

ADMINISTRATIVE PROCEEDING  
BEFORE THE  
MARYLAND SECURITIES COMMISSIONER

IN THE MATTER OF: \*

JOSEPH R. KARSNER, IV, \* File No. 2002-0391

JOE KARSNER & ASSOCIATES, LLC \*

and \*

LEGACY FINANCIAL SERVICES, INC., \*

Respondents. \*

\* \* \* \* \*

**CONSENT ORDER AS TO JOSEPH R. KARSNER, IV AND JOE KARSNER &  
ASSOCIATES, LLC**

WHEREAS, the Maryland Securities Commissioner (the “Commissioner”), pursuant to the authority granted by Section 11-701 of the Maryland Securities Act, Corporations and Associations Article, Title 11, Annotated Code of Maryland (2007 Repl. Vol.) (the “Securities Act”) initiated an investigation into the activities of Joseph R. Karsner, IV (“Karsner”), a former registered representative of Legacy Financial Services, Inc. (“Legacy”) and of Karsner’s sole proprietorship Joe Karsner & Associates, LLC (“JK & A”) (collectively “respondents”); and

WHEREAS, on the basis of that investigation the Commissioner determined that Karsner and JK & A may have sold unsuitable investments to their clients and in other respects violated the Securities Act; and

WHEREAS, on March 19, 2007, the Commissioner issued an Order to Show Cause against Karsner, JK & A and Legacy; and

WHEREAS, respondents answered the allegations and requested a hearing; and

WHEREAS, without holding a hearing, without trial or adjudication of any issue of fact or law and in settlement of all charges made in the Order to Show Cause, the Commissioner, Karsner and JK & A (collectively “Karsner”) have reached an agreement to resolve this matter; and

WHEREAS, the Commissioner and Karsner agree that they will dismiss with prejudice each of the proceedings pending in the United States District Court for the District of Columbia seeking orders to expunge records maintained on the CRD; and

WHEREAS, Karsner further agrees that he will cooperate with the Division and with FINRA to reverse or vacate expungements or expungement orders that have been entered; and

WHEREAS, Karsner agrees that he will not seek any additional expungement of records maintained on the CRD; and

WHEREAS, Karsner waives any right he may have to appeal or otherwise challenge or contest the terms and conditions of this Consent Order; and

WHEREAS, Karsner, without admitting or denying any of the Commissioner’s findings of fact or conclusions of law, except that he expressly consents to the Commissioner’s jurisdiction in this proceeding pursuant to Section 11-701.1 of the Securities Act, and consents to the terms set forth below in the sections captioned Sanctions and Consequences of Violating Consent Order; and

WHEREAS, the Commissioner has determined that it is in the public interest to issue this Consent Order;

**THE COMMISSIONER FINDS:**

## **I. JURISDICTION**

\_\_\_\_\_1. The Commissioner has jurisdiction in this proceeding pursuant to Section 11-701.1 of the Securities Act.

## **II. RESPONDENTS**

2. Karsner (CRD # 1001341) was a Maryland resident during the period at issue here and maintains a place of business at 325 Gambrills Road, Suite B, Gambrills, Maryland 21054. Karsner became a registered representative of Legacy on April 2, 1999; his registration terminated on January 5, 2006. He was registered through Signator Investors, Inc. (a.k.a. John Hancock Distributors, Inc.), an affiliate of John Hancock Life Insurance Company (collectively “Hancock”), between November 1981 and April 1999. He has passed the Series 6 exam and, therefore, may be licensed to sell mutual funds. He has never passed the Series 7 exam that would permit him to become a general securities representative. He is not registered as an investment adviser representative and is not currently registered to sell securities in any jurisdiction. He is a licensed insurance agent in Maryland.

3. Joe Karsner & Associates, LLC is a Maryland limited liability company formed in April 1999. Its principal office is located at 325 Gambrills Road, Suite B, Gambrills, Maryland 21054.

4. Legacy (CRD # 38697) was a California corporation organized in 1995. It was headquartered at 2090 Marina Avenue, Box 6030, Petaluma, CA 94955-6030. Legacy has been registered as a broker-dealer in Maryland from January 1996 until October 2, 2008, when it withdrew its registration.

## **III. STATEMENT OF FACTS**

### Karsner's Business Practices

5. Karsner operated a branch office of Legacy between March 2001 and January 5, 2006, when he was terminated.

6. Karsner described his business "Joe Karsner and Associates" as a "retirement planning and investment organization that offers a number of investment vehicles to structure a portfolio that will meet your particular financial needs." He explained on his website provenretirement.com that he has "over 22 years experience in the retirement/investment/insurance financial planning field."

7. Karsner held out to the public as an investment adviser. His website used to describe Karsner as a "financial advisor." While he was affiliated with Legacy, the website stated that he "manages over \$250 million in retirement accounts."

8. Karsner handled more than eleven hundred clients as of June 2003. He earned approximately \$3.3 million in gross commissions between April 2, 1999 and June 5, 2003.

