



## ***Kalos Management, Inc.***

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***Kalos Individually Managed Accounts  
Kalos Asset Allocation Portfolios***

### ***Appendix 1 Wrap Fee Disclosure Brochure***

***March 28, 2011***

This wrap fee program brochure provides information about the qualifications and business practices of Kalos Management, Inc. If you have any questions about the contents of this brochure, please contact us at 678.356.1100. 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.

Kalos Management, Inc. is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. 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 Kalos Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## Material Changes

On August 12, 2010, the United State Securities and Exchange Commission (“SEC”) published “Amendments to Form ADV” which revises the format of Schedule H of Form ADV. This brochure dated March 14, 2011 is prepared according to the new Form ADV Part 2 Appendix 1 format. As a result, Kalos Management, Inc. (“Kalos Management, we, us, our, ours”) is providing you with a brochure that not only looks different, but contains information in a clearer format than our earlier disclosure documents.

In the past, we have offered or delivered information about our qualifications and business practices to clients on an annual basis. Going forward, we will ensure that you receive a summary of any material changes to our brochures by April 29th of each year.

We may also provide updated disclosure information about material changes on a more frequent basis. Any summaries of changes will include the date of our

last annual update of our brochure.

Currently, our brochure may be requested by contacting John Williams, Chief Compliance Officer at 678.356.1100 or [jwilliams@kalosfinancial.com](mailto:jwilliams@kalosfinancial.com). We will provide you with a new brochure at any time without charge.

Additional information about us is available via the SEC’s website: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). This website also provides information about any persons affiliated with Kalos Management who are registered as investment adviser representatives (“your advisory representative”) of Kalos Management. Information on your advisory representative can be found in our brochure supplements on the page shown in the table of contents to the right of this column.

## Table of Contents

<i>Services, Fees and Compensation.....</i>	<i>1</i>
<i>Account Requirements and Types of Clients.....</i>	<i>4</i>
<i>Portfolio Manager Selection and Evaluation.....</i>	<i>5</i>
Advisory Business.....	5
Performance-Based Fees.....	6
Methods of Analysis, Investment Strategies and Risk of Loss.....	6
Voting Client Securities.....	7
<i>Client Information Provided to Portfolio Managers.....</i>	<i>7</i>
<i>Client Contact with Portfolio Managers.....</i>	<i>7</i>
<i>Additional Information.....</i>	<i>7</i>
Disciplinary Information.....	7
Other Financial Industry Activities and Affiliations.....	7
Code of Ethics; Participation or Interest in Client Transactions and Personal Trading.....	8
Review of Accounts.....	9
Client Referrals and Other Compensation.....	10
Financial Information.....	12

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## **Services, Fees and Compensation**

We offer investment advisory services to you directly and through the referrals of third parties. We either consult with you directly or through these third parties to obtain detailed financial information and other pertinent data. In providing investment advice to you and all of our clients, we consider:

- your financial situation,
- risk tolerance,
- investment horizon,
- liquidity needs,
- tax considerations,
- financial goals,
- income (current and potential),
- portfolio size,
- net worth,
- investment objectives, and
- any other issues important to your state of affairs.

You should notify us promptly if there are any changes in your financial situation or investment objectives. You should also notify us if you wish to impose any reasonable restrictions upon the management of your account.

### *International, Growth and Dividend Strategies*

We directly manage and diversify your portfolios based upon your personal circumstances. Assets are allocated within a mix of securities that include:

- equities,
- bonds,
- convertible bonds,

- government securities,
- municipal bonds,
- preferred stock, and
- exchange traded funds.

### *Total Return Strategy*

The Total Return Strategy is offered through various affiliated and unaffiliated third parties. Your funds may be invested in exchange traded funds and no-load, low fee mutual funds according to target allocations and managed within the guidelines of pre-established allocation ranges. Primary diversification occurs across asset classes in the form of equities versus fixed income with secondary diversification achieved within asset classes. Equity funds are diversified across size, style, sector and geography. Fixed income funds are diversified across term, quality, sector, and geography. Portfolios are generally rebalanced every 12 – 18 months.

