

## **ADV - BROCHURE**

### **Investment Adviser Business Disclosure Document**

#### **J Derek Lewis Associates, Inc.**

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This disclosure document, known as the Brochure, provides information about the business practices of J. Derek Lewis & Associates, Inc. ["ADVISER"]. If you have any questions about the contents of this Brochure, please contact us at (949) 752-9096. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

ADVISER is a registered investment adviser. Registration as an investment adviser does not imply any level of skill, training, aptitude or qualification. The oral and written communications of an ADVISER provide you with information about which you determine to hire or retain an ADVISER.

Additional information about J. Derek Lewis & Associates, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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Effective Date of Brochure:      December 21, 2011

## Material Changes

This form has been recently revised due to regulatory changes in the investment advisory industry. While the disclosures in substance remain substantially the same in several areas as those contained in the Form ADV Part II previously used by J. Derek Lewis & Associates, Inc. (“JDLA” or “ADVISER”), disclosures in other areas have been modified and/or materially enhanced, including the areas related to Code of Ethics, Methods of Analysis and Risk of Loss, and Client Referrals and Other Compensation. There were other adjustments as contemplated in the new disclosure regulations for registered investment advisers, including disclosures tailored to the sections regarding Review of Accounts, Custody, Discretion and Proxy Voting.

The section on Code of Ethics explains some broad areas of coverage of the Code of Ethics and some other areas of the Compliance Program that have relevance to the Code of Ethics.

The section regarding Methods of Analysis, Investment Strategy and Risk of Loss includes new material on risks related to mutual fund allocation programs.

The section under Client Referrals and Other Compensation now includes information regarding meetings or conferences sponsored by the primary mutual fund utilized by JDLA.

There was also certain information that the regulators wanted to be disclosed on this new form that was not disclosed on the previous Form ADV related to Custody, Discretion and Proxy Voting, which is now disclosed herein, even though JDLA (i) uses an unaffiliated 3<sup>rd</sup> party custodian, and (ii) does not vote proxies.

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## Advisory Business

### A. INVESTMENT ADVISORY SERVICES

#### Generally

J. Derek Lewis & Associates, Inc. (“JDLA” or “ADVISER”) provides investment advisory services in the form of discretionary investment management, non-discretionary investment advice and financial planning. Financial planning clients will receive a written financial plan, providing the client with information designed to achieve their stated financial goals and objectives. Otherwise, accounts are managed on either a discretionary or a non-discretionary, advisory fee basis. Accounts can be a fully managed general securities account or may be a periodic reallocation of a mutual fund account.

At this time, JDLA’s discretionary and non-discretionary advisory services primarily relate to mutual fund portfolios, although JDLA may provide investment advisory services for individual securities [consisting of stocks, bonds, closed-ended funds and exchange traded funds (“ETF”)]. JDLA will not advise on legal proceedings, including class actions or bankruptcies involving securities purchased or held in Client’s account. Moreover, JDLA offers financial planning and asset allocation, primarily using mutual funds. JDLA retains the authority to use other products as referenced above, which would be particularly more likely to be used upon the request of the Client to oversee an existing portfolio. Nevertheless, JDLA concentrates its services in the area of mutual fund selection, allocation of assets and periodic reallocation. The suggested minimum account size is \$100,000, although it is not an absolute requirement.

Description – Overview	JDLA generally offers advice on investment company securities (“mutual funds”). Based on the individual needs of the Client, JDLA will evaluate the appropriate solutions and offer advice on a variety of mutual fund allocations designed to achieve Clients’ investment objectives. While JDLA reserves the authority to utilize securities other than mutual funds, as a practical matter, JDLA’s investment advisory program is currently focused on mutual fund investments. JDLA uses A Shares and, when reasonably available to JDLA, Adviser Share classes.
Specialization	Mutual Fund Allocation
Assets Under Advisement/Management (AUM”)	As of September 30, 2011, the AUM was approximately \$250 million.

Each Client's financial situation is assessed independently. JDLA schedules a meeting with Clients to review their "financial picture" or make a recommendation for a specific situation. If the Client requests a financial plan, Clients must complete an information gathering form that includes their short-term and long-term goals, their objectives and risk & income sensitivity -- how willing they would be make adjustments to achieve their goals if their portfolio has not achieved the interim, previously established goals.

If the consultation will result in the review of a specific situation only, JDLA requires the Client to provide pertinent information so JDLA can prepare an analysis prior to the scheduled appointment. JDLA provides long-term track records during the consultation; discusses volatile market climates, risks and opportunities, among other factors. Thereafter, JDLA reviews market alternatives that appear to be suitable in light of Client-specific data. This process is designed to help the Client(s) determine their investment objectives and risk tolerance, which are required to identify the appropriate products for the Client. Investment Adviser Representatives ("IAR") of JDLA will also provide multiple investment alternatives. During this process, JDLA discloses fees and expenses of any recommended investment. For non-discretionary accounts, Clients of JDLA to determine which investment(s) meet their risk tolerance, goals and objectives. Otherwise, JDLA determines the investments that meet the risk tolerance, goals and objectives (*for discretionary asset management accounts*).

JDLA has an affiliated broker/dealer, JDL Securities Corporation ("JDLS"), Member FINRA/SIPC, which clears its securities transactions through Wedbush Securities, Inc. ("Wedbush"), a registered securities broker/dealer, member FINRA/SIPC. Wedbush performs regular due diligence reviews on investments that JDLA allows its IARs to recommend to Clients. In addition, JDLA consults with industry professionals, mutual fund managers and has access to current research through Wedbush. Furthermore, JDLA maintains ongoing subscriptions to assist with analyzing specific investments, their risks, fees and expenses and the longevity of each investment's management team.

### **Non-Discretionary Investment Advisory Services**

JDLA offers its advice to Clients for a fee. These services are simply asset-based pricing services where an IAR of JDLA offers advice about the Client portfolio, based upon suitability of the investment alternatives. Written disclosures of the Client shall take precedence over oral disclosures, and disclosures occurring later in time shall take precedence over earlier disclosures, to the extent that any conflicts exist. In the event of a conflict between a more recent oral disclosure and the earlier and most recent written disclosure with which there is a conflict, the particular written disclosure shall be updated to reflect the current information. In all cases, such advice shall be rendered based upon the Client's current goals, objectives and risk tolerance.

Although JDLA generally pre-clears investment choices with the Client prior to their purchase, in accounts designated as discretionary accounts, it does retain discretion to select the particular securities purchased for certain clients. Client retains discretion to

reject any mutual allocations made, thereby compelling JDLA to reallocate the portfolio according to the Client's instruction. Thus, even in discretionary accounts, JDLA will make changes in the Client's portfolio upon the Client's request.

The value of investments may rise or fall dramatically at any point in time throughout the year, and it is Client's obligation, and not JDLA's obligation, to monitor those investments throughout the year. JDLA expects to conduct an annual review of Client's portfolio, and may elect to conduct more frequent reviews at the Client's request (not more frequently than quarterly).

JDLA provides customized investment advisory services on a "fee-only" basis. As an investment adviser, JDLA's goals include assisting the Client in making informed investment decisions to maximize total investment returns over a generally specified time horizon, subject to their tolerance to risk. Such accounts will be opened with JDLS and either (i) carried with Wedbush (or sometimes another clearing firm when the Client elects to use another firm) or (ii) held directly with the respective mutual fund company. If the mutual funds are carried by Wedbush (or such other clearing firm), Wedbush (or such other clearing firm) will execute purchase and sales orders given through the respective clearing firm, as instructed by JDLA personnel who are registered representatives ("brokers") with JDLS. In other words, if the orders are handled through the broker/dealer referenced above, then they will execute purchase, allocation and redemption requests. Otherwise, if the investments are submitted directly to the mutual funds, then the mutual fund or its transfer agent will typically assume the responsibility for processing purchase, sale and redemption requests. The broker/dealer or the respective mutual fund company, or designee, will prepare and mail transaction confirmations and summary periodic statements to Client.