9. Many of Karsner's clients retired from the "telephone company." He typically advised persons attending his seminars who were eligible for retirement to take a lump sum distribution rather than a pension. He recommended that retirees invest the lump sum in a portfolio of mutual funds, variable annuities and other insurance products, and assured potential clients that they would be able to live off the investment for the rest of their lives.

10. Most of his clients were unsophisticated in financial matters who relied upon Karsner. While Karsner was with Hancock, he recommended that his clients invest conservatively in a diversified portfolio of mutual funds, including such types of funds as growth and income, large cap growth, bank and bond funds, and variable annuities with diversified

mutual fund sub-accounts. After Karsner transferred from Hancock to Legacy in April 1999 and moved his clients to Legacy through the mass transfer, he advised his clients to sell the Hancock products and purchase products through Legacy. The mutual funds that Karsner recommended to his clients after he moved to Legacy were frequently riskier than those he recommended while at Hancock.

11. When he met with clients to recommend that they switch their funds, Karsner had the clients sign Legacy new account forms. He often changed the investment objectives and risk tolerance identified on the clients' Hancock forms to coincide with the characteristics of the riskier portfolios. Often, clients signed a new account form to go along with each new mutual fund investment. To the extent that the funds carried different risks and engaged in different strategies, the new account forms identified different investment objectives and risk tolerance.

12. When clients switched from Hancock mutual funds to funds purchased through Legacy, they were asked to initial and sign investment applications that Karsner had filled out, often by typewriter in advance of meeting. Many of the applications are not initialed by the clients or signed by a Legacy principal.

13. Many of the mutual funds purchased on Karsner's advice were unsuitable for his retired clients.

#### **IV. CONCLUSIONS OF LAW**

The Commissioner concludes that:

14. Respondents Karsner and JK & A violated the anti-fraud provisions in section 11-301 of the Securities Act when they sold unsuitable mutual funds to their clients.

15. Respondents Karsner and JK & A engaged in dishonest or unethical practices in

violation of section 11-302 (a)(3) of the Securities Act when they switched clients from one portfolio of mutual funds to another more risky portfolio and made investment recommendations to clients that were unsuitable.

## V. SANCTIONS

NOW, THEREFORE, IT IS HEREBY ORDERED, and Respondents Karsner and JK & A expressly consent and agree:

1. Respondents Karsner and JK & A shall permanently cease and desist violating Section 11-301 and Section 11-302 of the Securities Act.
2. Respondent Karsner shall not apply to the Division for registration for ten years from January 5, 2006, the date he failed to renew his Series 6 license.
3. Respondents Karsner and JK & A shall pay in installments to the Office of the Attorney General a civil monetary penalty of \$50,000, with the first installment of \$10,000 due before this order is signed and additional installments of \$10,000 every 90 days thereafter until the penalty is paid in full.
4. Karsner shall dismiss with prejudice each of the proceedings pending in the United States District Court for the District of Columbia seeking orders to expunge records maintained on the CRD.
5. Karsner shall cooperate with the Division and with FINRA to reverse or vacate expungements or expungement orders that have been entered.
6. Karsner shall not seek any additional expungement of records maintained on the CRD.

7. Respondents Karsner and JK & A shall comply fully with the Securities Act and the regulations promulgated thereunder.

**VI. CONSEQUENCES OF VIOLATING CONSENT ORDER**

8. If either respondent Karsner or JK & A fails to comply with any term of this Consent Order, the Division may institute administrative or judicial proceedings against that respondent to enforce this Consent Order or to sanction respondent for violating an Order of the Commissioner, and may take any other action authorized under the Securities Act or any other applicable law, including the issuance of fines or penalties as provided by the Securities Act. For the purpose of determining those sanctions, the Statement of Facts and violations of the Securities Act set forth in the Order to Show Cause shall be deemed admitted, and may be introduced into evidence against respondent.

**VII. MODIFICATION OF CONSENT ORDER**

9. The terms of this Consent Order may only be modified by a subsequent order issued by the Commissioner.

**SO ORDERED:**

**Commissioner's Signature is  
on File with Original Document**

DATED: December 1, 2008

Melanie Senter Lubin  
Securities Commissioner

CONSENTED TO:

\_\_\_\_\_  
Joseph R. Karsner, IV

On this \_\_\_\_ day of \_\_\_\_\_, 2008, personally appeared Joseph R. Karsner, IV, signer of the foregoing Consent Order, who did duly acknowledge his signature to be his free act and deed.

\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_

Seal:

\_\_\_\_\_  
Joe Karsner and Associates, LLC  
by Joseph R. Karsner, IV  
title \_\_\_\_\_

On this \_\_\_\_ day of \_\_\_\_\_, 2008, personally appeared Joseph R. Karsner, IV, signer of the foregoing Consent Order, who did duly acknowledge his signature to be his free act and deed.

\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_

Seal: