

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

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-15808**

**In the Matter of**

**AARON JOUSAN JOHNSON,**

**Respondent.**

**DIVISION OF ENFORCEMENT'S MOTION FOR SANCTIONS AGAINST  
RESPONDENT AARON JOUSAN JOHNSON**

Pursuant to Rules 155(a) and 220(f) of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a) and 201.220(f), and the Court's Order of May 5, 2014, the Division of Enforcement (the "Division") moves that the Administrative Law Judge enter an order barring Respondent Aaron Jousan Johnson permanently from associating with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization ("NRSRO").

**BACKGROUND**

The Commission issued the Order Instituting Administrative Proceedings and Cease-and-Desist Proceedings and Notice of Hearing ("OIP") in this matter on March 20, 2014, pursuant to Section 203(f) of the Investment Advisers Act of 1940 ("Advisers Act"). This proceeding is a follow-on administrative proceeding based on a final order of the Connecticut Department of Banking (the "Connecticut Order") finding that Johnson violated Connecticut securities laws that prohibit dishonest and unethical conduct and revoking his investment adviser agent license. *See* certified copy of the Connecticut Order attached as Exhibit A.

Johnson was served with the OIP by hand delivery on March 31, 2014. *See* Proof of Service attached as Exhibit B. Johnson did not file an Answer to the OIP as due by April 21, 2014. The Court then held a telephonic pre-hearing conference on April 22, 2014. Counsel for the Division was present at the hearing, but Johnson did not attend. Thereafter, the Court ordered Johnson to show cause, by May 2, 2014, why this proceeding should not be determined against him. Johnson did not respond to the Order to Show Cause, and, on May 5, 2014, the Court issued an Order Finding Johnson in Default and Requesting Motion for Sanctions, in light of the fact that Johnson had failed to file an Answer, participate in the April 22, 2014 pre-hearing conference, respond to the Order to Show Cause, or otherwise defend in this proceeding.

## LEGAL DISCUSSION

### **I. The Connecticut Order Constitutes a Final Order of a State Securities Commission and Establishes a Basis for Entry of the Requested Administrative Relief Against Johnson.**

Under Section 203(f) of the Advisers Act, the Commission may impose sanctions “on any person associated..., or, at the time of the alleged misconduct, associated...with an investment adviser” if such person “is subject to any final order of a State securities commission (or any agency or officer performing like functions)... that...bars such person...from engaging in the business of securities....” As discussed below, the Connecticut Order supports the imposition of remedial sanctions against Johnson.

The Division alleges in the OIP that between July 2001 and August 2009, Johnson was associated with numerous investment advisers and broker-dealers registered with the Commission, and from August 2009 to October 2013, Johnson was associated with J. Capital Advisors Wealth Management (“J. Capital”), an investment adviser registered with the state of

Connecticut.<sup>1</sup> According to the OIP, Johnson is the subject of a final order issued on October 21, 2013 by the Connecticut Department of Banking (the “Department”), revoking his investment adviser agent registration for violating certain provisions of the Connecticut Uniform Securities Act that prohibit dishonest and unethical conduct. Specifically, the Connecticut Order found that from at least 2011 forward, Johnson neglected to disclose to clients certain fees associated with their accounts, failed to produce required records or open records to examination by the Department, provided records to the Department that included falsified client statements and personal monthly statements, and withdrew approximately \$25,000 from a client account after his investment adviser agent registration was suspended.

The OIP alleges that the Department is the state agency in Connecticut that enforces the state securities laws. The OIP further alleges that the revocation of Johnson’s investment adviser agent registration is tantamount to a bar from the securities industry in Connecticut. Thus, the Connecticut Order constitutes a “final order of a State securities commission (or any agency or officer performing like functions)... that...bars such person...from engaging in the business of securities...”, and sanctions are warranted.

## **II. The Public Interest Requires the Imposition of a Permanent, Industry-Wide Bar Against Johnson.**

The public interest would best be served by barring Johnson from the securities industry for life. To determine whether a bar is appropriate, courts consider several factors, including: (a) the egregiousness of the defendant’s actions; (b) the isolated or recurrent nature of the infraction; (c) the degree of scienter involved; (d) the sincerity of the defendant’s assurances against future violations; (e) the defendant’s recognition of the wrongful nature of his conduct; and, (f) the

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<sup>1</sup> Pursuant to Rule 155(a) of the Commission’s Rules of Practice, the Court may deem the allegations of the OIP as true for purposes of determining sanctions against Johnson. Rapoport v. SEC, 682 F.3d 98, 108 (D.C. Cir. 2012).

likelihood that the defendant's occupation will present opportunities for future violations. Steadman v. SEC, 603 F.2d 1126, 1140 (5<sup>th</sup> Cir. 1979). Each of these factors supports a permanent bar.

Here, Johnson's actions, as detailed in the Connecticut Order, were egregious and prolonged. Johnson neglected to disclose to clients certain fees associated with their accounts for approximately three years, from 2011 to 2013, when the Department took notice of Johnson's misconduct after receiving complaints from affected clients. Johnson acted with a high degree of scienter in concealing such fees from his advisory clients and in producing falsified client statements and personal monthly statements to the Department during their ensuing examination. Johnson also withdrew \$25,000 from a client account, *after* his investment advisor agent registration was suspended for the same conduct. Respondent has not provided any assurances against future violations, nor has he taken responsibility for his conduct, failing to answer or appear in the Connecticut proceedings or in the present proceeding. Finally, Johnson's entire professional career to date has involved work in the securities industry, so he is likely to seek work in that industry in the future, thus presenting him with additional opportunities for future violations. Given Johnson's relatively young age, a permanent bar is necessary to protect the investing public from future harm and preserve the integrity of the regulatory process.

## CONCLUSION

For the foregoing reasons, the Division respectfully requests that the Court enter an order barring Respondent permanently from associating with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or NRSRO.

Respectfully submitted,

/s/ Susan Cooke Anderson  
Susan Cooke Anderson  
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[andersonsu@sec.gov](mailto:andersonsu@sec.gov)

DIVISION OF ENFORCEMENT  
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# EXHIBIT A



STATE OF CONNECTICUT  
 DEPARTMENT OF BANKING  
 SECURITIES AND BUSINESS INVESTMENTS DIVISION  
 260 CONSTITUTION PLAZA • HARTFORD, CT 06103-1800



**CERTIFICATION**

\*\*\*\*\*  
 STATE OF CONNECTICUT  
 COUNTY OF HARTFORD  
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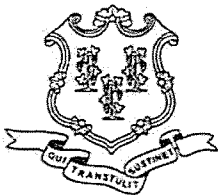
ss. **Hartford**

I, Cynthia Antanaitis, Assistant Director of the Securities and Business Investments Division of the State of Connecticut Department of Banking, do hereby certify that the attached document entitled "Findings of Fact, Conclusions of Law and Order" dated October 21, 2013 (Docket No. RS-13-8063-S) in the matter of J. Capital Advisors, LLC (Central Registration Depository No. 151176) and Aaron Jousan Johnson (Central Registration Depository Number [REDACTED]) is a true copy of the original thereof as contained in department files.

In witness whereof I have hereunto set my hand this 13th day of May 2014.

HOWARD F. PITKIN  
 BANKING COMMISSIONER

By  
 Cynthia Antanaitis  
 Assistant Director



STATE OF CONNECTICUT  
 DEPARTMENT OF BANKING  
 260 CONSTITUTION PLAZA  
 HARTFORD, CT 06183-1800  
 DEPT. OF BANKING



2013 OCT 21 AM 10 51

Howard F. Pitkin  
 Commissioner

\*\*\*\*\*

IN THE MATTER OF:

J. CAPITAL ADVISORS, LLC  
 d/b/a J. CAPITAL ADVISORS  
 WEALTH MANAGEMENT  
 (CRD No. 151176)  
 ("J. Capital Advisors")

FINDINGS OF FACT,  
 CONCLUSIONS OF LAW  
 AND ORDER

AARON JOUSAN JOHNSON  
 (CRD No. 4402048)  
 ("Johnson")

DOCKET NO. RS-13-8063-S

(Collectively, "Respondents")

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INTRODUCTION

The Banking Commissioner ("Commissioner") is charged with the administration of Chapter 672a of the Connecticut General Statutes, the Connecticut Uniform Securities Act ("Act"), and Sections 36b-31-1 to 36b-31-33, inclusive, of the Regulations of Connecticut State Agencies ("Regulations") promulgated under the Act.

The above-referenced matter was initiated upon charges brought by the Commissioner to suspend or revoke the registration of J. Capital Advisors as an investment adviser in Connecticut and to suspend or revoke the registration of Johnson as an investment adviser agent in Connecticut. On March 18, 2013, the Commissioner issued a Notice of Intent to Suspend or Revoke Registration as an Investment Adviser and as an Investment Adviser Agent, Order Summarily Suspending Registration as an Investment Adviser and as an Investment Adviser Agent, and Notice of Right to Hearing against Respondents ("Notice"). The Notice was sent by certified mail, return receipt requested, to Respondents. On April 1, 2013, Respondents requested a hearing on the Notice.

On April 9, 2013, the Commissioner issued a Notification of Hearing and Designation of Hearing Officer stating that the hearing would be held on May 21, 2013, at 10 a.m. ("Hearing"), at the Department and appointing Attorney Stacey Serrano as Hearing Officer. On May 21, 2013, Hearing Officer Serrano granted Respondents' request for a continuance of the Hearing, and rescheduled the Hearing to May 28, 2013, at 10 a.m. On May 28, 2013, a hearing was held at the Department. Attorney Paul A. Bobruff represented the Department at the Hearing and Respondents failed to appear at the Hearing. The Hearing was conducted in accordance with Chapter 54 of the Connecticut General Statutes, the "Uniform

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Administrative Procedure Act”, and the Department’s contested case regulations, Sections 36a-1-19 to 36a-1-57, inclusive, of the Regulations of Connecticut State Agencies.

Section 36a-1-31(b) of the Regulations of Connecticut State Agencies provides, in pertinent part, that “[w]hen a party fails to appear at a scheduled hearing, the allegations against the party may be deemed admitted. Without further proceedings or notice to the party, the presiding officer shall submit to the commissioner a proposed final decision containing the relief sought in the notice . . . .”

#### FINDINGS OF FACT

1. J. Capital Advisors is a Connecticut limited liability company formed on August 1, 2007. J. Capital Advisors maintains its principal office at [REDACTED] and a mailing address at [REDACTED]. J. Capital Advisors shares the same address as J. Capital Risk Management LLC, a Connecticut limited liability company formed on December 4, 2009, and J. Capital Investment Partners, LLC, a Connecticut limited liability company formed on February 10, 2011. Other than [REDACTED] J. Capital Advisors has reported no other offices, either in Connecticut or out-of-state, from which it conducts business. (Hearing Off. Ex. 1.)
2. J. Capital Advisors was registered as an investment adviser under the Act from September 3, 2009 to December 31, 2009 and from February 3, 2010 to the present. (Hearing Off. Ex. 1.)
3. Johnson is an individual whose addresses last known to the Commissioner are c/o J. Capital Advisors Wealth Management, 1610 Saybrook Road, Haddam, Connecticut 06438, and 136 Old Chester Road, Haddam, Connecticut 06438. At all times pertinent hereto, Johnson was and remains the President and Chief Investment Officer of J. Capital Advisors as well as a control person of the firm. Johnson is also the President of J. Capital Investment Partners, LLC and J. Capital Risk Management, LLC. (Hearing Off. Ex. 1.)
4. Other than Johnson, J. Capital Advisors has no additional reported officers or control persons. (Hearing Off. Ex. 1.)
5. Johnson was registered as an investment adviser agent of J. Capital Advisors under the Act from September 3, 2009 to December 31, 2009 and from February 3, 2010 to the present. (Hearing Off. Ex. 1.)
6. On December 13, 2012, staff of the Securities and Business Investments Division of the Department (“Division”) attempted to conduct an examination of J. Capital Advisors’ books and records at the firm’s [REDACTED] location. No one appeared to be on the premises and no one answered the door. (Hearing Off. Ex. 1.)
7. On December 13, 2012, the Division e-mailed Johnson, stating that the Division had visited the firm’s office that day but found no one present. The e-mail indicated that the Division wished to reschedule the examination for December 19, 2012. (Hearing Off. Ex. 1.)
8. On December 13, 2012, Johnson replied to the Division’s December 13, 2012 e-mail, stating that he would be out of the country but returning “after New Years.” (Hearing Off. Ex. 1.)

9. On January 3, 2013, the Division e-mailed Johnson stating that an examination of the firm's Haddam office had been scheduled for January 7, 2013. (Hearing Off. Ex. 1.)
10. On January 7, 2013, the Division staff again attempted to conduct an examination of J. Capital Advisors' books and records at the firm's [REDACTED] location. No one appeared to be on the premises and no one answered the door. (Hearing Off. Ex. 1.)
11. On January 7, 2013, the Division e-mailed Johnson, requesting that he supply availability dates for the examination. (Hearing Off. Ex. 1.)
12. By e-mail dated January 29, 2013, Johnson advised the Division "I've been hospitalized and recovering and have been out of commission." In an e-mail dated January 31, 2013, Johnson stated "I will gladly make arrangements for access to books and records, as stated, I have been ill and on leave." (Hearing Off. Ex. 1.)
13. At no time did Johnson provide specifics to the Division concerning his anticipated recovery time or when he would make the records available for examination. In addition, at no time did Respondents offer to provide the required records through a third party such as retained legal counsel. (Hearing Off. Ex. 1.)
14. On February 5, 2013, the Division e-mailed Johnson, requesting that he produce the required records on February 20, 2013. In addition, the Division requested that Johnson appear before the Division on February 28, 2013. On February 22, 2013, the Division sent a letter to Johnson via certified mail, return receipt requested. On February 26, 2013, the Division left a telephone message for Johnson concerning Johnson's appearance before the Division on February 28, 2013. (Hearing Off. Ex. 1.)
15. Johnson failed to appear before the Division on February 28, 2013, and the Division received no explanation concerning his absence. (Hearing Off. Ex. 1.)
16. To date, J. Capital Advisors has failed to produce required records or open its records to examination by the Division. (Hearing Off. Ex. 1.)
17. Commencing in 2010, J. Capital Advisors had an arrangement with various clearing brokers pursuant to which advisory clients of J. Capital Advisors would authorize the clearing broker to pay J. Capital Advisors its fees as directed by J. Capital Advisors. (Hearing Off. Ex. 1.)
18. From at least 2011 forward, the frequency and amount of fees deducted from J. Capital Advisors client accounts at the participating clearing firms increased significantly, in some cases causing a marked depletion of client account holdings. Some of the affected clients filed complaints with the Division, indicating that they had not received prior disclosure concerning the extent of the fees or the basis on which the fees were calculated. (Hearing Off. Ex. 1.)
19. J. Capital Advisors failed to update its Form ADV on file with the Commissioner to disclose, *inter alia*, the status of its business operations, including hours when it was open for business and the scope of its client activity. (Hearing Off. Ex. 1.)

20. By letter dated January 17, 2013, the Division provided Respondents with an opportunity to show compliance with the legal requirements for the retention of their respective registrations. Although Johnson replied by e-mail on behalf of Respondents, Johnson's response was not persuasive in that he did not fully address the Division's concerns. (Hearing Off. Ex. 1.)
21. During the course of the Department's September 2011 examination of J. Capital Advisors, Johnson submitted three client statements to the Department that contained falsified fee amounts. (Tr. at 21-24.)
22. The Department issued a subpoena to Johnson and J. Capital Advisors in March 2013. (Tr. at 24-25.) Johnson failed to comply with the subpoena, but did provide a personal monthly statement to the Department that had been falsified. (Tr. at 26-27.)
23. From the date of the issuance of the Notice through April 26, 2013, Johnson withdrew approximately \$25,000 in fees from J. Capital Advisors' clients' accounts. (Tr. at 28-29.) Johnson had actively initiated such fee withdrawals after his investment adviser agent registration was suspended by inputting the dollar amounts to be deducted from his clients' accounts to be swept into his sundry account. (Tr. at 31, 43-44.)
24. In total, J. Capital Advisors and Johnson withdrew approximately \$654,000 from J. Capital Advisors' clients' accounts. (Tr. at 41.) Johnson charged excessive fees on all but three of his clients' accounts. (Tr. at 41.)
25. At the hearing, the Department requested that both J. Capital Advisors' investment adviser registration and Johnson's investment adviser agent registration be revoked. (Tr. at 15-16.)