### ***General Terms and Conditions***

- a. Where accounts are advised for related entities or related Clients, values of the related accounts may be grouped for fee computation purposes. Requested grouped status is subject to approval of JDLA, at JDLA's sole discretion, and accordingly requests may be declined.
- b. Fees are paid on a quarterly basis in advance. Fees for the initial quarter will be paid by the Client prior to the 15<sup>th</sup> business day of the first month after the account is opened or, for existing accounts transitioning from a brokerage platform to an investment advisory platform, within 15 days of the transition date and quarterly thereafter.
- c. The value of the assets will not be reduced by the amount of margin indebtedness, if applicable, or increased by the amount of any margin credit, if applicable.
- d. After the initial quarter, fees will be paid by the Client for the present fiscal quarter prior to the 15<sup>th</sup> business day of the first month in the present fiscal quarter.
- e. Fees are generally charged directly to Client's Account, which shall be paid by the cash or money market portion of Client's Account, but may also be paid from

other funds as directed by the -Client. If there is an inadequate balance in Client's money market or cash account, then Client hereby authorizes JDLA to reallocate assets sufficient to pay the fee. Otherwise, any such re-allocations shall require advance consent from the Client.

- f. Any Clients who wish to terminate this Agreement must provide written notification of their request. Fees will be prorated to the date of termination and refunded promptly. If the activity is of such a level that a termination fee is charged by the custodian to Wedbush or JDLA, that termination fee may be deducted from the refund.

### **Discretionary Investment Management Services**

Except as it may refer to non-discretionary services, the information otherwise contained above in the section entitled "non-discretionary investment advisory services" applies here. In addition to non-discretionary investment advisory services, JDLA may manage accounts with discretion. In order to do so, the Client will indicate that desire as part of signing the Investment Management Agreement and completing a 3<sup>rd</sup> party trading authorization instrument/document. Ordinarily, such discretion is reserved for mutual fund portfolios where the Client has not wanted to be involved in pre-clearing every trade and mutual fund allocation. JDLA will utilize its Client profile data gathered as part of the investor profiling process, resulting in an investor profile.

Other areas of discretion include (i) determining what to sell to cover any systematic withdrawals from the account, (ii) determining what to sell when the Client needs an unusual withdrawal from the Account and (iii) determining what to buy when the Client adds money to the account in the form of IRA contributions or otherwise.

### **Financial Planning**

JDLA may provide advice in the form of a financial plan. Clients using the service will receive a written financial plan, providing the Client with a detailed financial plan designed to achieve their stated financial goals and objectives.

By its nature, financial planning ordinarily has a long-term horizon. However, JDLA will also evaluate the Client's short-term cash needs and emergency funds in order to determine how much investment capital the Client is comfortable with committing to long-term purposes. Thereafter, JDLA designs investment and insurance strategies to help achieve the Clients' financial goals. JDLA does not review casualty insurance (e.g., home owners, auto, liability, etc.). Clients are responsible for having such matters reviewed by a casualty insurance agency/company.

For financial planning services, JDLA gathers required information through in-depth personal interviews and a data gathering form. Information gathered includes a Client's current financial status, future goals and attitudes towards risk. JDLA carefully reviews the data gathering form, which is the questionnaire completed by the Client, and JDLA prepares a written report ("financial plan report" or "IPS"). If the Client chooses to implement the recommendations contained in the financial plan report, JDLA suggests



that the Client work closely with his/her attorney, accountant, insurance agent and/or investment representative, as may be appropriate depending upon the plan. In the case of securities/investments, Derek Lewis, the President of JDLA, is also a registered representative with JDLS, its “sister company.” If the Client implements the financial plan report recommendation through Derek Lewis or other duly licensed personnel of JDLA, then all mutual fund transactions will be consummated under the auspices of JDLS, although the purchase applications and redemptions will be sent directly to the respective mutual fund(s) on an application-way basis. Implementation of financial plan recommendations is entirely at the Client’s discretion.

In furtherance of the above explanation, Client may elect the following financial plans:

*i.      **Lifestyle Plan***

Service includes evaluation and advice relative to family records, budgeting, personal liability, estate information and financial goals, emergency reserves, debt reduction, net worth, asset allocation, and existing life insurance protection, accumulation goals (*including education planning, if requested*), retirement and long-term care planning.

*ii.     **Written Investment Policy Statement (“IPS”)***

The purpose of this separately invoiced service is to develop a more detailed analysis of the Client and, if applicable, to create a policy statement to be given to the Client that does not receive continuous or regular services from JDLA or to the Client’s other investment adviser as instructions to that investment adviser as to how Client wishes to invest. This process is necessary in any case where JDLA will be providing discretionary investment management services.

In general, the financial plan will address any or all of the following areas of concern:

- **PERSONAL**: Family records, budgeting, personal liability, estate information and financial goals.
- **TAX & CASH FLOW**: Income tax and spending analysis and planning for past current and future years. We will illustrate the impact of various investments on a client’s current income tax and future tax liability.
- **DEATH & DISABILITY**: Cash needs at death, income needs of surviving dependents, estate planning and disability income analysis.
- **RETIREMENT**: Analysis of current strategies and investment plans to help the client achieve his or her retirement goals.
- **INVESTMENTS**: Analysis of investment alternatives and their effect on a client’s portfolio. JDLA generally offers advice on investment company securities. Based on the individual needs of the client, we may also evaluate and offer advice on a variety of mutual fund allocations designed to achieve clients’ investment objectives. JDLA does



not review casualty insurance (e.g., home owners, auto, liability, etc.). Clients are responsible for having such matters reviewed by an outside casualty firm.

JDLA gathers required information through in-depth personal interviews and a data gathering process. With respect to its investment management process, JDLA approaches its investment management process as follows:

### **Step 1: Analyze Client Goals and Objectives**

This part of the process is considered the most important part of JDLA's investment management process due to the fact it is the basis upon which JDLA builds the clients' portfolios. This foundation is formed on how clients answer the following questions:

1. At what stage of asset growth do you consider yourself: wealth accumulation or distribution?
2. How much risk of loss and volatility are you willing to assume for a given rate of return?
3. What is your time frame for reaching your various financial goals?
4. What are your current cash needs and liabilities?
5. What is your current tax situation?

### **Step 2: Formalize Investment Policy**

Once JDLA has gained a thorough understanding of your goals and objectives, JDLA will use this information to tailor an investment policy statement for you. This statement will guide all future investment decisions and establish the primary repository for all information regarding your investment time frames, objectives, tax-sensitivities, risk tolerance, etc.

### **Step 3: Design Optimal Portfolio**

JDLA will use your investment policy statement as a baseline for the design of your long-term investment portfolio. From the policy, JDLA will build an asset allocation model that will determine your portfolio performance sought.

JDLA will select one of its sound proprietary risk models and produce asset allocation scenarios defining a number of different asset blends that is capable of meeting the expected rate of return while maintaining your acceptable level of risk within the portfolio. JDLA will then work through these scenarios to determine which one best fits your needs. You may need a combination of these models in an effort to meet both your short-term and long-term goals.

#### **Step 4: Portfolio Implementation**

Once your asset allocation is selected, JDLA will begin to implement your portfolio design if the Client has also elected to receive either ongoing non-discretionary investment advisory services or investment management services. JDLA will carefully choose and evaluate the investment options available via JDLA and the clearing broker/dealer platform utilized by JDLS, an affiliated broker/dealer. JDLA has done its due diligence on the mutual fund options and independent money managers, analyzing characteristics such as past performance, qualifications (including their investment philosophies), sector allocations, and other factors. Portfolio rebalancing and other implementation activities may require that you sign a Limited Power of Attorney for Purchases and Sales of Securities, allowing JDLA limited trading discretion of your accounts.

#### **Step 5: Performance Reporting and Measurement**

JDLS provides customized reports at least annually and more frequently upon request. Your report allows you to monitor the performance of your investment portfolio compared to appropriate benchmarks. In addition, you will automatically receive quarterly statements from the respective holding firms and you will have online access to view activity should you choose to take advantage of the complimentary service.

#### **Step 6: Portfolio Monitoring and Rebalancing**

Our asset allocation, mutual fund and money manager selection processes are vigorous. Although our asset allocation models tend to remain consistent, we review them periodically and will occasionally modify them to reflect fundamental market conditions, or changes in your objectives or circumstance. In addition, we periodically monitor the performance of our selected investments and fund managers, making recommendations as deemed appropriate. Although you may grant us investment discretion, you may also revoke that discretion. Moreover, it is very important that you communicate with our firm on any life or financial changes which may affect your investment policy statement and long-term financial goals.

