

SEC Enforcement Case Summary

Cherry-Picking Charges Against State-Registered Adviser

On June 3, 2025, the Securities and Exchange Commission (**SEC**) filed a settled action against state-registered investment adviser, North East Asset Management Group, Inc., and its sole principal, owner, and employee for engaging in cherry-picking that disproportionately allocated certain profitable trades to the firm, the owner, and certain favored accounts, and allocated unprofitable trades to other advisory clients. The SEC's complaint noted that the firm managed a block trading account that allowed the firm to aggregate securities transactions on behalf of multiple client accounts. The firm placed orders in the block trading accounts that were often filled and executed at different price points throughout a given trading day. The firm allocated portions of each "block" of securities purchased to different client accounts, sometimes after the close of the market on a trading day.

The brokerage firm's trading platform allowed the firm the choice to allocate individual purchase order executions to client accounts or to aggregate the purchase order executions for the same security and allocate shares of that security to client accounts at an average price of all the executions. The aggregate allocation option would ensure that all accounts received equal execution prices for purchase orders placed in the block trading account. However, the SEC noted that the firm often allocated multiple purchase order executions separately without pre-allocating the orders. This allowed the firm and its principal to disproportionately allocate securities purchased at a lower price to favored accounts and securities purchased at a higher price to unfavored accounts. The firm did not adopt or implement policies or procedures relating to block trading and to provide allocation instructions to the broker prior to placing the order.

According to the SEC's order, over an 18-month period, the firm and its principal purchased a total of \$18,761,004 of equity securities, of which \$15,485,058, or 82.54%, were purchase orders executed in the block trading account and subsequently allocated to the favored and unfavored accounts. The win rate, which refers to the percentage of dollars traded that saw a positive return at the end of trading day, and the day-one profit rate for those trades demonstrated the disparity between the favored accounts and the unfavored accounts during the relevant period. The favored accounts had a 91.6% win rate and a 2.47% profit rate resulting in profits of approximately \$105,820. The unfavored accounts had a 31.3% win rate and a profit rate of -1.01% resulting in losses of approximately \$112,667. The firm's broker reportedly terminated the account due to concerns about the firm's trading activity.

The firm and principal agreed to pay a total of approximately \$250,000 in disgorgement and penalties to settle the action, and the principal agreed to an industry bar.

See SEC Summary - <https://www.sec.gov/files/litigation/admin/2025/34-103173.pdf>