONSENT ORDER

IN THE MATTER OF MCGEHEE WEALTH MANAGEMENT, INC. AND
JAMES MCGEHEE,

Respondents.

The Staff of the Colorado Division of Securities (the staff, “Staff” and the division, the “Division”) and Respondents McGehee Wealth Management Inc. and James McGehee (collectively, “Respondents”) hereby enter into this Stipulation for Consent Order (the “Stipulation”) in this matter as follows:

I. Background

1. The Staff conducted an examination of Respondents pursuant to § 11-51-409, C.R.S.
2. As a result of its examination, the Staff alleges that Respondents engaged in the following conduct:
 - a. McGehee Wealth Management Inc. (IARD# 283927) (“MWM” or the “Firm”), is a Colorado limited liability company with its principal place of business located at 6900 West 44th Avenue, Wheat Ridge, CO 80033.
 - b. McGehee Wealth Management Inc. has been licensed in Colorado as an investment adviser since at least July 22, 2016. The Firm manages approximately \$3,000,000 of assets on a discretionary basis for approximately 20 clients.
 - c. James McGehee (“McGehee”) (CRD# 5562429) has been licensed in Colorado as an investment adviser representative with MWM, since at least July 22, 2016, and is currently the President and sole investment adviser representative of MWM.
 - d. MWM and McGehee recommended high-risk options trading strategies to more than half of the Firm’s clients. Between April 1, 2019, and October 20, 2023, MWM and McGehee recommended over 11,000 trades in client accounts. Approximately 90% of those trades were options trades.

- e. Options trades offer leverage to investors because they can allow an investor to participate in the movement of an underlying security without actually owning the security. But options trades can also be risky for investors, because, depending on the strategy, they can result in a 100% loss of investment or even unlimited losses in certain cases. For this reason, options have heightened suitability and disclosure requirements, and are generally only recommended for experienced investors.
- f. One of the most common options strategies recommended by MWM and McGehee during the period involved the Firm buying calls for clients' accounts. When buying a call, a client pays (premium) for the right to buy shares at a fixed price (strike price) on or before a certain date (expiration date).
- g. Generally, investors buy calls when they expect the price of the underlying security to increase during the time period covered by the call. If this happens, the investor can then exercise the call, purchase the underlying security, and sell the security at a profit, or they can realize a smaller profit by closing the option position. With this options strategy the potential gains to an investor are theoretically unlimited, since the potential value of a stock is unlimited and the maximum loss to an investor is equal to the total price paid to purchase the call.
- h. Specifically, the size of the options trades used by MWM and McGehee, and the amount of client funds in the options trading strategies, made the recommendations extremely high risk, and the strategy was only appropriate for clients that could both understand the strategy and its associated risks and had a high risk tolerance. Often, each option trade cost each client more than 10% of the clients' account value on premium and the Firm entered several options trades for each client in a given month. The underlying security could go up and the client could still lose money; if the price of the underlying security did not go up enough to exceed the strike price and cover the cost of the premium, the client would lose. The options strategy was extremely volatile, and clients would regularly make or lose 20-30% of their account value each month.
- i. MWM and McGehee did not adequately disclose the trading strategy and its associated risks to clients. MWM and McGehee did not provide clients a written disclosure brochure, the Form ADV Part 2, ("brochure") before starting the advisory relationship or provide, on an annual basis, a summary of material changes and offer to provide an updated copy of the brochure as required by § 11-51-409.5 and Rule 51-4.7(IA).

- j. The Firm brochure, if accurate and provided to clients as required, would have described the “investment strategies” used in formulating investment advice or managing assets. Per the requirements, the Firm should have disclosed the material risks involved and, since the options strategy involved “significant or unusual risks,” the Firm had an obligation to discuss the risks of the options strategy “in detail.”
- k. Firm clients interviewed by the Staff stated that McGehee in verbal communications with them only focused on the potential returns that clients could earn from the recommended options strategy and not the potential risks. Also, the clients stated that they did not have any options trading experience, understand options trades, or how the options strategy worked.
- l. MWM and McGehee recommended the options strategy to clients without reasonable grounds to believe that the recommendation was suitable for the clients on the basis of information furnished by the client after reasonable inquiry concerning the client’s investment objectives, financial situation and needs, and any other information known by the investment adviser as required by Rule 51-4.8(IA)(A).
- m. MWM and McGehee were unable to produce any written suitability information for clients during the examination that would demonstrate that the options strategy was suitable.
- n. Interactive Brokers (“IB”), custodian of the accounts, required that clients complete a custodian application , which included a risk profile for each client. Per interviews by the Staff, McGehee entered the information on the risk profile for each client and then provided it to the clients for signature. The information provided on the forms was inaccurate. It included overstated net worths, inaccurate investment objectives, and McGehee’s options trading experience instead of the clients. These misstatements allowed the accounts to be approved for options trading strategies that were not in alignment with the client investment objectives or experience.
- o. For example, client R.G., a 76-year-old retiree primarily lived on social security and still paid a mortgage on his home. His account with McGehee was an IRA that was his only investible asset. McGehee knew that client R.G. and his wife used the funds in the account to pay taxes and other near-term living expenses , but the investment objective on the account was listed as growth, trading profits, speculation and hedging. R.G.’s annual income was also listed as \$100,000 to \$149,999 and his options trading experience

was listed as two years even though he had no experience with options.

- p. On June 30, 2021, client R.G.'s account had a value of \$205,167.66. He did withdraw \$25,000 during the period, but by December 31, 2022, the account was down to only \$18,293.70. As a result of the transactions made by MWM and McGehee, R.G. lost approximately \$160,000 in eighteen months which was substantially all of his retirement savings.
- q. MWM and McGehee have regularly faced financial difficulties. During the Firm's examination the Firm was unable to demonstrate that it met the required liquid net worth of \$10,000. Additionally, during the examination it was discovered that McGehee had attempted to borrow money from clients several times. Borrowing money from clients is deemed dishonest and unethical conduct under Rule 51-4.8(IA).

Based on this alleged conduct, Staff determined that Respondents have willfully violated or willfully failed to comply with provisions of the Colorado Securities Act and rules thereunder, and pursuant to § 11-51-410(1)(b), C.R.S., an appropriate sanction is warranted.

II. Stipulation

The Staff and Respondents, in order to resolve this matter without formal hearing, hereby enter into this Stipulation for Consent Order in this matter and Respondents hereby stipulate as follows:

1. The Securities Commissioner for the State of Colorado has jurisdiction over the Respondents and the subject matter of this action.
2. Respondents agree to the entry of a Consent Order in the form attached (the "Consent Order") and incorporated herein by reference.
3. Respondents agree to the following:
 - a. Respondents admit that by failing to disclose the options strategy and its associated risks to clients and by recommending the options strategy to clients without reasonable grounds to believe that the recommendations were suitable for the clients MWM and McGehee violated § 11-51-501(5), C.R.S. and engaged in investment adviser fraud.
 - b. Respondents agree to the following licensing sanctions:

- i. The permanent revocation of the Colorado investment adviser license of McGehee Wealth Management, Inc. (IARD# 283927);
 - ii. The permanent revocation of the Colorado investment adviser representative license of James McGehee (CRD# 5562429);
 - iii. James McGehee will be permanently barred and will never reapply for a securities license of any kind in the State of Colorado;
 - iv. James McGehee shall not make recommendations or otherwise render advise to clients in or from Colorado regarding securities and shall not manage securities accounts or portfolios for clients in or from Colorado.
4. Respondents understand that they have the following rights: (1) to have a formal hearing pursuant to § 11-51-606(1), C.R.S.; (2) to be represented by counsel in that action; (3) to present a defense through oral or documentary evidence; (4) to cross-examine witnesses at such hearing; and (5) to seek judicial review of the Consent Order as provided in §§ 11-51-607 and 24-4-106, C.R.S. By entering into this Stipulation, Respondents expressly waive the rights set forth in this paragraph.
5. Respondents acknowledge that they have entered into this Stipulation voluntarily, after the opportunity to consult with counsel, and with the understanding of the legal consequences of this Stipulation and Consent Order.
6. Respondents hereby waive the findings required by § 11-51-410(1), C.R.S.; and pursuant to § 11-51-704(2), C.R.S., Respondents do not contest that the entry of a Consent Order is necessary and appropriate in the public interest and is consistent with the purposes and provisions of the Colorado Securities Act.
7. By consenting to the entry of the Consent Order, Respondents agree not to take any action or to make, or permit to be made, any public statement denying, directly or indirectly, any Finding or Conclusion in the Consent Order or creating the impression that said Consent Order lacks a factual basis.
8. Respondents further acknowledge that any violation of the Consent Order, when issued, may constitute grounds for further sanctions and formal proceedings against them for such violations.

9. This Stipulation is subject to approval by the Securities Commissioner and shall become binding upon the parties hereto upon such approval.


BY RESPONDENTS:

James McGehee:

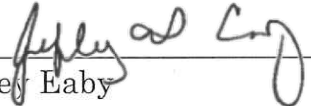


Individually

McGehee Wealth Management, Inc.:

BY  :
James McGehee, President

BY THE STAFF OF THE DIVISION OF SECURITIES:



Jeffrey Eaby
Deputy Commissioner

_____ June 4, 2024
Date