Throughout our relationship, JDLA will maintain a high level of personal contact with you to help achieve your financial goals and recommends that you to take full advantage of regular portfolio reviews.

By its nature, financial planning evaluates the long-term objectives. We evaluate the client's short-term cash needs and emergency funds and design investment and insurance strategies to help achieve his/her financial goals. Compensation for financial planning services may be received in the form of a separate fee for the financial plan, as well as from commissions from JDLS. If you only elect to receive a financial plan, the delivery of that financial plan terminates any duties of JDLA, unless you also elect to receive ongoing investment management or non-discretionary investment advisory services.

### **3<sup>rd</sup> Party Investment Management**

Some of JDLA's larger accounts prefer to own individual stocks in separately managed accounts and will use the services of a professional portfolio manager who can personalize the management of their account for tax purposes or other specific management styles. Typically, the portfolio managers manage only a portion of the overall household portfolio of the Client.

In these cases, the Client will sign a management agreement with both JDLA and the outside professional money manager (Stewardship Partners and Lederer and Associates). The Web Sites for each of these services can be found at [www.stewardshippartners.com](http://www.stewardshippartners.com) and [www.lederer-associates.com](http://www.lederer-associates.com).

For such 3<sup>rd</sup> party portfolio management services, the portfolio manager will be given discretion over the trading of the account; JDLA will not have discretion, but will act in an advisory capacity. The portfolio manager places the trades for the Client accounts (usually in block orders) through JDL Securities, and JDL Securities enters the orders at no commission (just a flat \$15 ticket charge that covers the clearing fees of Wedbush).

The Client receives official confirmations and monthly statements from Wedbush (reflecting JDL Securities as the broker/dealer), and receives quarterly portfolio summaries from the respective portfolio manager. The Client will also receive a portfolio valuation disclosure/statement from JDL Securities reflect the whole portfolio (all household accounts including the outside-managed assets) typically on a quarterly basis, but at least annually (depending on the account size and activity). JDLA directly oversees and reviews these managed accounts on a quarterly basis, and will discuss and review the whole portfolio with the Client at least annually or as needed/requested by the Client for rebalancing. JDLA will consult between the Client and the portfolio manager, and will make arrangements for the Client to meet or speak directly with the portfolio manager as requested.

Stewardship Partners charges an annual management fee of 60 basis points and bills the Clients' accounts *pro rata* on a quarterly basis. Lederer and Associates charges an annual management fee of between 75 and 100 basis points and bills the Clients' accounts on a quarterly basis.

JDLA charges an annual fee of 75 basis points for advisory services and bills the Clients' accounts *pro rata* on a quarterly basis. Considering both the portfolio management fees and the JDLA investment advisory fee, these Clients are not billed more than 1.75% per annum for the combined services on these accounts.

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## **Mutual Fund Allocation Implementation; Discretionary and Non-Discretionary Investment Advisory Services**

Brokerage recommendations of JDLA personnel are provided by Registered Representatives associated with JDLS. If Clients choose to implement the recommended mutual fund allocation through JDLA personnel, the broker/dealer is JDLS (JDL Securities Corporation). JDLS performs “due diligence” on mutual funds. The purpose of the due diligence process is to evaluate the quality of the mutual funds. The role of JDLA is to determine which mutual funds complement the Client-specific suitability information.

JDLA will not assist Clients with placing trades that it did not recommend. However, its personnel who are Registered Representatives of a securities broker/dealer may place those trades as brokers in unsolicited transactions. For assets purchased by Clients that were not recommended JDLA, JDLA will exclude securities assets for investment advisory billing purposes, unless JDLA and the respective Client agree that JDLA will initiate advisory services on those securities going forward.

Compensation for financial planning services will be received in the form of a separate fee for the financial plan, as well as from commissions from JDLS.

Although it does not presently anticipate doing so, JDLA reserves the authority to execute agreements with other registered investment advisers in order to have them manage or sub-advise the Accounts of Client. If it does so, JDLA will conduct due diligence on them as contemplated in JDLA’s Compliance Procedures. In such instances, JDLA may receive a portion of the account fee and JDLA would make available to the Client the Form ADV of the other registered investment adviser(s).

## **Mutual Fund Fees**

JDLA’s investment advisory program primarily consists of providing investment advisory services relative to mutual funds and their allocations. JDLA receives a fee for its advice. Also, the President of JDLA also serves as the Registered Representative (“broker”) of the registered broker/dealer that receives brokerage commissions from the mutual funds. The broker/dealer retains a small portion of those commissions and pays the majority of the commission to the Registered Representatives who sold those securities products.

In addition to the foregoing, all investment advisory fees paid to JDLA for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds to their shareholders. These fees and expenses are described in the respective mutual fund’s prospectus. These fees will generally include a management fee and other funds expenses. The distribution fee, referenced in the prospectus, is part

of the commission referenced above, which is paid to the broker/dealer by the mutual fund companies.

Certain mutual fund share classes (A shares), which is the share class used most commonly by JDLA, pay commissions directly from the initial amount of money invested by the Client, whereas other share classes absorb distribution fees/commissions by the mutual fund, which are indirectly paid by the Client. Such other share classes typically have higher fees or expenses than A Shares (or adviser shares, if available), which typically reduces net returns over a long-term horizon. In other words, if the mutual fund imposes a commission (sales charge or “load”), a Client may pay an initial or deferred sales charge. Initial sales charges are generally absorbed directly through the investor’s initial investment funds. Such sales charges would be paid to the broker/dealer and thereafter to the Registered Representative of the broker/dealer. On the other hand, deferred sales charges are initially absorbed by the mutual fund itself, but passed on to the investor in the form of higher annual fees and/or traditionally lower annual returns.

A Client could invest in a mutual fund directly, without the services provided by JDLA. However, in that case, the Client would have to determine its investments without any advice of JDLA, which includes assessing which mutual fund or funds are most appropriate for the Client’s financial condition, goals, objectives and investment time horizon. As with investment advisers generally, JDLA’s service is investment advice.

The Client should review both the fees charged by the mutual funds and the fees charged by JDLA to fully understand the total amount of fees. Thereafter, the Client is in a better position to evaluate the product being recommended and the advisory services being provided.

Investing in mutual funds has been the subject of significant regulatory consideration.

## **B. MUTUAL FUND RISKS, FEES & SUITABILITY DISCLOSURES, GENERALLY**

Regulators (*regulator and a self-regulatory organization governing the brokerage industry*) have developed documents that serve as advisory or educational pieces for the industry. An area of regulatory focus over the years has been mutual funds. In the ordinary course of business, JDLS will provide disclosures to JDLA Clients that open accounts with JDLS regarding mutual funds risks, expenses, breakpoints, rights of accumulation, etc.

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## Fees & Compensation

### INVESTMENT ADVISORY FEES

#### A. PORTFOLIO CONSTRUCTION, ADVICE AND PERIODIC REVIEW

Client will pay JDLA periodic fees for its investment advice. The fee will be calculated as a percentage of the market value of all advised assets in Client's Account, including money market accounts, except for certain assets excluded for billing purposes, on the last trading day of the respective calendar quarter ("Quarter End Value"). The fees are established as specified herein, but may be negotiated to some extent. For the first partial quarter upon the opening of the Account or the transitioning to the investment advisory services, the fee shall be based upon the market value of assets subject to the Client contract ("Agreement") with JDLA as of the effective date of that Agreement. The advisory fee is payable quarterly in advance based upon the net asset value of the advised assets on the last day of the preceding quarter as reported by the mutual fund, mutual fund transfer agent or other applicable custodian. Pursuant to authority granted by Client to JDLA in the Client Agreement, the fees are deducted from the Client Account at the custodial broker/dealer and/or the mutual fund company. The Client will sign a fee authorization document with the Custodian.

If the Client cancels the investment advisory relationship prior to the end of the respective billing quarter, then fees are refunded on a *pro rata* basis. In other words, the refund of fees collected in advance will be determined by multiplying the fraction calculated by dividing the number of days in the quarter for which investment services were in effect, by the number of total days in the quarter, and then multiplying that percentage by the amount of advisory fees charged in advance for the respective calendar quarter. That product is retained by JDLA, whereas the balance of the total fees collected in advance for that respective calendar quarter are returned to the Client within 5 days of JDLA receiving the notice of cancellation notice.