We offer our services on a fee-only basis. Our fee is calculated based upon the market value of the assets in your account on the last day of the previous quarter.

Broker-dealers and other financial institutions that hold client accounts are referred to as custodians. Your custodian determines the values of the assets in your portfolio. Fees for the initial quarter are based on the value of your cash and securities on the date the custodian receives them and are prorated based upon the number of calendar days

in the calendar quarter that our agreement is in effect.

You may choose from a wrapped or non-wrapped pricing option. Wrap pricing structures allow you to pay an all-inclusive fee for management, brokerage, clearance, custody and administrative services. As an alternative to the wrap pricing structure, or for clients whose trades are not placed through Kalos Capital, the transaction charges are unbundled from the advisory and administrative fees.

If you select the non-wrap fee option, you pay separate transaction charges and/or commissions in addition to the advisory and administrative fees. As a fee-based investment adviser, Kalos generally avoids investment vehicles that charge you a commission for their sale or purchase. However, if a commission is charged, this cost will be passed on to you.

Our fee schedules are as follows:

You must authorize us in writing to have the custodian/broker-dealer pay us directly by charging your account. One-fourth of the annual fee is charged each calendar quarter. Your custodian/broker-dealer will provide you with statements that show the amount paid directly to us. You should review and verify the calculation of our fees. Your custodian/broker-dealer does not verify the accuracy of fee calculations.

#### **Total Return Strategy<sup>1</sup> Wrap Fee Schedule**

<u>Account Size</u>	<u>Kalos Fee</u>	<u>Maximum Account Fee</u>
\$500,000 – \$99,999	0.75%	2.15%
\$100,000 - \$249,999	0.70%	2.10%
\$250,000 - \$999,999	0.65%	2.05%
\$1,000,000 - \$1,999,999	0.60%	1.85%
\$2,000,000 - \$4,999,999	0.55%	1.80%
Above \$5,000,000	0.50%	1.75%

#### **Total Return Strategy<sup>1</sup> Non-Wrap Fee Schedule**

<u>Account Size</u>	<u>Kalos Fee</u>	<u>Maximum Account Fee</u>
\$500,000 – \$99,999	0.75%	1.95%
\$100,000 - \$249,999	0.70%	1.85%
\$250,000 - \$999,999	0.65%	1.80%
\$1,000,000 - \$1,999,999	0.60%	1.65%
\$2,000,000 - \$4,999,999	0.55%	1.60%
Above \$5,000,000	0.50%	1.55%

#### **International, Growth & Dividend Strategies<sup>1</sup> Wrap Fee Schedule**

<u>Account Size</u>	<u>Kalos Fee</u>	<u>Maximum Account Fee</u>
\$100,000 – \$999,999	0.95%	2.95%
\$1,000,000 - \$1,999,999	0.90%	2.30%
\$2,000,000 - \$4,999,999	0.80%	2.00%
Above \$5,000,000	0.75%	1.75%

#### **International, Growth & Dividend Strategies<sup>1</sup> Non-Wrap Fee Schedule**

<u>Account Size</u>	<u>Kalos Fee</u>	<u>Maximum Account Fee</u>
\$100,000 – \$999,999	0.95%	2.75%
\$1,000,000 - \$1,999,999	0.90%	2.10%
\$2,000,000 - \$4,999,999	0.80%	1.80%
Above \$5,000,000	0.75%	1.555%

<sup>1</sup> A more detailed description of this program and its related fees are contained in the wrap fee brochure prepared in response to Appendix 1 of Form ADV Part 2A.

Typically, you must pay our advisory fees in advance of receiving our services. Should you terminate the advisory agreement we have entered into within five (5) business days from the date the agreement is executed, you will receive a full refund of any fees paid.