#### CONCLUSIONS OF LAW

1. Pursuant to 36a-1-31(b) of the Regulations of Connecticut State Agencies, the allegations made in the Notice against J. Capital Advisors and Johnson are deemed admitted.
2. A violation of the Act is wilful if a person had knowledge of the conduct which constituted the violation. In *State v. Andresen*, the Connecticut Supreme Court stated, "[w]e conclude that wilfully violating provisions of the Uniform Act, and therefore CUSA, requires 'proof that the person acted intentionally in the sense that [she] was aware of what [she] was doing. Proof of evil motive or intent to violate the law, or knowledge that the law was being violated, is not required.' L. Loss, Commentary on the Uniform Securities Act (1976) § 204(a)(2)(B), official comment, p. 29 . . . ." 256 Conn. 313, 339 (2001).
3. J. Capital Advisors, alone and through its president and control person Johnson, failed to keep required records open to examination by the Commissioner and failed to provide copies of such records to the Commissioner upon the Commissioner's repeated requests, in wilful violation of Section 36b-14(d) of the Act, which constitutes a basis for the revocation of J. Capital Advisors' investment adviser registration pursuant to Section 36b-15(a)(2)(B) of the Act.
4. J. Capital Advisors, alone and through its president and control person Johnson, upon the Commissioner's repeated requests, failed to make its records available to the Commissioner and failed to facilitate the examination of such records, in wilful violation of Section 36b-31-14f(b) of

the Regulations, which constitutes a basis for the revocation of J. Capital Advisors' investment adviser registration pursuant to Section 36b-15(a)(2)(B) of the Act.

5. J. Capital Advisors refused, through its president and control person Johnson, to furnish material information to the Commissioner, to wit, books and records required by law, which constitutes a basis for the revocation of J. Capital Advisors' investment adviser registration pursuant to Section 36b-15(a)(2)(L) of the Act.
6. J. Capital Advisors, alone and through its president and control person Johnson, engaged in dishonest or unethical practices in connection with the rendering of investment advice, to wit, deducting excessive, undisclosed client advisory fees from client accounts, in wilful violation of Section 36b-5(f) of the Act, which constitutes a basis for the revocation of J. Capital Advisors' investment adviser registration pursuant to Sections 36b-15(a)(2)(B) and 36b-15(a)(2)(H) of the Act.
7. J. Capital Advisors, alone and through its president and control person Johnson, failed to update its Form ADV, in violation of Section 36b-31-14e(a) of the Regulations.
8. Johnson engaged in dishonest or unethical practices in connection with the rendering of investment advice, to wit, deducting excessive, undisclosed client advisory fees from client accounts, in wilful violation of Section 36b-5(f) of the Act, which constitutes a basis for the revocation of Johnson's investment adviser agent registration pursuant to Sections 36b-15(a)(2)(B) and 36b-15(a)(2)(H) of the Act.
9. Johnson wilfully aided, abetted, counseled, commanded, induced or procured J. Capital Advisors' violation of Section 36b-14(d) of the Act, and Sections 36b-31-14f(b) and 36b-31-14e(a) of the Regulations, which constitutes a basis for the revocation of Johnson's investment adviser agent registration pursuant to Section 36b-15(a)(2)(M) of the Act.
10. The Notice, Hearing and this Findings of Fact, Conclusions of Law and Order comply with Sections 36b-15(f) and 36b-31 of the Act and Sections 4-177 and 4-182 of the Connecticut General Statutes.
11. Based upon the nature of each Respondent's actions in violation of the Act and Regulations and the absence of mitigating factors in the record regarding Respondents' violations, I find that the issuance of this order revoking the registration of J. Capital Advisors as an investment adviser and revoking the registration of Johnson as an investment adviser agent is necessary and appropriate in the public interest and for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of Sections 36b-2 to 36b-34, inclusive, of the Act.