JDLA provides investment management and advisory services for which it ordinarily charges between 50 basis points (1/2%) and 100 basis points (1%) of the assets under management. JDLA will not assess investment management fees in excess of 100 points annually.

The basis points will either be 50, 75 or 100 points, paid in advance of the respective fiscal quarter. In other words, the investment advisory fee will range between 1/2% to 1% annually, paid quarterly at the beginning of each quarter based on the size of assets managed, the amount of discretion, consulting needed, and any due diligence required.



Fees are negotiable and generally depend upon the amount of work envisioned by JDLA and the nature of the account. The basis points are determined by the account size, with some exceptions: for example, a person may have a small account, but introduce other income to the firm which will be taken into consideration. If the Client terminates the business relationship prior to the end of the respective quarter for which fees have been paid in advance, then the Client is entitled to receive a *pro rata* refund of aforementioned investment advisory fees that have not yet been earned by JDLA.

Advisory and/or Management Fees for Mutual Fund Assets will be calculated and billed at the above rate minus the 12b-1 payments (-0.25%) paid to JDLS as the broker/dealer. JDLS also receives mutual fund loads/commissions for such products purchased, and those commissions are a consideration of JDLA's advisory fees. At the discretion of the investment adviser representative, JDLA may waive its advisory fees in consideration of any commissions that JDLS receives.

Even in accounts that are otherwise non-discretionary, if the account has an inadequate balance to pay the advisory fee, then JDLA shall be duly authorized to reallocate the Client's account, including the authority to invest, sell, and reinvest proceeds in the account, at its discretion, without being obligated to obtain your prior confirmation of any proposed action.

Nothing reflected above shall be construed to grant the JDLA any of the following powers:

- Discretionary authority to withdraw cash or make wire transfer money order payments to JDLA or 3<sup>rd</sup> parties;
- Authority to pay or receive funds of Client, except as referenced in the Custody section of your investment advisory contract with JDLA; and
- Power of Attorney or other right that would cause JDLA to have access to, or the right to convey Client assets, except as the Custodian may require for the sole purpose of having the Custodian deduct advisory fees from the account.

If required by Custodian, Client shall sign appropriate powers of attorney and it shall remain in force and effect until revoked, cancelled or terminated. Client should carefully review the governing investment advisory contract with JDLA and the powers of attorney prior to signing it. Custodian may require that Client periodically sign power of attorney forms. Also, JDLS receives payment for the commission/loads paid by the respective mutual fund company, as disclosed in the governing prospectus.

JDLS/Wedbush imposes transaction charges which are currently \$15 per trade per fund (*subject to change*) when distributions, reallocations and exchanges (*or modifications to automatic transactions*) are processed.

For assets other than mutual funds, the fees will be based upon the closing market value as reported by the custodian/clearing firm. In any partial calendar quarter, the advisory fee will be pro-rated based upon the number of days that the Account was



open during the quarter. Client understands that Account assets invested in shares of mutual funds ("Funds") will be included in calculating the value of the Account for purposes of computing JDLA's investment advisory fees and the same assets will also be subject to other fees and expenses, as set forth in the prospectuses of those Funds, paid by the Funds, but ultimately borne by the Client.

For avoidance of doubt, fees are based upon services and advice rendered, not on investment performance. There will be periods of market decline. Accordingly, JDLA shall not be compensated on the basis of a share of capital gains or capital appreciation of the Funds or any portion of the Account value of Client.

As otherwise contemplated herein, JDLA also has Registered Representatives associated with JDLS, a registered securities broker/dealer and, as such, the Registered Representatives receive a portion of the A share loads/commission and 12b-1 fees that are paid by the respective mutual funds to the securities broker/dealer. Such Registered Representatives have a dual role insofar as they also serve as IARs of JDLA. The regulators recognize that registered investment advisers that receive compensation from the sale to a Client of securities may have an incentive to base investment recommendations on the amount of compensation the registered investment adviser or the Registered Representative of the broker/dealer will receive, rather than on the Client's best interests. Thus, a significant conflict of interest exists. However, due to the desire to maintain relatively higher administrative efficiency and reduce tracking challenges, this fee offset does not apply to subsequent investment contributions into the same Fund. If 12b-1 fees that are payable to Registered Representatives (*who are also Investment Adviser Representatives or IARs of JDLA*) are reduced or eliminated due to regulatory changes or otherwise, then the investment advisory fee shall be automatically increased to compensate for the reduction or elimination of 12b-1 fees.

#### **Method of Paying/Collecting Fees**

The Custodian shall, in the ordinary course of business, manage the Account fee collection. Under no circumstances may JDLA serve as the Custodian. Client should verify the accuracy of the fee calculation reflected in the Client Account statements and, if discrepancies or inaccuracies exist, Client should promptly notify JDLA.

The Custodian will debit Account fees and expenses on a quarterly basis. In order to debit the Account, the Client will grant the Custodian in writing the authority to do so.

Client shall sign appropriate letters of instruction or powers of attorney (between Client and Custodian) and such documents shall remain in force and effect until revoked, cancelled or terminated. Custodian may require that Client periodically re-sign or update those forms.

## **B. FINANCIAL PLANS, WITHOUT PERIODIC REVIEW**

<b>TYPE OF FINANCIAL PLAN</b>	<b>FEE FOR FINANCIAL PLAN</b>
Life Style Plan	\$2,500
Written Investment Policy Statement	\$750

### **OTHER FEES**

There are other fees that may be charged for accounts that utilize 3<sup>rd</sup> party portfolio managers. Please refer to the sub-section in this Brochure entitled 3<sup>rd</sup> Party Investment Management, under the section above entitled Advisory Business.

There are other fees such as brokerage commissions and fees; mutual fund fees charged by the mutual fund companies; custody fees; administrative, processing and transaction fees assessed by JDLA, its custodians, broker/dealers and other 3<sup>rd</sup> parties. Such fees are not for investment advisory services provided by JDLA, but are incidental to the investment advisory services, including custodial and administrative functions.

## **Performance-Based Fees & Side-by-Side Management**

JDLA does not charge performance fees.

Although it does not charge performance fees, the firm endeavors to provide annual position and performance reports to each Client. Moreover, Clients receive monthly or quarterly reports from the custodian with whom the assets are held. Transactional confirmations are forwarded to Clients by the custodian when activity occurs in an account.

JDLA performs investment advisory services for other Clients. JDLA may advise its various Clients, which have similar investment objectives, in a way that is not the same across all accounts. JDLA may give advice and take actions in the performance of its duties with respect to any of its other Clients that differ from the timing or nature of actions taken with respect to Client's account. JDLA shall not be under any obligation to purchase or sell for the Client's Account any securities that JDLA, its directors, officers, or employees may purchase or sell for its or their own Account(s) or purchase or sell or recommend for purchase or sale for Accounts of other clients if, in the sole discretion of JDLA, such action is neither practical nor desirable for Client's account(s).

## Types of Clients

JDLA mainly advises individuals, charities, corporations and other businesses, pension and profit sharing plans and entities controlled by one individual or a family. The latter entities include pass-through entities, such as limited liability companies and partnerships, as well as trusts.

JDLA has approximately 400 accounts. The assets under management total approximately \$250 million. JDLA anticipates acquiring additional accounts that may be managed in either a discretionary or non-discretionary basis. The basis points will be either 50, 75 or 100 basis points paid in advance of the respective quarter. The basis points are determined by the account size, with some exceptions: for example, a person may have a small account however introduce other income to the firm which will be taken into consideration. The condition for managing client accounts are that the Client signs an Investment Management Agreement and that JDLA accepts its role and believes that it can manage according to the Client's investment objectives.

As disclosed herein, the minimum account size is \$100,000. Other requirements include providing the standard customer identification data, including unexpired driver's license or passport. With respect to Accounts registered in the name of an entity, JDLA requires documentary evidence of the company, its certificate or confirmation of good standing, the Partnership Agreement, Limited Liability Company/Operating Agreement, Trust Agreement, and material substantiating that the person opening any company or entity accounts has the authority to transact business and give instructions on behalf of such companies and entities.

## Methods of Analysis, Investment Strategies & Risk of Loss

### **Methods of Analysis and Investment Strategies**

JDLA utilizes fundamental analysis. JDLA focuses primarily on mutual fund selection, allocation and re-allocation as its investment strategy. JDLA evaluates the Client's investments to determine whether they are appropriate in light of the Client's financial/investment objectives, time horizon, risk tolerance and other relevant factors bearing upon the suitability of the investment. JDLA uses an information gathering form to help in its evaluation and selection of securities products. By gathering Client data, JDLA assigns each Client an investment profile that is graded in each of the discrete

categories: risk tolerance, time horizon and investment objectives. Other factors may also be relevant, depending upon the disclosures made by the Client. JDLA searches for securities products that complement the Client's investment profile. JDLA designs and proposes investment portfolios tailored to meet the Clients' investment objectives, including, but not limited to, growth, growth & income, income, conservative, as well as portfolios that are designed to capitalize upon international opportunities, specific sectors, etc.

JDLA utilizes many sources of public information, including financial news and research materials. JDLA personnel consult specialists in financial planning and mutual funds, and JDLA personnel also confer with the due diligence staff of Wedbush who review the products of various issuers.

### **Investing in Securities Involves Risk of Loss**

Investing in securities involves risk of loss, which Clients should be prepared to bear. The investment portfolios resulting from any Investment advice is subject to various market, currency, economic, political and business risks. Investment decisions will be subject to risk. The price of securities can and will fluctuate. Any individual security may become valueless. Accordingly, the Client Account may lose value, including some or all of its principal.

### **Frequent Trading**

JDLA does not utilize frequent trading strategies in the ordinary course of business. Its Clients may require such advisory services, which JDLA would evaluate on a case-by-case basis. JDLA primarily provides advice related to mutual fund selection, allocation and re-allocation, and otherwise provides financial plans. The nature of these investment advisory services is more appropriate for long-term planners. Accordingly, Clients should be prepared to maintain their securities positions in a manner consistent with the financial plan and recommendations of JDLA. Frequent trading can negatively affect investment performance and generate unnecessary trading costs. Moreover, certain products are designed to be long-term investments and, accordingly, are not designed to be traded. Mutual funds are an example of a securities product that is not designed to be traded on a short-term basis. While JDLA will make periodically reallocations among mutual funds in the same Fund family, it should not buy and sell such products (i) outside of the same Fund family in the normal course of business, (ii) buy, sell or exchange such products outside of the same Fund family on a short-term basis or (iii) otherwise engage in activities that would incur additional loads or commissions, because such activities would significantly and negatively impact the investment performance.

### **Material Risks Per Each Significant Investment Strategy, Method of Analysis & Security Type**

The investment strategy used is one of asset allocation among a mutual fund family that is designed to reasonably seek those investment objectives specified by the Client. Selecting the appropriate mutual fund(s), and particularly an asset allocation among a

variety of mutual funds in the same mutual fund complex, is generally designed to reduce risk through diversification, while matching the investment objectives of the Client with the management style and objectives of the respective mutual fund, including the risk tolerance and investment time horizon desired by the Client. Conceptually, the risks in such an approach are that the data gathered by JDLA does not enable JDLA to appropriately select the most appropriate mutual funds and that the mutual funds selected do not perform consistently with the Clients' investment objectives. Moreover, if the mutual funds do not perform as desired, or if there is "style drift" in terms of how the mutual funds are managed, there is a risk that the assets are not quickly or efficiently reallocated when such changes would be appropriate in light of the investment objectives and time horizon of the Client(s). Also, given the somewhat subjective nature of selecting mutual funds, such mutual fund selections and reallocations may not occur with such mathematical precision or metrics that some Clients may believe occurs in the analysis of their investment portfolios. The reallocation among Funds may not result in exactly the same percentage in each mutual fund; JDLA may make such reallocation decisions as determined to be prudent under the circumstances. Such reallocations will consider the required minimum balance applicable to each of the respective mutual funds and money market accounts.

Regarding any risks associated with the security type, specifically including mutual funds, their risks are disclosed in the prospectus. The management style and risk assumed by the investment manager appointed by the respective mutual fund may not select portfolio holdings in an effective manner. Certain unforeseen company, industry and market events may occur that negatively impact investment return. The investment manager may not make the necessary defensive changes or portfolio adjustments in an effective manner. Moreover, the fees and expenses, as referenced in the section above entitled "Advisory Business", may make the investment product relatively costly if the time horizon and investment objectives are not appropriately matched, and if the investment returns generated, if any, are accompanied by relatively more expensive management fees and other associated fees assessed by the mutual fund company.

There is a risk that the amount of money not invested into the market may miss opportunities for market moves. Implementing a strategy to invest Client assets into money market funds or other non-market products ("cash management strategies") may result in opportunity losses, or attempts to reallocate investment funds back into the market at inappropriate market times, resulting in the negative performance oftentimes encountered by market timers. As determined between the investment adviser representative and the Client, JDLA may charge Clients for money market or other "cash balances", and the risks of such a strategy are disclosed herein. Once again, in the event that JDLA takes a defensive strategy regarding the Client's investment portfolio, allocating a significant portion of the portfolio in money market instruments or other "non-market" investment options, then there is a risk that Clients will miss opportunities for capital appreciation. Thus, as referenced earlier, JDLA strives to match Clients' investment objectives with the products that share a similar investment objective. If circumstances change, but the portfolio does not also change, there is a risk of portfolio mismatch. In other words, the investment objectives of the Client or the

mutual fund may have changed, but those changes were either not updated and/or taken into account in the portfolio composition. It may be because the mutual fund manager's investment style has drifted from the stated and understood investment style or because JDLA and/or Client have not adjusted the Client's portfolio in a timely or effective manner. However, any allocation strategy that does not achieve its targeted returns, so long as reasonably applied and applied according to this Brochure, does not necessarily suggest that the portfolio was not effectively allocated; there is no guarantee that a particular investment strategy will result in achieving the targeted returns.

For securities other than mutual funds, there is a model risk and judgment error risk. JDLA utilizes the portfolio analysis steps contemplated elsewhere in this Brochure. As with any securities analysis, there is a risk that the securities chosen to match the investment objective do not accomplish the anticipated objective due to market circumstances, the lack of adequate or accurate due diligence information, the materialization of unforeseen risks, etc. As with all securities, the prospectus should be a central part of the securities analysis, although other considerations are evaluated as well. The entire analysis, although robust, may not accomplish the objective of its inclusion in the Client's portfolio.

## **Disciplinary Information**

There have been no material disciplinary events against JDLA.

## **Other Financial Industry Activities & Affiliations**

The primary business of JDLA's affiliated broker/dealer, JDLS, is buying and selling mutual funds. It also conducts a general securities business, including buying and selling options and municipal securities business through a clearing broker/dealer. Also, JDLA is an insurance agency, which can receive insurance commissions for the sales or replacements of such policies.

JDLA is licensed as an insurance agency and certain associated persons of JDLA are eligible to transact insurance business. The sale of these insurance products accounts for approximately 1% of the business time of such personnel through JDLA; the remaining 99% of business through JDLA is the investment advisory business. Such personnel also dedicate approximately 50% of their time to securities brokerage functions through JDLS, including sales and administrative support thereof.

JDLA is appointed with several life, disability and other insurance companies; associated persons of JDLA may be licensed with these companies as appropriate. JDLA personnel may recommend insurance products offered by these companies. If



JDLA Clients purchase these products through JDLA personnel and their associated insurance agency, then such personnel would receive sales commissions, which would be paid from the insurance company to the insurance agency, and, in turn, from the insurance agency to the registered individual insurance agent(s). A conflict of interest exists between the interests of those registered insurance agents and those of JDLA investment advisory clients. The Client is under no obligation to purchase products recommend by JDLA personnel - either through the registered insurance agents and their insurance agency generally.

As previously mentioned, JDLA has an affiliation with a securities broker/dealer (JDLS) that are material to its advisory business. The principal owner of JDLA, as well as other associated persons of JDLA, are also associated with JDLS as Registered Representatives/Principals. JDLS is a securities broker/dealer and a member of FINRA/SIPC. Thus, personnel of JDLA may recommend securities and/or insurance products offered through JDLS. JDLS representatives may recommend investments to Clients on which the Client may also pay management fees to JDLA and/or broker/dealer commissions to JDLS, if, with respect to the commissions, the transaction is effected through JDLS. In other words, if JDLA Clients purchase securities products through JDLA personnel registered with JDLS, such JDLS personnel will receive commissions.

A conflict of interest exists between the interest of those Registered Representatives and those interests of JDLA investment advisory clients. The Client is under no obligation to purchase what those Registered Representatives recommend or to purchase products either through the Registered Representatives and/or through JDLS generally, although, given its business model, it is unlikely that JDLA personnel would provide investment advisory services through an unaffiliated, 3<sup>rd</sup> party broker/dealer. If the Client wishes to purchase the securities through another broker/dealer, then utilizing JDLA to develop a financial plan might be the most logical way to utilize the investment advisory services of JDLA, but the brokerage services of an unaffiliated firm.

The principal and associated persons of JDLA may invest in the same mutual funds as do JDLA Clients. JDLA or individuals associated with JDLA may buy or sell securities identical to those recommended to customers for their personal accounts. The expressed policy of JDLA is that no person employed by JDLA may purchase or sell any securities shortly before a transaction(s) being implemented for an advisory account, unless such securities are exempted (*such as mutual funds*) pursuant to application regulations (See the section entitled "Code of Ethics").

In addition, customers of JDLA may have arrangements with third-party registered investment advisers. JDLS handles the Client accounts in accordance with the disclosures and parameters set forth in the account paperwork and other associated documentation. JDLS does not have discretionary authority over the assets in such 3<sup>rd</sup> party managed accounts.

Although it does not presently anticipate doing so, JDLA reserves the authority to execute agreements with other entities and individuals to refer clients to JDLA. If it



does so, JDLA may receive a portion of the account fee. If such arrangements are consummated, then JDLA will amend this Brochure to specify the fees and other terms of the arrangement applicable to the Client.

## Code of Ethics

### **CODE OF ETHICS-Generally**

If any Client would like to receive a copy of the JDLA Code of Ethics, the Client may submit a request to the President or the Chief Compliance Officer.

Succinctly stated, JDLA has adopted a Code of Ethics expressing the firm's commitment to ethical conduct. It describes the firm's fiduciary duties and responsibilities to Clients, and sets forth JDLA's practice of supervising the personal securities transactions of supervised persons with access to Client information. Individuals associated with JDLA may buy or sell securities for their personal accounts identical to or different than those recommended to Clients. It is the expressed policy of JDLA that no person employed by JDLA shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment decisions of advisory Clients.

The Code of Ethics is based on the principle that JDLA and each of its employees owe a fiduciary duty to JDLA's Clients and a duty to comply with federal and state securities laws and all other applicable laws. These duties include the obligation of Access Persons, including directors, officers and certain supervised persons, to conduct their personal securities transactions in a manner that does not interfere with the transactions of any Client or otherwise to take unfair advantage of their relationship with Clients.

An Access Person must offer an investment opportunity first to Clients before he or she or JDLA may act on that opportunity. No employee may engage in prohibited market timing of the shares of a mutual fund. No Access Person shall recommend any transaction by any Client without having disclosed his or her interest, if any, in such transaction, securities product or the issuer thereof. No Access Person shall reveal any proposed transactions in securities by one Client to another Client, any employee of JDLA, or any other person who does not need to know that information to process the Client's business. For purposes of the trading limitations contained within the Code of Ethics, mutual funds not affiliated with JDLA are exempted securities. Also, the obligation to approve trades in advance ("preclearance") does not apply to (i) certain transactions, (ii) purchases or sales of securities over which the Access Person has no direct or indirect influence or control, (iii) purchases or sales of securities that are non-volitional on the part of the Access Person (e.g., purchases made pursuant to an automatic dividend reinvestment plan), (iv) purchases or sales of securities that are not eligible for purchase by any Client; and (v) purchases of securities effected upon the exercise of rights issued by an issuer *pro rata* to all holders of a class of its securities.

Every Access Person shall certify on an annual basis, in writing, that he or she has:

1. received a copy of the Code of Ethics;
2. read and understands the Code of Ethics; and
3. disclosed, precleared (if applicable) and reported all transactions in Securities consistent with the requirements of the Code of Ethics.

Unless the activity is exempt, or otherwise covered by the receipt of quarterly statements received from another source, Access Persons must complete quarterly transaction reports.

Other concepts or disclosures related to the Code of Ethics are noted below:

### **POTENTIAL CONFLICTS OF INTEREST**

The following are examples where registered investment advisers generally may have a conflict of interest with their Clients.

#### **Generally**

- Affiliated company arrangements and transactions
- Allocation of costs and expenses between JDLA and Clients
- Brokerage placement, especially placement with affiliated broker-dealers
- Fee differentials
- Gifts and entertainment
- Multiple layers of fees
- Receipt of 12b-1 Fees for Distributing Mutual Funds
- Sales Commissions
- Outside Business Activities
- Personal trading
- Side-by-side management of accounts
- Third-party relationships (e.g., service providers)
- Trade errors/late trading
- Account Supervision by a Producing Manager or Employee who reports directly to the President
- Multiple Layers of Fees; Affiliated Companies

### **JDLA CONFLICTS OF INTEREST**

Potential conflicts of interest may arise between the Client's interests and JDLA's interests in executing transactions as an investment adviser if the Client chooses at his or her sole discretion to implement all or part of the Program. JDLA may execute transactions through JDLS/Wedbush as agent for a commission, while also assessing the Client an asset-based fee. The Client understands that conflict, acknowledges it and expressly waives it because Client wants JDLA's personalized investment advisory relationship and is willing to pay the commission, the investment advisory fees, as well as the management fees collected by the mutual fund company (see Fund prospectus) and 12b-1 or distribution fees paid by the mutual fund company to specified financial

services institutions, including the IARs who are also registered with a broker/dealer authorized to sell those mutual funds. In consideration of the foregoing, JDLA seeks to reduce such conflicts by the way it offsets its advisory fees by certain commissions paid. See the section Entitled Fees & Compensation for more details.

### **Core Conflicts of Interest within JDLA's Business Model**

- Gifts and entertainment
- Multiple layers of fees
- Receipt of 12b-1 Fees for Distributing Mutual Funds
- Sales Commissions
- Outside Business Activities
- Account Supervision by a Producing Manager or Employee who reports directly to the President
- Multiple Layers of Fees; Affiliated Companies

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In the course of JDLA providing services to Clients, JDLA may recommend that the Client (i) purchase or sell securities, (ii) enter into managed accounts relationships and/or (iii) purchase products underwritten by insurance carriers. In recommending the purchase of securities, IARs of JDLA may transact business in securities, and be paid based upon those transactions, if such persons are Registered Representatives of a broker/dealer such as JDLS.

By accepting JDLA's services, Client consents and agrees that IAR of JDLA may receive commissions or fees on any transactions in securities, managed accounts, insurance products, if and when JDLA's advice is implemented by Client, and executed upon the instruction of JDLA personnel associated with JDLS.

### **Other Conflicts Controls**

JDLA has established the following restrictions in order to promote its fiduciary responsibilities:

- 1) A director, officer or employee of JDLA shall not buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on reasonable inquiry. No person of JDLA shall prefer his or her own interest to that of the advisory client.
- 2) JDLA maintains a list of all securities holdings for itself, and anyone associated with this advisory practice with access to advisory recommendations. These holdings are reviewed on a regular basis by the Chief Compliance Officer or other appropriate person of JDLA.
- 3) All Clients are informed that certain individuals may receive separate compensation when effecting transactions during the implementation process.
- 4) Any individual not in observance of the above may be subject to termination.

## **INSIDER TRADING PROCEDURES**

JDLA gathers information about Clients in order to serve as an investment adviser. Thus, a potential conflict of interest arises if Clients disclose information about their employer that is non-public information. Be that as it may, JDLA employees are prohibited from trading in their personal accounts based upon non-public information that may be disclosed in the course of the information gathering process mentioned above. JDLA's anti-insider trading procedures are designed to prevent the misuse of material, nonpublic information by JDLA and its officers, directors and employees. These procedures are inextricably related to the Code of Ethics articulated above.

## **COMPLIANCE POLICIES AND PROCEDURES**

In accordance with the regulatory requirements governing the investment advisory industry, JDLA has developed compliance policies and procedures that are designed to promote the compliance with the laws and regulations governing the investment advisory business. Such policies and procedures address a variety of matters, including (i) how to process new and existing client business; (ii) how to comply with regulations governing matters such as anti-money laundering, anti-insider trading prohibitions and privacy regulations; (iii) disclosure practices; among other matters of importance.

### **Brokerage Practices**

Succinctly stated, due to its business model, JDLA feels that by using a broker/dealer clearing firm that clears its trades through an investment advisory platform of a clearing broker/dealer, JDLA does have within its own operational environment the types and/or levels of conflicts of interest that investment advisory firms have that do not use broker/dealer clearing firm platforms, including the possibility for soft-dollar practices, trade allocation, order aggregation, agency trades, agency cross trades and principal trades. Nevertheless, if JDLA were to engage in investment advisory business for products other than mutual funds and NAV-priced products, and otherwise engage in order handling, then JDLA would obtain disclosures and/or assurances from the other associated parties contemplated herein regarding their brokerage practices and/or the appropriateness thereof.

JDLA conducts all of its securities brokerage through JDL Securities Corporation ("JDLS"), which, in turn, clears all its trades through Wedbush Securities, Inc. ("Wedbush"), Member FINRA/SIPC, except for such mutual funds that may be held directly with the respect mutual fund companies. Aside from mutual fund applications submitted directly to the respective mutual fund companies, JDLA clears all its securities trades for current business through Wedbush because JDLS clears its trades through Wedbush, and, for compliance and operational reasons, it is a convention that is widely used by IARs who are also Registered Representatives of broker/dealers.

JDLA does not make decisions to “direct” trades to Wedbush because of research or “soft dollar” benefits.

Notwithstanding the foregoing, JDLA believes that Wedbush’s fees are reasonable and competitive. JDLA does not have multiple broker/dealers to place trades. JDLA understands that the investment advisory platform that Wedbush places trades through multiple broker/dealers in order to seek best execution. If JDLA were to commence coverage of individual stocks and other exchange listed products that have an intra-day pricing market, then JDLA would periodically review the best execution reports available through Wedbush, including the trade aggregation policies, which JDLA would, in turn, disclose to its Clients. Such best execution practices would be related to the procedures, practices and arrangements of JDLS’ clearing firm, Wedbush.

### **CLIENT BROKERAGE**

JDLA does not make brokerage decisions when providing advisory services about which broker/dealer, venue, market or exchange to utilize, except that it has a dedicated brokerage relationship with JDLS as otherwise disclosed herein. As such, any mutual funds transactions are supervised under the auspices of its “sister company” (JDLS). Such transactions occur through the clearance and settlement facilities of Wedbush or directly with the respective mutual funds or their transfer agents. If JDLA were to accept Client requests to exercise discretion on the purchase of stocks and other non-mutual fund securities, then JDLA personnel who are registered with JDLS would place such transaction orders into the remote order entry system utilized by Wedbush, and the execution of those orders would be routed to the market maker and/or market center selected by Wedbush, in accordance with its order routing practices. If you are interested in learning more about the firm that would be responsible for such order execution, let JDLA know. Some Wedbush order routing information may be found online at <http://www.wedbush.com/order-routing>.

### **EMPLOYEE BROKERAGE**

JDLA has an employee trading policies and procedures that are embodied within its Code of Ethics and its anti-insider trading policy, which is designed to place its Clients’ interests ahead of the employees’ interests. Since JDLA’s Client recommendations are generally limited to non-discretionary advice regarding mutual funds, which are priced at Net Asset Value (“NAV”) as of the close of the respective market day, the trading policy is not generally relevant for the nature of JDLA “employee trading”, but is focused on listed securities that have an intra-day pricing market. Therefore, the preponderance of JDLA’s trading policy in practice relates more to avoiding trading in employee accounts based upon inside information obtained from the Clients concerning their respective employers. As JDLA gathers information about the Client in order to serve as an investment adviser, the potential conflict of interest arises if Clients disclose information about their employer that is non-public information. Employees are prohibited from trading in their personal accounts based upon non-public information.

In addition to the procedures referenced above in the section entitled Conflicts of Interest, JDLA Code of Ethics applies to employee brokerage practices of non-exempt securities, specifically including, but not limited to:

**Personal Securities Transactions.** No Access Person may:

- purchase or sell, directly or indirectly, a security for his or her own account a prescribed number of days before and after the time that the same security or related security is being purchased or sold by any Client; or
- purchase or sell, directly or indirectly, a security for his or her own account that is the same security or related security that is the subject of a buy or sell recommendation to any Client.

## **PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

In the traditional sense, JDLA does not participate in or have a proprietary interest in Client transactions. All orders are placed on an agency basis or occasionally on a riskless-principal basis for the benefit only of the Client.

## **Review of Accounts**

### **Approval & Delivery of Client Account Forms**

Each new Client Account Opening Form and related forms must be approved by the Chief Compliance Officer before a Client's account is opened with JDLA and the broker-dealer or other financial institution that maintains Client's securities account. Such approval shall be granted only if the Chief Compliance Officer confirms that all essential facts regarding the Client and the nature of the Client are true and correct to the best of his or her knowledge.

### **Review of Accounts**

The President will review each managed account on an annual basis or more frequently. Transactions are monitored on a daily basis. The President, CCO and the Investment Adviser Representative responsible for pension plans will review accounts quarterly. Instructions regard an evaluation whether it is necessary to reallocate positions for tactical, strategic or compliance reasons. Unless an account is concentrated, which JDLA does not recommend, the reviews do not have different levels. Another factor triggering reviews is market volatility, when investment objectives are reconsidered. Derek Lewis, Kelly Dunagan, Doug Hyepock, Rion Dalby and Rob Knutsen may request a review of the account due to performance or change in objectives.



The President instructs Ms. Espinili to apprise him of any compliance concerns Ms. Espinili has about the portfolios or their allocations.

Clients receive quarterly reports from the mutual fund company. Also, JDLS provides the Clients an annual position report, disclosing the account allocation, account value and change in value. The respective Custodians/Clearing Firms provide monthly/quarterly account statements.

### **Review of Financial Plans**

Regarding the financial plans for Clients who select ongoing investment advisory services, they are reviewed annually, and sometimes more frequently than annually. If Clients want to have a review conducted more often than annually, JDLA will perform more frequent reviews in accordance with its fee schedule. For Clients who only request a financial plan, but not ongoing investment advisory services, then JDLA prepares the financial plan, but does not review it after discussing and providing it to the Client. Accordingly, its investment advisory duties terminate after providing the financial plan to the Client and discussing it with him/her.

Aside from the account review policies contained above, there are several portions of the JDLA Compliance Manual that have relevance to review of Clients' accounts. Some of those procedures are alluded to in the section above entitled "Code of Ethics." Otherwise, the procedures governing privacy and account form approval/delivery have relevance to the account review process.

### **Privacy Reviews**

JDLA shall provide a copy of its Privacy Notice to each individual who becomes a Client of JDLA not later than the establishment of the advisory relationship, unless:

- establishing the Client relationship is not at the Client's election, or
- providing notice at such time would substantially delay the Client's transaction and the Client agrees to receive the notice at a later time, in either of which cases the Privacy Notice shall be provided within a reasonable time after establishment of the Client relationship.

The privacy procedures are designed to:

- Ensure the security and confidentiality of Client information;
- Protect against any anticipated threats or hazards to the security or integrity of Client records and other Client information; and
- Protect against unauthorized access to, or use of, client information that could result in substantial harm or inconvenience to any Client.



JDLA will maintain an updated Privacy Notice. The Privacy Notice will describe:

- The categories of nonpublic personal information that JDLA collects;
- The categories of nonpublic personal information that JDLA discloses;
- The categories of affiliates and nonaffiliated third parties to whom JDLA discloses nonpublic personal information, other than those parties to whom JDLA discloses information under exceptions contained in the governing privacy laws;
- The categories of nonpublic personal information about JDLA's former Clients that it discloses and the categories of affiliates and nonaffiliated third parties to whom JDLA discloses nonpublic personal information about its former Clients, other than those parties to whom JDLA discloses information under exceptions contained in the governing privacy laws;
- Whether JDLA discloses information under applicable privacy law exceptions;
- If JDLA discloses nonpublic personal information to a nonaffiliated third party, the notice will contain a separate statement of the categories of information it discloses and the categories of third parties with whom it has contracted;
- An explanation of the consumer's right under Regulation SP to opt out of the disclosure of nonpublic personal information to nonaffiliated third parties, including the method(s) by which the consumer may exercise that right at that time; and
- JDLA's policies and practices with respect to protecting the confidentiality and security of nonpublic personal information.

