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STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

In the Matter of the Investment Advisor Registration and Resident Insurance Producer License of Steven R. Knuttila, individually and doing business as Knuttila Financial Services, Inc.

CONSENT ORDER

State of Minnesota
Dept of Commerce

APR 02 2018

Rec'd $ 5000

To: Steven R. Knuttila
655 3rd Avenue S.E., #D
Perham, MN 56573

Commissioner of the Commerce Jessica Looman (Commissioner) has determined as follows: that the Minnesota Department of Commerce (Department) is prepared to commence formal action pursuant to Minn. Stat. § 45.027 (2016) against Respondents Steven R. Knuttila and Knuttila Financial Services, Inc. (Respondent) based on the allegations set forth below.

FINDINGS OF FACT

1. Respondent holds an investment advisor registration (no. 3039112) and a resident insurance producer license (no. 20149917).

2. Respondent Knuttila does business as Knuttila Financial Services, Inc. a Minnesota corporation. That entity holds no securities or insurances licenses.

3. Respondent has been in the securities industry since 1998. From 2006 until 2012, Respondent was affiliated with Questar Capital Corporation (Questar). After receiving numerous client complaints, Questar placed Respondent on heightened supervision, then terminated him in May of the following year for failure to follow firm procedures for reporting customer complaints and the use of discretion.

4. After leaving Questar, Respondent became affiliated with Capital Financial Services, Inc. (CFS). In 2014, Respondent was placed on heightened supervision by CFS for a two year period. In 2017, Respondent was again placed on heightened supervision. Respondent then terminated his affiliation with CFS on December 31, 2017.

5. Different clients reported similar sales tactics and methods used by Respondent. Some of these are as follows:

a. Respondent often solicited members of his church. He was also introduced to clients by an insurance producer appointed with the Knights of Columbus. Respondent would use this religious affinity to build trust in his recommendations.
b. After reviewing the existing investments of potential clients, Respondent would often tell them they needed to "stop the bleeding". He instructed them to call or write their current financial adviser and tell him or her they were "sick and tired" of losing money.
c. In order to satisfy compliance and suitability reviews, Respondent would dictate letters that clients would hand write stating they wanted to exceed recommended participation limits on high risk investments.
d. Respondent prepares no materials or data used to determine suitability. He does not measure overall investment objectives or risk tolerance. Instead, he states that he measures each of these for each particular investment. Thus, for each annuity sale, the forms reflect objectives and tolerance that are relatively conservative, while the same clients have forms for alternative investments that reflect a high risk tolerance and aggressive, speculative investment objectives.

SALE OF UNSUITABLE INVESTMENTS

6. As set forth below, the Department has received several complaints concerning Respondent. Additionally, the Department learned of numerous other complaints filed with the broker/dealers employing Respondent. These complaints demonstrate a pattern and practice by Respondent of both intentionally or negligently misrepresenting investment products and selling unsuitable investments to his clients.

7. Respondent sold a number of alternative investments to retired, unsophisticated clients. The primary alternative investments sold by Respondent consisted of real estate

investment trusts (REIT), equipment leasing investments and oil & gas partnerships. These were high risk investments, carried high fees, and had little or no liquidity. As such, they were unsuitable for the vast majority of potential investors. The industry generally views limited partnerships, especially leasing funds, as complex, high risk products that are typically intended for sophisticated and institutional investors. Limited partnerships are arguably unsuitable for most investors, especially conservative investors.

8. Compared to other traditional investments, limited partnerships offer extremely high sales commission. These investments have an up-front sales charges and commissions as high as 20%, and offered agents a commission of 10.5% in an industry where the typical commission is .5-2%.

9. Equipment leasing funds like Cypress Equipment Fund purchase various pieces of office equipment and technology, then lease them to businesses and sell them on the secondary market when the leases expired. These funds often distributed dividends from capital rather than from operating income, leading to significant losses. These investments have low or no liquidity, and today are likely worth pennies on the dollar. Broker dealers that sell these types of funds pay sales commissions as high as 7% on every unit sold, according to the SEC.

10. Real estate investment trusts (REIT's) are high risk, speculative investments, particularly if they are "non-traded" REIT's. Non-traded REIT's are difficult to value simply because they _are_ non-traded. Likewise, this feature makes them illiquid and challenging to sell. The Healthcare Trust of America Inc. invests in and leases medical office buildings and healthcare-related facilities. Its offering document cover page states that *"This investment involves a high degree of risk. You should purchase these securities only if you can afford a complete loss of your 0investment"*. The document then goes on to list ten potential risk factors, including illiquidity.

11. In virtually every instance set forth below, Respondent downplayed the risk and mislead investors into thinking these REITs and equipment leasing investments were "safe" investments.

Alternative Investment Sales

12. Client EM was an 87 year old widow at the time she became a client of Respondent. She was sold an annuity that was surrendered the following year, incurring substantial surrender fees. She was sold fourteen alternative investments, of which five were oil & gas partnerships. She filed an arbitration claim of over $26,000.