Should either one of us terminate the advisory agreement we have entered into before the end of a billing period, any unearned fees that were deducted from your account will be returned to you by us. The amount refunded to you is calculated by dividing the most recent advisory fee you paid by the total number of days in the quarter. This daily fee is then multiplied by the number of calendar days in the quarter that our agreement was in effect. This amount, which equals the amount we earned for the partial quarter, is subtracted from the total fee you paid in advance to determine your refund.

You should note that the same (or similar) services as those described above may be available from other sources at a lower cost to you. You should consider that depending upon the level of the wrap fee charges, the amount of portfolio activity in your account, the value of services that are provided, and other factors, a wrap fee may exceed the aggregate cost of services if they were to be provided separately. A non-wrapped pricing arrangement may be more cost effective for accounts that do not experience frequent trading activity.

The fee that you pay for a wrap fee account includes payment of all brokerage commissions and other trading costs of transactions effected through Kalos Capital. However, the fee does not include mark-ups, markdowns, or payment of brokerage commissions from transactions made by a broker-dealer other than Kalos Capital. Such brokerage commissions, mark-ups or markdowns, and other costs would be charged to you in addition to the advisory fee.

The wrap fees may be higher or lower than if such services were obtained separately. Generally, wrap programs are relatively less expensive for actively traded accounts. However, they may result in higher overall costs to the client in accounts that experience little trading activity.

In addition to our fee, you may be required to pay other charges such as:

- custodial fees,
- brokerage commissions,
- transaction fees,
- SEC fees,
- internal fees and expenses charged by mutual funds or exchange traded funds (“ETFs”), and
- other fees and taxes on brokerage accounts and securities transactions.

Mutual fund companies, ETFs, and variable annuity issuers charge internal fees and expenses for their products. These fees and expenses are in addition



to any advisory fees charged by us. Complete details of these internal fees and expenses are explained in the prospectuses for each investment. You are strongly encouraged to read these explanations before investing any money. You may ask us any questions you have about fees and expenses.

If you purchase mutual funds through the custodian/broker-dealer, you may pay a transaction fee that would not be charged if the transactions were made directly through the mutual fund company. Also, mutual funds held in accounts at brokerage firms may pay internal fees that are different from funds held at the mutual fund company.

While you may purchase shares of mutual funds directly from the mutual fund company without a transaction fee, those investments would not be part of our advisory relationship with you. This means that they would not be included in our investment strategies, investment performance monitoring, or portfolio reallocations.

Since Advisory Representatives of Kalos Management are also registered affiliates of Kalos Capital, Inc. ("Kalos Capital"), a registered broker/dealer, member FINRA/SIPC, Kalos Capital has certain supervisory and administrative duties that it is obligated to perform. As such, all advisory fees are paid to Kalos Capital as paying agent for Kalos Management. Kalos Capital will retain a portion of the advisory fee to cover the cost of such supervisory responsibilities. The

custodian of the account holds all customer assets. Kalos Management does not hold customer funds or securities.

Advisory representatives may recommend our wrap program to you and, as a result of your participation in this program, will receive a portion of the fee charged by us. These payments may be made as long as you participate in the program and may be greater than other forms of compensation had you paid separately for investment advice, brokerage and other services provided to you as part of a wrap fee program. As a result, our advisory representatives may have a financial incentive to recommend this program over other programs or services that may be available to you.

### ***Account Requirements and Types of Clients***

As a condition for starting and maintaining an advisory relationship, we generally require a minimum portfolio size of \$100,000 for the Kalos Individually Managed Accounts International, Growth and Dividend Strategies and \$50,000 for the Kalos Asset Allocation Portfolios Total Return Strategy.

We, at our sole discretion, may accept clients with smaller portfolios based upon certain factors including:

- anticipated future earning capacity,
- anticipated future additional assets,
- account composition,

- related accounts, and
- pre-existing client relationships.

We may consider the portfolios of your family members to determine if your portfolio meets the minimum size requirement. In the event a smaller portfolio is accepted, the minimum charge for either account will be \$150.

We provide advisory services primarily to individuals. We also provide services to high net worth individuals, pension and profit sharing plans, and charitable organizations.

### ***Portfolio Manager Selection and Evaluation***

Daniel Wildermuth, President, acts as portfolio manager for these Programs. There are no other affiliated or unaffiliated portfolio managers offered through this program.

### **Advisory Business**

In addition to the services described above under “Services, Fees and Compensation”, we offer the following:

#### ***Unaffiliated Investment Advisers***

We have entered into agreements with various unaffiliated investment advisers for the provision of certain investment advisory services. We will provide personal advisory services to you through assisting you in the selection of a particular adviser. Factors considered in helping you with this selection include:

- your advisory representative’s preference for a particular unaffiliated investment adviser;
- your risk tolerance, goals and objectives, as well as investment experience; and,
- the amount of assets you have available for investment.

#### ***Affiliated Advisory Services***

Certain of our advisory representatives directly manage client portfolios. Assets are allocated within a mix of securities that include:

- equities,
- bonds,
- mutual funds and
- exchange traded funds.

Securities and sector allocations are selected with the aid of fundamental analysis and independently of the strategies described above. Your assets may be managed to an allocation model.

#### ***Financial Planning***

We may prepare and provide you with a written financial plan designed to help you achieve your financial goals and investment objectives. The preparation of such a plan may necessitate that you provide us with personal data such as:

- family records,
- budgeting,
- personal liability,
- estate information and
- additional financial goals.

The financial plan may include any or all of the following as requested or directed by you:

- asset protection,
- tax planning,
- business succession,
- strategies for exercising stock options,
- cash flow,
- education planning,
- estate planning and wealth transfer,
- charitable gifting,
- long-term care and disability planning,
- retirement planning,
- insurance planning, and
- risk management.

We do not provide accounting or legal advice. Should you choose to implement the recommendations contained in the plan, we suggest that you work closely with your attorney, accountant, insurance agent, and stockbroker.

### **Performance-Based Fees**

Performance-based fees are designed to give a portion of the returns of an investment to the investment adviser as a reward for positive performance. The fee is generally a percentage of the profits made on the investments. We do not charge performance-based fees on any of our client accounts.

### **Methods of Analysis, Investment Strategies and Risk of Loss**

Individual securities are selected with the aid of fundamental analysis and the review of independent research, news sources and rating services. Fundamental analysis is a method of evaluating a company that has issued a security by attempting to measure the value of its underlying assets. It entails studying overall economic and industry conditions as well as the financial condition and the quality of the company's management. Earnings, expenses, assets, and liabilities are all important in determining the value of a company. The value is then compared to the current price of the issuing company's security to determine whether to purchase, sell or hold the security.

Our investment strategies may include long-term and short-term purchases and sales. You may place reasonable restrictions on the strategies to be employed in your portfolio and the types of investments to be held in your portfolio.

All investments involve risks that can result in loss:

- loss of principal,
- a reduction in earnings (including interest, dividends and other distributions), and
- the loss of future earnings.

Additionally, these risks may include:

- market risk,
- interest rate risk,



- issuer risk, and
- general economic risk.

There are also risks specific to value investing. Although these investments may appear undervalued at one time, their prices can still drop along with the market. On the other hand, it can be difficult to find enough undervalued securities in a rising market to fully diversify portfolios, because prices can still rise along with the market.

Although we manage your portfolio in a manner consistent with your risk tolerances, we cannot guarantee that our efforts will be successful. You should be prepared to bear the risk of loss.

#### **Voting Client Securities**

We do not take any action or give any advice with respect to voting of proxies solicited by or with respect to the issuers of securities in which your accounts may be invested. In addition, we do not take any action or give any advice with respect to any securities held in any accounts that are named in or subject to class action lawsuits. We will, however, forward to you any information received by us regarding proxies and class action legal matters involving any securities held in your accounts.