A copy of the Privacy Notice shall be provided to:

- An individual who becomes a "customer" of JDLA not later than when JDLA establishes a customer relationship, or a "consumer," before JDLA discloses any nonpublic personal information about the consumer to any nonaffiliated third party; and
- Existing customers each year on March 31.

JDLA shall satisfy the annual delivery requirement if it provides its privacy notice to each Client at least once in any period of 12 consecutive months during which that Client relationship exists.

JDLA will provide privacy notices and opt-out notices so that each consumer can reasonably be expected to receive actual notice in writing or, if the consumer agrees, electronically. JDLA may reasonably expect that a consumer will receive actual notice if it:

- Hand-delivers a printed copy of the notice to the consumer;
- Mails a printed copy of the notice to the last known address of the consumer; or
- For the consumer who conducts transactions electronically, posts the notice on the electronic site and requires the consumer to acknowledge receipt of the notice electronically.

## **APPROVAL AND DELIVERY OF CLIENT ACCOUNT FORMS**

Each new Client account opening form and related forms must be approved by the Chief Compliance Officer of JDLA before a Client's account is opened with JDLA and the broker-dealer or other financial institution that maintains the respective Client's securities account. Such approval shall be granted only if the Chief Compliance Officer confirms that all essential facts regarding the Client and the nature of the Client are true and correct to the best of her knowledge.

After a new Client has completed the Client account opening form, brokerage account application and executed an investment advisory contract with JDLA, the Chief Compliance Officer will approve the account for processing by the broker/dealer and/or the mutual fund company.

## **Client Referrals & Other Compensation**

### **MARKETING & REFERRAL ARRANGEMENTS**

From time to time, JDLA advertises its advisory services, although it presently does not have any referral arrangements where JDLA pays for Client referrals. JDLA reserves the authority to execute agreements with other entities and individuals to refer clients to JDLA. If it does so, JDLA may receive a portion of the account fee. If such arrangements are consummated, then JDLA will amend this Brochure to specify the terms of each such arrangement and provide the Client a fee disclosure brochure as contemplated by governing regulations.

JDLA may execute agreements with other registered investment advisers in order to have them manage or sub-advise the accounts of client. If it does so, JDLA will conduct due diligence on them as contemplated in the Compliance Procedures. In such instances, JDLA may receive a portion of the account fee. JDLA will make available to the client the Form ADV of the other registered investment adviser.

Aside from the foregoing, other parties that are not advisory Clients pay JDLA or its personnel for selling certain securities products, but not necessarily for providing investment advisory services. Specifically, mutual fund companies sponsor trips, meetings or conferences related to the products themselves, not the nature of the account relationship. In other words, such products and the associated benefits referenced herein can apply whether the products are subject to a brokerage relationship or an investment advisory relationship. These trips are designed to be educational in nature, but may have benefits that extend beyond merely educational benefits. Because Derek Lewis sells a significant amount of American Funds, American Funds sponsors Mr. Lewis to attend one annual meeting that affords him the opportunity meet and speak directly with American Funds' portfolio managers and executives. The meetings usually occur near one of the research facilities of American Funds and in recent years have been in **[insert locations of meetings]**. Based on the flights, room rates and meals, the estimated cost for the 3 day trip is \$1,200-\$1,500.

Objectively speaking, the concern that should be disclosed to the extent applicable is whether there is a payment or benefit being paid by a 3<sup>rd</sup> party such as a mutual fund sponsor that results in the registered investment adviser buying securities for a Client that is not in the best interest of the Client. To the extent that the foregoing meetings or conferences present a conflict of interest, JDLA, JDLS and Wedbush have conducted due diligence on American Funds and some other Funds and, based upon their findings, JDLA believes that utilizing those Funds provides an excellent option for JDLA Clients. In JDLA's assessment, they are an excellent Fund family that, coupled with the benefit of attending an annual educational meeting or conference, does not present a conflict of interest that needs to be mitigated. The primary purpose of such meetings or conferences is to give sales personnel the opportunity to remain current, educated and in contact with the mutual funds that sales representatives, such as those employed by JDLA, are selling and advising upon. If the Client does not wish JDLA to invest funds into any specific mutual fund or security generally, the Client can express that interest by noting those details on a list of restricted securities provided to JDLA.

## **Custody**

The Client will receive account statements directly from the Custodian of the securities and the monies on deposit. Clients should carefully review the Account statements received from the Custodian.

JDLA sends its own annual consolidated statement to Clients. In addition, if the Client has an annual meeting with JDLA, JDLA issues an updated statement at that time (revalued to the current period) and reviews it with the respective Client during the appointment. Client should compare the account statements received by JDLA against those received by the Custodian to ensure that they are in agreement. Comparing those statements will allow Client to determine whether account transactions, including deductions to pay advisory fees, are proper.

## **Investment Discretion**

JDLA may exercise discretionary authority to invest in securities, including new mutual fund families, not currently held by the Client. JDLA may also exercise discretion to buy new mutual funds and reallocate existing mutual funds in such a manner to provide an adequate balance in the money market account to pay the account fees. Unless there is a fundamental change in the allocation suitability that requires readjustment, JDLA will generally endeavor to make such reallocations in a way to preserve a similar allocation ratio among the various mutual fund holdings in the respective mutual fund

family. However, the reallocation among Funds may not result in exactly the same percentage in each mutual fund; JDLA may make such re-allocation decisions as determined to be prudent under the circumstances. Also, such re-allocations will consider the required minimum balance applicable to each of the respective mutual funds and money market accounts.

## **Voting Client Securities**

JDLA neither has the authority to vote proxies on behalf of Clients, nor would it accept such responsibility if requested by the Client. Thus, Client retains exclusive proxy voting authority. JDLA shall promptly forward to the Client any such proxy material that it may receive so that the Client may evaluate and vote according to the Client's volition and discretion.

Similarly, JDLA will not advise or act for the Client in legal proceedings, including class actions or bankruptcies, involving securities purchased for or held in the Client's account. The Client (or his or her agent) will have the responsibility for class actions or bankruptcies, involving securities purchased for or held in the Client's account. JDLA does not assume any responsibility to forward copies to Clients or Clients' agent regarding class action notices.

## **Financial Information**

JDLA does not believe that any there is reasonably foreseeable material information that jeopardizes the financial health of JDLA. Such items that require disclosure herein would include bankruptcy, insolvency or cessation of business. Also, if JDLA has been the subject of a bankruptcy petition during the past ten years, JDLA would have to disclose that fact to Clients. No such circumstances presently exist. If that changes, JDLA will update its Clients accordingly.

JDLA would disclose any financial condition reasonably likely to impair JDLA's ability to meet contractual commitments to Clients if JDLA (i) has discretionary authority over client assets, (ii) has custody of client funds or securities, or (ii) requires or solicits prepayment of more than \$1,200 in fees per Client and six months or more in advance.

## Requirements for State Registered Advisers

While JDLA is not a state registered adviser, JDLA is incorporating the state disclosure contained herein as a measure of good practice. Pursuant to California regulations, financial planners should provide proper disclosures relating to any inherent conflict of interest that may result from any compensation arrangements connected with the financial planning services that are in addition to the financial planning fees and other financial industry activities or affiliations.

To the extent that JDLA provides financial planning services and JDLA and/or its personnel receive compensation (e.g., commissions & fees) from the sale of securities and insurance recommended in the financial plan, or otherwise has a conflict of interest, investment advisers must deliver to the financial planning clients a notice in writing containing at least the information found below (*in addition to the disclosure contained in the Client Agreement*) at the time of entering into a contract for, or otherwise arranging for the provision of, the delivery of a financial plan:

- (1) A conflict exists between the interests of the investment adviser or associated person and the interests of the client, and
- (2) The Client is under no obligation to act on the investment adviser's or associated person's recommendation. Moreover, if the Client elects to act on any of the recommendations, the Client is under no obligation to effect the transaction through the investment adviser or the associated person when such person is employed as an agent with a licensed broker-dealer or is licensed as a broker-dealer or through any associate or affiliate of such person.