13. Client DF sold his business in 2013 and instructed Respondent that he wanted "safe" investments. He also told Respondent that some of the investments should be of a short (60-90 day) duration. Instead, Respondent placed in excess of $450,000 in U.S. Energy Partners, Coachman Energy and a REIT, all of which were highly speculative. These investments lost nearly $90,000 over a two to three month period.

14. Client DS was a 73 year old retired individual who met Respondent through his church and affiliated religious organizations. DS had his entire portfolio with RBC Dain Rauscher. After meeting with Respondent, he was instructed to tell his RBC adviser that he was "sick and tired" of losing money and need to immediately "stop the bleeding". DS then transferred his entire portfolio to Respondent. DS told Respondent his objective was to "not risk losing any more money". Respondent assisted DS in completing his paperwork, including falsely identifying DS as an "accredited investor". Respondent invested $150,000 of DS's portfolio into LEAF Financial and $60,000 in Healthcare Trust of America REIT. Additionally, DS also invested small amounts in two energy-related partnerships. However, in one of the partnerships, the documents reflect that DS was a "general partner", greatly altering DS's tax and legal liability exposure.

15. Client MH worked in a middle class occupation his entire life and had a modest portfolio at the time of retirement. After retirement, MH sought out Respondent seeking a better return while protecting his assets from losses. Respondent placed MH in an extraordinarily high concentration of REIT's and other alternative investments. Respondent knew MH was too heavily concentrated in these high risk, illiquid investments, so he dictated letters for MH to write in his own handwriting to avoid scrutiny by Questar compliance and supervisory personnel. MH suffered substantial losses to his retirement portfolio.

16. Clients LB and EB attended Respondent's seminar. The couple intended to convert part of an IRA into an annuity. However, the entire IRA was liquidated, creating a significant additional tax liability for the clients. Likewise, Respondent sold LB and EB investments in the Cypress Equipment Fund and other illiquid, high risk energy-related investments. LB and EB lost a significant portion of their retirement savings.

17. Clients GS and NS met Respondent through a dinner seminar. Both were of retirement age and stressed that they wanted safe investments. Despite his clients' investment objectives, Respondent sold them four energy limited partnerships and three different leasing or real estate investment trusts (REIT). Ultimately, about 60% of the GS and NS portfolio were placed into these speculative, high risk investments and the customers suffered substantial losses.

18. Clients RS and DS are husband and wife. The couple was advised by Respondent to transfer funds from a fixed annuity account to a variable annuity account. The transfers ultimately resulted in unexpected tax liability to RS and DS. RS and DS received a financial settlement as a result of the improper handling of the transfer.

19. Client BS was a 70 year old retired widow. At the time she met with Respondent, her minimal portfolio was in two annuities from which she was receiving small monthly

payments. When BS incurred an unexpected $10,000 nursing home expense, she requested Respondent's help in withdrawing that sum from her annuities. Instead, Respondent surrendered both annuities and placed the funds in a REIT. Because the REIT was illiquid, BS was forced to pay the nursing home bill with a high interest credit card. Again, placing virtually all of this customer's portfolio in an illiquid, high risk, speculative investment was unsuitable.

20. RR and LR just recently filed a complaint, alleging misrepresentations involving the sale of an oil & gas partnership.

21. Client DS and AS had just retried early when they transferred their accounts to Respondent. Respondent placed them in annuities, oil & gas partnerships and other alternative investments. The majority of these investments were unsuitable for the clients based on their investment objectives. The investments were too speculative, illiquid and were sold in improper concentrations. The common denominator in each of these sales was higher than average commissions.

ANNUITY SALES

22. Client AB was a 60 year old who suffered from Multiple Sclerosis and was wheelchair bound. Respondent sold AB an annuity with a 15 year surrender period, which was never disclosed to the customer. Given his age and medical needs, AB was forced to surrender the policy a few years after it was purchased, causing him to incur a significant surrender penalty. Given these facts, the annuity sale was unsuitable.

23. Client BA purchased a variable annuity from Respondent. Respondent either intentionally or erroneously misrepresented the terms and features of the annuity. Misstatements were made about the annuity bonus, fees and account value guarantees. Because of these issues, the issuer of the contract allowed the contract to be surrendered without penalty.

24. Married couple LP and BP were in their mid-50's and were seeking "guaranteed" investments with a 5-10 year time frame that provided a safe but reasonable return. Respondent had LP and BP surrender three annuities (incurring surrender charges) in order to roll the funds over into different annuities. Respondent told them they would recover the amounts lost based on the better rates earned by the new annuities. After four years LP and BP met with Respondent because their statements weren't reflecting the earnings they'd been promised. Respondent claimed that that LP and BP (along with other clients of Respondent) had failed to purchase the appropriate rider. Respondent then suggested that LP and BP surrender these contracts, incur an additional surrender charge, then purchase the contracts again with the appropriate rider. LP and BP received a financial settlement as a result of Respondent's misstatements.

