

1 CLOTHILDE V. HEWLETT
Commissioner
2 MARY ANN SMITH
Deputy Commissioner
3 DANIEL P. O'DONNELL
Assistant Chief Counsel
4 RYAN CASSIDY (State Bar No. 340274)
5 Counsel
6 Department of Financial Protection and Innovation
2101 Arena Boulevard
7 Sacramento, CA 95834
8 Telephone: (916) 764-8358
Attorneys for Complainant

9
10 BEFORE THE DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION
11 OF THE STATE OF CALIFORNIA

12 In the Matter of:

13 THE COMMISSIONER OF FINANCIAL
14 PROTECTION AND INNOVATION,

15 Complainant,

16 v.

17 OMNIA CAPITAL MANAGEMENT, INC.
18 F/K/A HW WEALTH MANAGEMENT,
INC., ALAN T. KNOBLOCH, and CORY P.
19 READER,

20 Respondents.

ACCUSATION IN SUPPORT OF:

(1) ORDER REVOKING INVESTMENT ADVISER
CERTIFICATE OF OMNIA CAPITAL
MANAGEMENT, INC., PURSUANT TO
CORPORATIONS CODE SECTION 25232

(2) ORDER SUSPENDING ALAN T. KNOBLOCH
AND CORY P. READER FOR A PERIOD OF
12 MONTHS, FROM ANY POSITION OF
EMPLOYMENT, MANAGEMENT OR
CONTROL OF ANY INVESTMENT ADVISER,
BROKER-DEALER OR COMMODITY
ADVISER, PURSUANT TO CORPORATIONS
CODE SECTION 25232.1

(Corp. Code §§ 25232 and 25232.1)

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24 Clothilde V. Hewlett, the Commissioner of Financial Protection and Innovation (Commissioner),
25 alleges and charges as follows:

26 **I. INTRODUCTION**

27 1. The Commissioner is authorized to administer and enforce the provisions of the Corporate
28 Securities Law of 1968 (Cal. Corp. Code §§ 25000-25707) (CSL) and the regulations promulgated

1 thereunder at title 10 of the California Code of Regulations (CCR), which includes the licensure,
2 examination, and regulation of investment advisers.

3 2. This action is brought to: (1) revoke the investment adviser certificate issued to Omnia Capital
4 Management, Inc. formerly known as HK Wealth Management, Inc. (Omnia); (2) suspend Alan T.
5 Knobloch (Knobloch) and Cory P. Reader (Reader) from any position of employment, management
6 or control of any investment adviser, broker-dealer or commodity adviser, for a period of 12 months,
7 pursuant to Corporations Code section 25232.1.

8 II. JURISDICTION AND VENUE

9 3. The Commissioner is authorized to administer and enforce the provisions of the CSL and the
10 regulations promulgated thereunder which include the licensing and regulation of investment advisers
11 in California.

12 4. Omnia, a California corporation, currently holds a valid investment adviser certificate issued
13 by the Commissioner pursuant to Corporations Code section 25230, Central Registration Depository
14 (CRD) Number 151504.

15 5. Knobloch (CRD No. 5274077) is the 100% owner, President, and Chief Compliance Officer
16 of Omnia.

17 6. Reader (CRD No. 4966365) is the Chief Investment Officer of Omnia.

18 7. Omnia, Knobloch, and Reader are collectively referred to as Respondents.

19 III. THE COMMISSIONER HAS GROUNDS TO REVOKE THE INVESTMENT 20 ADVISER CERTIFICATE OF OMNIA CAPITAL MANAGEMENT, INC., AND 21 SUSPEND ALAN T. KNOBLOCH AND CORY P. READER

22 8. Corporations Code section 25232 provides, in pertinent part:

23 *The commissioner may, after appropriate notice and opportunity for hearing, by*
24 *order...suspend for a period not exceeding 12 months or revoke the certificate, of*
25 *an investment adviser, if the commissioner finds that the...suspension, or*
26 *revocation is in the public interest and that the investment adviser, whether prior*
27 *or subsequent to becoming such, or any partner, officer or director thereof or any*
28 *person performing similar functions or any person directly or indirectly*
controlling the investment adviser, whether prior or subsequent to becoming
such, or any employee of the investment adviser while so employed has done any
of the following:...

(h) Has violated any provision of this division or any rules thereunder. [Emphasis added.]

1 9. Corporations Code section 25232.1 provides, in pertinent part:

2 *The commissioner may, after appropriate notice and opportunity for hearing, by*
 3 *order censure, or suspend for a period not exceeding 12 months, or bar from any*
 4 *position of employment, management or control of any investment adviser,*
 5 *broker-dealer or commodity adviser, any officer, director, partner, employee of,*
 6 *or person performing similar functions for, an investment adviser, or any other*
 7 *person, if he or she finds that the censure, suspension or bar is in the public interest*
 8 *and that the person has committed any act or omission enumerated in*
 9 *subdivision...(e)...of Section 25232.... [Emphasis added.]*

10 10. In accordance with Corporations Code sections 25232 and 25232.1, the Commissioner may
 11 revoke an investment adviser certificate, and suspend any officer or employee of an investment
 12 adviser, based on violations of sections of the CSL or rules adopted thereunder. In this case,
 13 Respondents have violated Corporations Code section 25238, including: (1) CCR, title 10, section
 14 260.238, (a), by managing clients' portfolios in an unsuitable manner; (2) CCR, title 10, section
 15 260.238 (h), by misrepresenting its investment advisory services; and (3) CCR, title 10, section
 16 260.238 (o), by omitting statements of material facts. In addition, Respondents have violated
 17 Corporations Code section 25241 and CCR, title 10, section 260.241.3 (a)(10), by failing to maintain
 18 books and records.

19 **A. Omnia, Knobloch, and Reader Managed Client Portfolios in an Unsuitable Manner.**

20 11. Corporations Code section 25238 provides that:

21 *No investment adviser licensed under this chapter and no natural person*
 22 *associated with the investment adviser shall engage in investment advisory*
 23 *activities, or attempt to engage in investment advisory activities, in this state in*
 24 *contradiction of such rules as the commissioner may prescribe designed to*
 25 *promote fair, equitable and ethical principles. [Emphasis added.]*

26 12. CCR, title 10, section 260.238 (a) provides that:

27 *Recommending to a client to whom investment supervisory, management or*
 28 *consulting services are provided the purchase, sale or exchange of any security*
without reasonable grounds to believe that the recommendation is suitable for
the client on the basis of information furnished by the client after reasonable
inquiry concerning the client's investment objectives, financial situation and
needs, and any other information known or acquired by the adviser after
reasonable examination of such of the client's records as may be provided to the
adviser. [Emphasis added.]

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1 13. Knobloch, as sole principal of Omnia, and Reader, as Chief Investment Officer, managed client
 2 investment accounts on a discretionary basis through Charles Schwab & Co., Inc. and E*Trade
 3 Securities LLC. Clients authorized Respondents to use discretion in purchasing and selling securities on
 4 their behalf.

5 14. Respondents did not have a reasonable basis for purchasing speculative, leveraged, derivative-
 6 type securities, nor in creating a non-diversified portfolio, for at least four investors.

7 15. Respondents provided prospective clients a “Portfolio Model Allocations” brochure, for clients
 8 to choose from three different investment portfolio models. In particular, Respondents disclosed the
 9 following about the “Long/Short All-Weather Fund” model:

10 30% Short¹ on the US, 6% each: S&P, Dow, Small Cap, Tech, Financials
 11 70% Long in Commodities, Precious Metals, Energy, Agriculture, Grains, etc.
 12 Downside sell triggers on long positions
 13 Long, Short or Cash
 All portfolio models may utilize cash or money market funds in the protection mode.

14 16. In addition, Omnia’s disclosure brochure, Form ADV, states, in relevant part:

15 OCM generally seeks investment strategies that *do not involve significant or*
 16 *unusual risk* beyond that of the general domestic and/or international equity
 markets. [Emphasis added.]

17 17. Omnia entered into an investment management contract with at least four investors, of whom
 18 selected the “Long/Short All-Weather Fund” model. Omnia disclosed that it would invest the portfolio in
 19 a diversified manner, which would include both long and short positions, and would be well-diversified,
 20 so as to be “All-Weather.”²

21 18. Despite what was included in the contract and Omnia’s “Portfolio Model Allocations” brochure,
 22 Respondents proceeded to invest solely in securities that carried substantial risk and volatility, resulting

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25 ¹ Short selling is an investment or trading strategy that speculates on the decline in a stock or other security’s price. It is
 26 an advanced strategy that should only be undertaken by experienced traders and investors. (*Short Selling: Definition,*
 27 *Pros, Cons, and Examples*, INVESTOPEDIA, <https://www.investopedia.com/terms/s/shortselling.asp> (last visited May 3,
 2023).

28 ² An all weather fund is a fund that tends to perform reasonably well during both favorable and unfavorable economic and
 market conditions. (*All Weather Fund*, INVESTOPEDIA, <https://www.investopedia.com/terms/a/allweatherfund.asp> (last
 visited May 3, 2023).

1 in a non-diversified portfolio, 100% comprised of two speculative leveraged derivative-type securities.
2 The trading practices of Respondents resulted in substantial losses for at least four investors.

3 19. Cory Reader, Chief Investment Officer of Omnia, represented to the Commissioner that the
4 “Long/Short All-Weather Fund” model was known as the “Go Anywhere Fund,” in that it would change
5 based on market dynamics and perceived opportunities that became available due to dislocations in the
6 markets. In fact, Respondents unilaterally gave themselves unlimited discretion to disregard its clients’
7 investment objectives, financial situation, and financial needs, or any other client information known by
8 Respondents.

9 20. To further demonstrate the risk of investments imposed by Respondents, a review of the
10 Schwab account statements for these investors showed trading in leveraged securities including, but
11 not limited to, Ultra VIX Short-Term Futures (UVXY) and VIX Short-Term Futures (VXX).

12 21. The prospectus of UVXY, states, in pertinent part:

13 The Ultra Fund uses leverage and is *riskier* than similarly benchmarked
14 exchange traded funds that do not use leverage. An investor *should only*
15 *consider* an investment in the Ultra Fund or the Short Fund if he or she
16 *understands* the consequences of seeking daily investment results and the
17 impact of compounding on geared fund performance...An investment in a fund
18 is *speculative* and involves a *high degree* of risk. *None* of the Funds is intended
19 as a *complete investment program*. [Emphasis added.]

20 22. The prospectus of VXX, states, in pertinent part:

21 The ETNs are unsecured promises of Barclays Bank PLC and are not secured debt.
22 The ETNs are riskier than ordinary unsecured debt securities. An investment in the
23 ETNs involves significant risks, including possible loss of principal and may not be
24 suitable for all investors.

25 23. At least four investors of the “Long/Short All-Weather Fund” model indicated to Respondents
26 that they did not have any experience with Exchange Traded Funds (ETF), Options, or “Other”
27 securities. However, Respondents proceeded to purchase speculative leveraged derivative-type ETFs,
28 including UVXY and VXX, without disclosing the risks and volatility of such securities.

29 24. Given the substantial losses to the accounts of at least four investors, given the substantial degree
30 of risk and volatility of these investments, and the Respondents disregarding its client’s stated investment
31 objectives, financial situation, and financial needs, Respondents did not have a reasonable basis to

1 continue trading in these investments on behalf of their clients. Accordingly, Respondents violated
2 Corporations Code section 25238 and CCR, title 10, section 260.238 (a).

3 **B. Omnia, Knobloch, and Reader Misrepresented the Nature of their Services**

4 25. As stated above, Corporations Code section 25238 provides, in part, that an investment
5 adviser is prohibited from engaging in any act, practice, or course of business which is fraudulent,
6 deceptive, or manipulative.

7 26. CCR, title 10, section 260.238 (h) provides that:

8 Misrepresenting to any advisory client, or any prospective advisory client, the
9 qualifications of the adviser, its representatives or employees, or *misrepresenting*
10 *the nature of the advisory services being offered* or fees to be charged for such
11 service, or omitting to state a material fact necessary to make the statements made
regarding the qualifications, services or fees, in light of the circumstances under
which they are made, not misleading. [Emphasis added.]

12 27. At least four investors selected the “Long/Short All-Weather Fund” model.

13 28. Respondents did not follow its own stated investment strategy. Furthermore, Respondents
14 solely invested in speculative leveraged derivative-type securities, in contradiction to what was
15 disclosed in the “Portfolio Model Allocations” brochure.

16 29. Respondents misrepresented to at least four investors, that the Respondents would manage the
17 “Long/Short All-Weather Fund” model to be “All-Weather”. In fact, Respondents proceeded to create
18 a non-diversified portfolio, 100% comprised of two speculative leveraged derivative-type ETFs,
19 UVXY and VXX.

20 30. Respondents misrepresented to at least four investors that when the “All-Weather Fund” model
21 was in protection mode, there would be a reduction of risk and volatility. In fact, Respondents
22 continued to invest solely in securities with substantial risk and volatility, resulting in a non-diversified
23 portfolio, 100% comprised of two speculative leveraged derivative-type ETFs, UVXY and VXX.

24 31. Respondents misrepresented how it would manage the “Long/Short All-Weather Fund” model
25 and how it would manage the model in protection mode. Accordingly, Respondents violated
26 Corporations Code section 26238 and CCR, title 10, section 260.238 (h).

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1 **C. Omnia and Knobloch Omitted to Disclose Material Risks and Volatility associated**
2 **with Specific Securities, Investment Strategies, and Portfolio Models**

3 32. As stated above, Corporations Code section 25238 provides, in part, that an investment
4 adviser is prohibited from engaging in any act, practice, or course of business which is fraudulent,
5 deceptive, or manipulative.

6 33. CCR, title 10, section 260.238 (o) provides that:

7 Making any untrue statement of a material fact or *omitting a statement of material*
8 *fact* necessary in order to make the statements made, in light of the circumstances
9 under which they are made, not misleading in the solicitation of advisory clients.
 [Emphasis added.]

10 34. Respondents failed to disclose the following:

- 11 • Risks and Volatility associated with Short Indices
- 12 • Risks and Volatility associated with Short Selling
- 13 • Risks and Volatility associated with ETFs
- 14 • Risks and Volatility associated with speculative leveraged derivative-type securities
- 15 • Risks and Volatility associated with UVXY
- 16 • Risks and Volatility associated with VXX
- 17 • Risks and Volatility associated with “Long/Short All-Weather Fund” model
- Risks and Volatility associated with client portfolios being 100% comprised of
 speculative leveraged derivative-type securities
- Risks and Volatility associated with having a non-diversified portfolio

18 35. At least four investors, indicated to the Respondents that they did not have any experience
19 with ETFs, Options, or “Other” securities. However, Respondents proceeded to purchase speculative
20 leveraged derivative-type ETFs, including UVXY and VXX, without disclosing the risks and volatility
21 associated with such securities.

22 36. Respondents failed to disclose to at least four investors any risks associated with the
23 “Long/Short All-Weather Fund” model. However, Respondents proceeded to offer the “Long/Short
24 All-Weather Fund” model to prospective clients and proceeded to manage client accounts using the
25 “Long/Short All-Weather Fund” model.

26 37. Respondents failed to disclose to at least four investors that it was switching from a
27 diversified “Long/Short All-Weather Fund” model to a non-diversified portfolio, 100% comprised of
28 two speculative leveraged derivative-type ETFs, UVXY and VXX. Furthermore, Respondents failed to

1 disclose the severe risks and volatility associated with a non-diversified portfolio, being 100%
2 comprised of two speculative leveraged derivative-type ETFs.

3 38. Respondents failed to disclose to at least four investors that it would unilaterally give
4 themselves unlimited discretion, disregarding its client’s investment objectives, financial situation and
5 needs, or any other client information known or acquired by Respondents.

6 39. Respondents failed to disclose to at least four investors multiple statements of material fact,
7 including being subject to a severe degree of risk and volatility. Accordingly, Respondents violated
8 Corporations Code section 26238 and CCR, title 10, section 260.238 (o).

9 **D. Omnia, Knobloch, and Reader Failed to Maintain Books and Records**

10 40. Corporations Code section 25241 provides, in pertinent part:

11 Every...investment adviser...shall make and keep accounts, correspondence,
12 memorandums, papers, books and other records...as the commissioner by rule
requires....

13 41. CCR, title 10, section 260.241.3 (a)(10) provides:

14 (a) Every licensed investment adviser shall make and keep true, accurate and
15 current the following books and records relating to such person's investment
advisory business:

16 (10) All written agreements (or copies thereof) entered into by the
17 investment adviser with any client or otherwise relating to the business
of such investment adviser as such.

18 42. When the Commissioner conducted an examination of Respondents beginning in March 2022,
19 the Commissioner requested copies of records including investment management contracts. For one
20 investor, C.C., Reader indicated that the client verbally requested to change his portfolio model to the
21 “Long/Short All-Weather Fund” model. However, Omnia failed to maintain documentation, outlining
22 the changes from the client original portfolio model section to the “Long/Short All-Weather Fund”
23 model.

24 43. Consequently, Respondents violated Corporations Code section 25241 and CCR, title 10,
25 section 260.241.3 (a)(10) by failing to maintain and provide requisite books and records relating to
26 their business.

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IV. CONCLUSION

44. Based upon the foregoing, the Commissioner finds that grounds exist, and that it is in the public interest, to enter orders: (1) revoking the investment adviser certificate of Omnia Management, Inc. pursuant to Corporations Code section 25212; and (2) suspending Alan T. Knobloch and Cory P. Reader, for a period of 12 months, from any position of employment, management or control of any investment adviser, broker-dealer or commodity adviser pursuant to Corporations Code section 25212.1. The Commissioner hereby notifies Omnia Capital Management, Inc., Alan T. Knobloch, and Cory P. Reader of her intention to make such orders final.

PRAYER

WHEREFORE, good cause showing, the Commissioner prays for relief, as follows:

1. For an order, pursuant to Corporations Code section 25232, revoking the Omnia Capital Management, Inc., investment adviser certificate and prohibiting Alan T. Knobloch and Cory P. Reader from accepting new investment adviser business or making any additional investment of client funds, but permitting him to continue servicing existing Omnia client accounts in order to allow a winding down and liquidation of the Omnia Capital Management, Inc., and to return the funds to each of the investors as soon as practically feasible; and,
2. For an order, pursuant to Corporations Code section 25232.1, suspending Alan T. Knobloch and Cory P. Reader from any position of employment, management or control of any broker-dealer, investment adviser or commodity adviser.

Dated: May 4, 2023
Sacramento, California

CLOTHILDE V. HEWLETT
Commissioner of Financial Protection and Innovation

By: _____
Ryan M. Cassidy
Counsel