### ORDER

Having read the record, I hereby **ORDER** that:

1. Pursuant to Sections 36b-15(a)(2)(B), 36b-15(a)(2)(H), and 36b-15(a)(2)(L) of the Act, the registration of J. Capital Advisors, LLC d/b/a J. Capital Advisors Wealth Management as an investment adviser in Connecticut be and is hereby **REVOKED**;

2. Pursuant to Sections 36b-15(a)(2)(B), 36b-15(a)(2)(H), and 36b-15(a)(2)(M) of the Act, the registration of Aaron Jousan Johnson as an investment adviser agent in Connecticut be and is hereby **REVOKED**; and
3. This Order shall become effective when mailed.

Dated at Hartford, Connecticut,  
this 21<sup>st</sup> day of October 2013.

  
\_\_\_\_\_  
Howard F. Pitkin  
Banking Commissioner

This Order was sent by certified mail, return receipt requested, to Aaron J. Johnson on behalf of all Respondents and hand delivered to Paul A. Bobruff, Esq., on October 21, 2013.

Aaron J. Johnson  


Certified Mail No. 7012 1010 0001 7317 4414

# EXHIBIT B

UNITED STATES OF AMERICA, SECURITIES AND EXCHANGE  
COMMISSION

In the Matter of Aaron Jousan Johnson

vs.

Case No.:

n/a

AFFIDAVIT OF SERVICE



STATE OF CONNECTICUT  
COUNTY OF HARTFORD ss.

Steven Matarazzo, the undersigned, being duly sworn, deposes and says that I was at the time of service over the age of twenty-one and not a party to this action. I reside in the COUNTY OF HARTFORD.

That on 03/31/2014 at 6:20 PM, Deponent served the within named Aaron J. Johnson by giving a true copy of the Letter, Order Instituting Administrative Proceedings Pursuant to Section 203(f) Of The Investment Advisers Act of 1940 and Notice of Hearing, to Aaron J. Johnson personally at [REDACTED].

Description:

Sex: Male - Skin: Black - Hair: Black - Age: 34 - Height: 5'8" - Weight: 190

To the best of my knowledge and belief, said person was not engaged in the U.S. Military at the time of service.

The undersigned declares under penalty of perjury that the foregoing is true, correct and my free act and deed.

Sworn to and subscribed before me this  
this 3rd day of April, 2014  
by an affiant who is personally known to me or  
produced identification.

Patricia J. Fisher  
Notary Public  
My Commission Expires: \_\_\_\_\_

**PATRICIA J. FISHER**  
**NOTARY PUBLIC**  
My Commission Expires June 30, 2015

X [Signature]  
Steven Matarazzo

Date: 4/3/14

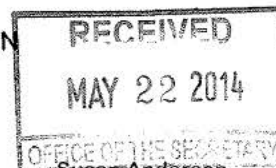
Client File#:



\*63242\*



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
BOSTON REGIONAL OFFICE  
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ENFORCEMENT  
DIVISION

Susan Anderson  
Senior Enforcement Counsel  
(617) 573-4538  
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May 19, 2014

Via Overnight Delivery  
Jill M. Peterson  
Office of the Secretary  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington DC 20549

**Re: In the Matter of Aaron J. Johnson, Respondent**  
**Administrative Proceeding File No. 3-15808**

Dear Ms. Peterson:

Enclosed please find an original and three copies of the Division of Enforcement's Motion for Sanctions.

Very truly yours,

Susan Anderson  
Senior Enforcement Counsel  
Division of Enforcement

Enclosures

cc: Honorable Cameron Elliot  
Aaron Jousan Johnson