25. Clients PM and MM were convinced by Respondent to surrender their Hartford annuities to participate in market growth while receiving better downside protection. PM and MM were told they would receive a minimum annual return of 5%. After two years PM and MM learned that they would have needed to purchase a rider to obtain this benefit. Additionally, the benefit would not have allowed for withdrawals and Respondent was withdrawing management fees from the contract. This withdrawal would have voided the rider. PM and MM ultimately received a financial settlement from Respondent's broker/dealer.

26. Customers CR and JR purchased four annuities from Respondent. After owning the contracts for a year, the customers complained about poor performance, high fees and illiquidity. After complaining, Respondent wrote to CR and JR demanding they transfer their accounts to a new advisor. Although the broker/dealer did not sustain the complaints, the allegations mirror the experiences of other complainants.

27. Respondent has been the subject of other complaints that were not sustained by his employer or involve residents of North Dakota.

CONCLUSIONS OF LAW

1. Respondent misrepresented the nature, liquidity, and safety of investments in REITs and equipment leasing interests to multiple clients, in violation of Minn. Stat. § 80A.68. (2016). Each misrepresentation and sale constitutes a separate violation.

2. Respondent used fraudulent, coercive, or dishonest practices, or demonstrated incompetence, untrustworthiness, or financial irresponsibility whether or not involving the business of insurance in violation of Minn. Stat. § 60K.43 subd. 1(8) (2016).

3. Respondent made untrue statements of a material fact, or omitted material facts in violation of Minn. Rule 2876.5023 Subp. 1O (2015).

4. Respondent violated Minn. Rule 2876.5023 Subp. 1 (2015) by breaching his fiduciary duty owed to his clients.

5. Respondent violated Minn. Rule 2876.5023 Subp. 1A (2015) and Minn. Stat. § 60K.46 subd. 4 (2016) by placing individuals in retirement, or near retirement, into complex, risky, illiquid investments such as REITs and equipment leasing interests. Each sale of these unsuitable investments constitutes a separate violation.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, pursuant to Minn. Stat. § 45.027 subd. 5a, Minn. Stat. § 80A.81(a) and §80A.63 (d) (2016) that Steven R. Knuttila is permanently barred from engaging in the sale or offering of securities and any related securities activity which this Department licenses, registers or regulates.

IT IS FURTHER ORDERED, that the insurance producer's license of Steven R. Knuttila is hereby revoked.

IT IS FURTHER ORDERED, that Steven R. Knuttila shall pay to the State of Minnesota a civil penalty of $40,000. Of that amount, $30,000 shall be permanently stayed provided he commits no further violations of Minn. Stat. Chapter 80A. Knuttila agrees to pay $5,000 of the civil penalty upon execution of this Order and the remaining $5,000 on or before July 1, 2018. Failure to pay these amounts by the date due or any further violation of the terms of this Order will cause the stay to be lifted and judgment entered as set forth herein.

FURTHER, IT IS HERBY ORDERED, that the civil penalty and/or any resulting judgment arising from this Order is non-dischargeable in any bankruptcy proceeding. See 11 U.S.C. 523(a)(7) (2016) ("A discharge under section 727, 1141, 1228(a), 1228(b), or 1328(b) of this title does not discharge an individual debtor from any debt . . . to the extent such debt is for a fine, penalty, or forfeiture payable to and for the benefit of a governmental unit, and is not compensation for actual pecuniary loss . . .").

IT IS FURTHER ORDERED, that pursuant to Minn. Stat. § 16D.17 (2016), the Commissioner may file and enforce the civil penalty imposed by this Order as a judgment against Respondent in district court without further notice or additional proceedings. In addition, pursuant to Minn. Stat. § 16D.13 (2016), Respondent is hereby notified that 30 days after the entry of said judgment, simple interest computed in accordance with Minn. Stat. § 16D.13, subd. 2 (2016) will begin to accrue on the civil penalty imposed against Respondent.

This Order shall be effective upon signature on behalf of the Commissioner.

Dated: 4-10-2018

JESSICA LOOMAN
Commissioner

MARTIN FLEISCHHACKER
Assistant Commissioner of Enforcement

Minnesota Department of Commerce
85 7th Place East, Suite 500
St. Paul, MN 55101
(651) 539-1600

CONSENT TO ENTRY OF ORDER

The undersigned, acting individually and on behalf of the assumed name of Knuttila Financial Services, states that he has read the foregoing Consent Order; that he knows and fully understands its contents and effect; that he is authorized to execute this Consent to Entry of Order; that he has been advised of his right to a hearing and expressly waives that right; that he has been represented by legal counsel in this matter; or that he has been advised of his right to be represented by legal counsel and that he has waived this right; and that he consents to entry of this Order by the Commissioner of Commerce. It is further expressly understood that this Order constitutes a settlement agreement between the parties hereto, there being no other promises or agreements, either express or implied.

Steve Knuttila

Steven R. Knuttila dba Knuttila Financial Services

STATE OF Minnesota

COUNTY OF Otter Tail

This instrument was acknowledged before me on March 23, 2018 (date) by Cheryl L Romann (name of person)

(stamp) CHERYL L. ROMANN NOTARY PUBLIC - MINNESOTA MY COMMISSION EXPIRES 01/31/2022

Cheryl L Romann

(Signature of Notary or Witness)