

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES ACT OF 1933**  
**Release No. 8564 / April 6, 2005**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 51487 / April 6, 2005**

**INVESTMENT ADVISERS ACT OF 1940**  
**Release No. 2375 / April 6, 2005**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-11883**

**In the Matter of**  
  
**WILLIAM T. BELKO,**  
  
**Respondent.**

**ORDER INSTITUTING ADMINISTRATIVE  
AND CEASE-AND-DESIST PROCEEDINGS,  
MAKING FINDINGS, AND IMPOSING  
REMEDIAL SANCTIONS AND A CEASE-  
AND-DESIST ORDER PURSUANT TO  
SECTION 8A OF THE SECURITIES ACT OF  
1933, SECTION 21C OF THE SECURITIES  
EXCHANGE ACT OF 1934, AND SECTIONS  
203(f) AND 203(k) OF THE INVESTMENT  
ADVISERS ACT OF 1940**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), and Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) against William T. Belko (“Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting

Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Section 8A of the Securities Act of 1933, Section 21C of the Securities Exchange Act of 1934, and Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Order”), as set forth below.

### **III.**

On the basis of this Order and Respondent’s Offer, the Commission finds<sup>1</sup> that:

#### **Respondent**

1. From 1992 until late June 2002, William T. Belko was Director, Senior Vice President, portfolio manager, and ten percent shareholder of Advanced Investment Management, Inc. (“AIM”), a now defunct investment adviser formerly registered with the Commission. On June 26, 2002, Belko resigned from AIM, and at the request of AIM’s outside counsel, returned to AIM following the resignation of Allen and briefly held the position of Chief Investment Officer from July 8, 2002 until September 30, 2002. Belko, age 42, is a resident of Wexford, Pennsylvania.

#### **Other Relevant Persons and Entity**

2. Advanced Investment Management, Inc., incorporated in Delaware on July 17, 1992, was a Pittsburgh, PA based registered investment adviser and a registered commodity pool operator with the Commodity Futures Trading Commission from 1992 to February 2003. In March 2002, AIM had \$8.5 billion under management and 22 employees. By August 2002, AIM’s assets under management had decreased to approximately \$500 million. AIM ceased operations in December 2002 and, in February 2003, filed a Form ADV-W. AIM had four officers and directors, all of whom were owners: Jeff Thomas Allen, James Barlow Smith, Belko and another individual.<sup>2</sup>

3. Jeff Thomas Allen, AIM’s former Chairman, President, Chief Executive Officer and Chief Investment Officer from 1992 until resigning in July 2002, owned 78 percent of AIM’s outstanding shares and directed all activities of the firm. Allen, age 48, is a resident of Pittsburgh, PA.

4. James Barlow Smith, former Vice President of AIM’s Equity Trading Department, and six percent shareholder, served as AIM’s equity trader and reported directly to Allen. Smith, age 46, is a resident of Saxonburg, Pennsylvania.

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<sup>1</sup> The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

<sup>2</sup> The Commission has filed a separate civil injunctive action in federal district court against Jeff Thomas Allen and James Barlow Smith arising out of the same events described in this Order.

## **Summary**

5. This matter involves unauthorized trading and improper leveraging of client assets in violation of client investment advisory agreements, which resulted in more than \$415 million in client losses. Specifically, between January 2002 and July 2002, Allen orchestrated an unauthorized trading scheme with the assistance of Smith. Belko had knowledge of the improper conduct as early as April 2002, and as portfolio manager, Senior Vice President and second highest ranking officer and shareholder, had a duty to provide full and fair disclosure of all material facts to AIM clients. Although Belko knew the unauthorized trading exposed clients to risks they had not agreed to assume, he never disclosed this information to clients or otherwise attempted to correct any of the misrepresentations or omissions in monthly account statements.

### **AIM's Enhanced Indexing Product**

6. AIM offered an investment advisory product called "Enhanced Indexing," which consistently outperformed the S&P 500 Composite Index ("S&P 500") through the 1990's and attracted the investments of several private and public pension funds. This strategy sought portfolio returns that exceeded the S&P 500 by foregoing direct investment in the equities that comprise the S&P 500 and, instead, used "synthetic" investment products, i.e. derivatives, to mirror the S&P 500. Through the use of derivatives, AIM built portfolios at a margin cost of roughly five percent of the 100 percent cost of purchasing the S&P 500 equities. AIM then invested the cash saved from purchasing derivatives in short term, high quality debt instruments, or cash equivalents. By seeking a competitive return on these relatively safe instruments, AIM "enhanced" any return on the S&P 500 (mirrored through derivatives) with its return on these debt instruments or cash equivalents. In short, the portfolio sought to closely track the S&P 500 under all market conditions and offered a long-term return that outperformed the total return of the S&P 500 by 70 to 125 basis points (.70 to 1.25 percent) annually.

7. Many of AIM's sophisticated Enhanced Index clients understood the risk associated with this strategy and the potential for substantial losses if AIM did not follow a controlled and disciplined investment strategy. Accordingly, AIM and its clients entered into investment advisory agreements which specifically outlined the scope of AIM's investment authority.

8. The advisory agreements specifically prescribed the amount of risk AIM could use in their portfolios. Most clients required AIM to maintain 100 percent market exposure in their accounts such that any market movement in the S&P 500 would cause comparable percentage movements in the market value of their portfolio. Thus, the 100 percent market exposure limit reduced the portfolio's risk profile because it assured that the portfolio's market value moved parallel with the S&P 500.

9. However, AIM also had a small group of more aggressive clients who authorized AIM to increase their market exposure to levels as high as 120 percent. Exposure above the 100 percent level increased the risk profile because the portfolio's value moved disproportionately to the S&P 500 depending on the extent of market exposure. For example, a

portfolio that has 200 percent in market exposure would essentially experience twice the gain or loss of the same portfolio with only 100 percent market exposure.

10. Allen oversaw the management and implementation of the Enhanced Index strategy and divided the trading into two categories: “Core” and “Non-Core.” Belko directed AIM’s Core trading and managed the fixed income department. Allen, along with Smith, personally managed AIM’s Non-Core trading.

11. The Core positions in AIM’s Enhanced Index portfolios were comprised of derivative instruments purchased to create the synthetic S&P 500 portfolio up to 100 percent in market exposure. Belko separately managed the Core portion of the portfolio by ensuring the Core exposure remained at 100 percent.

12. Allen separately managed the portion of each client portfolio used to generate any additional exposure above the 100 percent level as part of the Non-Core trading. Significantly, Allen could only conduct his Non-Core trading in accounts where clients had expressly authorized AIM to increase exposure levels beyond 100 percent. However, Allen used the Non-Core trading as a vehicle for fraud, conducting Non-Core trading in numerous accounts without client authorization or consent, increasing the exposure in some accounts to levels as high as 500 percent, and causing combined client losses of more than \$415 million.

### **Investment Guideline Violations**

13. Between January 2002 and July 2002, Allen purchased and then closed out Non-Core positions in excess of authorized amounts (and Non-Core positions for some client accounts who had not authorized any Non-Core trading) on or near the last day of the month to conceal from clients what the monthly statements would otherwise reveal -- namely, that Allen was maintaining excessive exposure levels in contravention of client advisory agreements. After reporting the misleading month-end exposure levels, Allen and Smith increased -- often dramatically -- client exposure levels by reestablishing the positions they sold only days earlier. This strategy of “window dressing” prevented clients from discovering the fraud.

14. On April 1, 2002, the S&P 500 closed at 1,146 and then steadily declined over the next four months until reaching 819 on July 22, 2002, a drop of 28.5 percent. The S&P 500’s decline was exacerbated for AIM clients because of the excess exposure Allen had created in their accounts. By April 30, 2002, AIM had underperformed the S&P 500 by 180 basis points.

15. In late May 2002, Allen attempted to recover April’s losses by purchasing multiple high risk call and put options in numerous client portfolios, continuing his unauthorized trading and excessive exposure. As the market continued to decline and the option contracts approached their June 21, 2002 expiration date, the exposure in some accounts dramatically increased, from approximately 145 percent on June 3 to 385 percent by June 20. Client losses multiplied as the exposure increased.

16. Rather than cease his fraudulent conduct after having inflicted substantial losses with his high-risk options gamble, Allen decided to “double down” on the market’s direction by purchasing numerous futures contracts on June 21, 2002. Allen apparently bet that the S&P 500, which had declined by 33 points, or 3.2 percent, over the first two weeks of June 2002, would reverse course, causing the market value of the portfolios to rebound. By maintaining excessive exposure levels that in some cases reached 500 percent, any market increases would disproportionately increase the market value of the portfolios, allowing the accounts to recover the losses created by Allen’s wrongdoing before the month-end reporting date.

17. However, Allen’s gamble failed. The market did not reverse course in time to avoid rapid declines in portfolio values. The magnitude of the losses was enormous; one account decreased from \$117,499,626 to \$74,285,680 between May 31 and July 12, 2002, a 37 percent decrease compared to a 13 percent drop in the S&P 500. Combined losses among Enhanced Index clients exceeded \$415 million.

### **Misleading Account Statements**

18. None of AIM’s principals, including Belko, informed their clients that AIM had been maintaining inappropriate exposure levels or otherwise invested their assets in a manner inconsistent with their advisory agreements until July 2002, when the losses became so great they could no longer be concealed. In fact, the monthly statements sent during the months of the fraudulent trading misrepresented and understated exposure levels and made it appear that AIM had been complying with the advisory agreements.

19. Each month AIM provided clients with a multi-page reporting package that disclosed an array of month-end portfolio information including, among other things, performance and transaction data and market exposure calculations. However, at no time did anyone at AIM, including Belko, disclose in the monthly statements or otherwise the fact that Allen had been routinely conducting Non-Core trading in violation of the advisory agreements and rebalancing client portfolios each month without disclosing the excessive intra-month exposure.

20. In addition, AIM understated the exposure levels in several client account statements between January and June 2002, which further misled investors into believing that AIM had been in compliance with client advisory agreements.

21. Finally, in June, Allen withheld from the May account statement a Non-Core Equity Graph, which would have otherwise revealed the excessive exposure levels in numerous accounts. Had the graph been included with the May statement, clients could have realized that their portfolios faced substantial risk of loss from the high risk options purchased in late May and been able to liquidate the unauthorized positions before suffering more significant losses.

### **Belko's Participation in the Fraud**

22. In April, Belko discovered that several client portfolios had exposure levels in excess of 100 percent. Belko knew that Allen's Non-Core trading caused the excessive exposure and violated client advisory agreements.

23. In May, Belko learned through conversations with Allen that Allen had not only continued to use excessive exposure to recover lost performance, but had also accelerated his unauthorized trading strategy and purchased the high risk option contracts. Allen repeatedly assured Belko that he would remedy these violations.

24. By mid-June, Belko knew that Allen's option purchases had caused significant client losses and that Allen sought to recover these losses by purchasing numerous futures contracts. Belko understood that the futures contracts increased exposure to levels beyond anything reached previously and that clients risked extensive losses.

25. On June 26, 2002, and in response to the facts set forth herein, Belko resigned from AIM. At that time, Belko alerted AIM's outside counsel to the violations described herein. Belko returned to AIM following Allen's resignation and briefly held the position of Chief Investment Officer from July 8, 2002 until September 30, 2002, during which time Belko directed the unwinding of the unauthorized positions.

26. As portfolio manager, Senior Vice President and second-highest ranking officer and shareholder, and director, Belko had a duty to AIM clients to provide full and fair disclosure of all material facts to AIM clients about the unauthorized trading.

27. Belko knowingly, or at least recklessly, made misstatements and omissions of material facts by failing to ensure the monthly account statements sent to clients disclosed the excessive exposure and by failing to otherwise inform clients about the improper trading after becoming aware of it in April 2002.

28. From January 2002 through July 2002, Belko received \$355,333 in total compensation from AIM. Belko paid \$429,337, an amount that exceeds his ill-gotten gains, toward the settlement of private litigation initiated by former AIM clients.

### **Violations**

29. As a result of the conduct described above, Belko willfully violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase or sale of securities.

30. As a result of the conduct described above, Belko willfully aided and abetted and caused violations of Sections 206(1) and 206(2) of the Advisers Act. These sections prohibit fraudulent conduct by an investment adviser.

### **Undertaking**

31. **Ongoing Cooperation.** In determining to accept the Offer, the Commission has considered the following undertaking by Belko. Belko shall cooperate fully with the Commission in any and all investigations, litigations or other proceedings relating to or arising from the matters described in this Order. In connection with such cooperation, Belko has undertaken to:

A. Produce, without service of a notice or subpoena, any and all documents and other information requested by the Commission's staff;

B. Use his best efforts to be interviewed by the Commission's staff at such times as the staff reasonably may direct and to appear and testify truthfully and completely without service of a notice or subpoena in such investigations, depositions, hearings or trials as may be requested by the Commission's staff; and

C. In connection with any testimony of Belko to be conducted at deposition, hearing or trial pursuant to a notice or subpoena, Belko:

i. Agrees that any such notice or subpoena for his appearance and testimony may be served by regular mail on his attorneys, at the following address: William E. White, Esq., Wilmer Cutler Pickering Hale and Dorr LLP, 2445 M Street, N.W., Washington, D.C. 20037; and

ii. Agrees that any such notice or subpoena for Belko's appearance and testimony in an action pending in a United States District Court may be served, and may require testimony, beyond the territorial limits imposed by the Federal Rules of Civil Procedure.

32. Belko shall provide to the Commission, within 30 days after the end of the nine month suspension period described below, an affidavit that he has complied fully with the sanctions described therein.

33. In determining whether to accept the Offer, the Commission has considered the undertakings enumerated above.

#### IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Belko's Offer.

Accordingly, pursuant to Section 8A of the Securities Act, Section 21C of the Exchange Act, and Sections 203(f) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondent Belko cease and desist from committing or causing any violations and any future 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.

B. Respondent Belko be, and hereby is, suspended from association with any investment adviser for a period of nine (9) months, effective on the second Monday following the entry of this Order.

C. It is further ordered that Respondent Belko shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$50,000 to the United States Treasury. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies William T. Belko as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Arthur S. Gabinet, District Administrator, Securities and Exchange Commission, 701 Market Street, Suite 2000, Philadelphia, PA 19106.

By the Commission.

Jonathan G. Katz  
Secretary