



**BEFORE THE SECURITIES COMMISSIONER
OF THE STATE OF KANSAS**

In the Matter of:

CORNERSTONE SECURITIES LLC (CRD #140379) Docket No. 13 E 023
and KSC No. 2011-5808
RUSSELL E. FIEGER (CRD #4122326),

Respondents.

_____/
Pursuant to K.S.A. 17-12a412

CONSENT ORDER

SUMMARY OF ALLEGATIONS

The Staff of the Office of the Kansas Securities Commissioner (“KSC Staff”) alleges that Cornerstone Securities LLC and Russell E. Fieger (“Respondents”) engaged in conduct that constitute grounds for discipline pursuant to K.S.A. 17-12a412(d)(13).to impose administrative sanctions against the Respondents under the Kansas Uniform Securities Act.

1. Respondents and the KSC Staff desire to settle the allegations and the matters raised by the KSC Staff relating to the alleged violations by Respondents.

CONSENT TO JURISDICTION

2. Respondents and the KSC Staff stipulate and agree that the Securities Commissioner of Kansas (the “Commissioner”) has jurisdiction over Respondents and these matters pursuant to the Kansas Uniform Securities Act, K.S.A. §§ 17-12a101-17-12a703.
3. Respondents and the KSC Staff stipulate and agree that the Commissioner has authority to enter this Order pursuant to K.S.A. § 17-12a604.

WAIVER AND EXCEPTION

4. Respondents waive their right to a hearing with respect to this matter.

5. Respondents waive any rights that they may have to seek judicial review or otherwise challenge or contest the terms and conditions of this Order. Respondents specifically forever releases and holds harmless the Kansas Securities Commissioner, the KSC Staff and their respective representatives and agents from any and all liability and claims arising out of, pertaining to or relating to this matter.
6. Respondents stipulate and agree that, should the facts contained herein prove to be false or incomplete, the KSC Staff preserves the right to pursue any and all legal and administrative remedies at its disposal.

CONSENT TO COMMISSIONER'S ORDER

7. Respondents and the KSC Staff agree to the issuance of this Consent Order without further proceedings in this matter, agreeing to be fully bound by the terms and conditions specified herein. Respondents acknowledge that should they fail to comply with this Order, they are subject to further discipline, including but not limited to revocation of their registration and civil penalties. Notwithstanding, Respondents failure to make a timely payment under Paragraph A of this Order shall not be deemed a failure to comply as long as said payment is made within a reasonable grace period, not to exceed 15 days, or upon express written agreement of the Commissioner.
8. Respondents neither admit nor deny the allegations made by the KSC Staff and agree to the issuance of this Consent Order solely for the purposes of this proceeding and any proceeding that may be brought to enforce the terms of this Consent Order.
9. Respondents agree not to take any action or to make or permit to be made any public statement creating the impression that this Order is without a factual basis. Nothing in this Order affects Respondents' (a) testimonial obligations; or (b) right to take legal or

factual position in defense of litigation or in defense of other legal proceedings in which the Commissioner is not a party.

FINDINGS OF FACT

10. Respondent Cornerstone Securities LLC (“Cornerstone”) is an investment adviser registered in the State of Kansas since May 19, 2006.
11. Respondent Russell E. Fieger (“Fieger”) is an investment adviser representative associated with Cornerstone and has been registered in the State of Kansas since May 19, 2006. Fieger is the chief executive officer and chief compliance officer of Cornerstone. From March 2006 until June 2012, Fieger was a broker-dealer agent associated with Brookstone Securities, Inc. Since July 30, 2012, Fieger has been registered in the State of Kansas as a broker-dealer agent associated with Crown Capital Securities, L.P.
12. In April 2006, [REDACTED] (“the [REDACTED]”), a retired couple, executed an Investment Advisory Agreement with Cornerstone. The Investment Advisory Agreement was signed by Fieger on behalf of Cornerstone, who served as the investment adviser representative on the [REDACTED] account with Cornerstone. The Investment Advisory Agreement gave Cornerstone and Fieger discretion to purchase and sell securities on behalf of the [REDACTED] without prior consent.
13. In June 2008, Fieger began to purchase complex products known as leveraged exchange traded funds and leveraged-inverse exchange traded funds (ETFs) in the accounts that he managed on behalf of the [REDACTED]
14. Leveraged ETFs and leveraged-inverse ETFs are part of a category of complex products known as non-traditional ETFs. Leveraged ETFs seek to deliver a stated multiple of the return of a specified index over a stated time period. Leveraged-inverse ETFs seek to

deliver a stated multiple of the opposite of the return of a specified index over a stated time period. All of the leveraged ETFs and inverse-leveraged ETFs purchased by Fieger on behalf of the [REDACTED] had a stated multiple of two times the target index and two times the opposite of the target index respectively. The majority of nontraditional ETFs, including the ones that the Respondent purchased on behalf of the [REDACTED], are designed to achieve their stated objective on a daily basis.

15. To meet this daily objective, each fund must reset on a daily basis. This daily resetting causes an effect known as compounding. Due to compounding, leveraged and leveraged-inverse ETFs are likely to produce returns that do not equal the stated multiple (or in the case of leveraged-inverse funds the stated multiple of the opposite) of their target index when held for periods of time longer than one day. In fact, it is possible that when held for longer than one day a leveraged ETF can sustain a loss even though its target index has climbed over the same period of time, and a leveraged-inverse ETF can sustain a loss even though its target index has fallen over the same period of time.
16. The prospectuses for the leveraged and leveraged-inverse ETFs that Fieger purchased on behalf of the [REDACTED] contained multiple statements warning that the funds only seek to meet their objectives on a daily basis and that if held for periods longer than one day it is likely that the funds' performance will not equal the stated multiple (or multiple of the inverse for leveraged-inverse funds) of their benchmarks. Furthermore, the Financial Industry Regulatory Authority issued Regulatory Notice 09-31 in June 2009, which provided regulatory guidance for the sale of nontraditional ETFs by broker-dealers. Regulatory Notice 09-31 contained multiple statements warning that leveraged and

inverse ETFs are not typically suitable for retail investors who plan to hold them for periods longer than one day.

17. Despite the abundance of warnings regarding the risks of nontraditional ETFs, Fieger placed a portion of the assets that he managed on behalf of the [REDACTED] in leveraged and leveraged-inverse ETFs. Furthermore, he held the leveraged and leveraged-inverse ETFs for periods much longer than one day (in some instances, they were held for as long as 173 days).
18. Fieger's act of placing a portion of the assets that he managed for the [REDACTED] in two times leveraged and two times leveraged-inverse ETFs was in direct contravention to the funds' prospectuses and Regulatory Notice 09-31.
19. Fieger made the purchases in his capacity as an investment adviser representative for Cornerstone.
20. Due to such transactions, the [REDACTED] suffered losses of \$253,876.19.

CONCLUSIONS OF LAW

21. Paragraphs 1-19 are incorporated by reference as though fully set forth herein.
22. Fieger's purchases of the leveraged and leveraged-inverse ETFs on behalf of the [REDACTED] constitute unsuitable recommendations and a breach of his fiduciary duty as an investment adviser representative.
23. Fieger's purchases of two times leveraged and two times leveraged-inverse ETFs in the accounts that he managed on behalf of the [REDACTED] constitute unsuitable recommendations and a breach of fiduciary duty on the part of Cornerstone as well.
24. Respondents' conduct constitutes grounds for discipline pursuant to K.S.A. 17-12a412(d)(13).

25. The Commissioner has jurisdiction over Respondents and this matter and that the following Order is in the public interest and is consistent with the purposes intended by the Kansas Uniform Securities Act.

ORDER

IT IS, THEREFORE, ORDERED that:

- A. Respondents shall pay a total of \$86,600 in restitution to [REDACTED]. Respondents shall be jointly and severally liable for such restitution, which shall payable to the Office of the Kansas Securities Commissioner for the benefit of [REDACTED].
- B. Within 10 days from the date of this Order, Respondents shall make an initial restitution payment of \$5,000 payable to the Office of the Kansas Securities Commissioner for the benefit of [REDACTED].
- C. Respondents shall, on the first of every month, beginning on March 1, 2014, and continuing until the total restitution amount of \$86,600 is paid in full, but under no circumstances longer than 48 months, pay \$1,700 payable to the Office of the Kansas Securities Commissioner for the benefit of [REDACTED].

IT IS SO ORDERED BY THE COMMISSIONER.

Entered at Topeka, Kansas this 18th day of March, 2014.



[REDACTED]
Joshua A. Ney
Securities Commissioner of Kansas

CONSENTED TO BY:



Nathan J. Soendker
Senior Staff Attorney
Office of the Kansas Securities Commissioner



Russell E. Fieger
Respondent



Cornerstone Securities LLC
Russell E. Fieger, CEO

APPROVED AS TO FORM:



Reggie C. Giffin
Reggie C. Giffin, P.C.
Counsel for Respondents