#### ***Client Information Provided to Portfolio Managers***

We work with you to identify your investment goals and objectives as well as risk tolerance in order to create an

initial portfolio allocation designed to complement your financial situation and personal circumstances. We obtain this information from you initially, annually, and as you inform us of any changes.

#### ***Client Contact with Portfolio Managers***

You have ready access to your advisory representative who can schedule a meeting with your portfolio manager. Portfolio managers are not required to be available for unscheduled or unannounced visits or calls by clients. However, portfolio managers are expected to periodically meet with clients and should generally be available to take client telephone calls on advisory-related matters.

#### ***Additional Information***

##### **Disciplinary Information**

We have not been the subject of any legal or disciplinary events that would be material to your evaluation of our business or the integrity of our management.

##### **Other Financial Industry Activities and Affiliations**

Daniel Wildermuth and Carol Wildermuth are also principals and owners of:

- Kalos Financial, Inc., and
- Kalos Capital, Inc.

Kalos Financial is a state licensed insurance agency. The agency sells fixed annuities, life and health products.

Kalos Capital, Inc. is a state licensed insurance agency and general securities broker-dealer registered with the SEC, and FINRA, as well as, various state regulatory agencies. In this capacity, Kalos Capital executes trades (as agent) for a commission in investment products on behalf of clients, who may or may not have an advisory fee agreement with Kalos Management, Inc.

As explained under “Fees and Conditions” above, your advisory representatives is also licensed as a registered representative with Kalos Capital. They are also licensed as insurance agents with various insurance companies. These arrangements present a conflict of interest because they create an incentive to make recommendations based upon the amount of compensation your advisory representative can receive rather than based upon your needs.

As previously noted, we will explain the specific costs associated with any recommended investments with you upon request. We also recommend no-load and load-waived mutual funds to further reduce conflicts of interest. You have the option to purchase investment and insurance products through other brokers or agents who are not affiliated with us.

Your advisory representative may also recommend various unaffiliated

investment advisers to manage your assets. If you establish an investment advisory relationship with one of these firms, your advisory representative will share in the advisory fees you pay to these unaffiliated investment advisers.

#### *Code of Ethics; Participation or Interest in Client Transactions and Personal Trading*

We have adopted a *Code of Ethics* (“*Code*”) to address the securities-related conduct of our advisory representatives and employees. The *Code* includes our policies and procedures developed to protect your interests in relation to the following:

- the duty at all times to place your interests ahead of ours;
- that all personal securities transactions of our advisory representatives and employees be conducted in a manner consistent with the *Code* and avoid any actual or potential conflict of interest, or any abuse of an advisory representative’s or employee’s position of trust and responsibility;
- that advisory representatives may not take inappropriate advantage of their positions;
- that information concerning the identity of your security holdings and financial circumstances are confidential; and
- that independence in the investment decision-making process is paramount.

We will provide a copy of the *Code* to you or any prospective client upon request.

We do not buy or sell securities for our firm that we also recommend to clients. Our advisory representatives and employees are permitted to buy or sell the same securities for their personal and family accounts that are bought or sold for your account(s). The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by you or
- considered for purchase or sale for you.

We have adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in your best interest,
- prohibit favoring one client over another, and
- provide for the review of transactions to discover and correct any same-day trades that result in an advisory representative or employee receiving a better price than a client.

Advisory representatives and employees must follow our procedures when purchasing or selling the same securities purchased or sold for you.

### Review of Accounts

All portfolio positions are reviewed bi-weekly by the portfolio managers. Transactions are reviewed on a daily basis by the Chief Compliance Officer or the Compliance Manager. Further account reviews may be triggered by potential change including analyst reports, company news, fund management change and interest rate movement.

You have 24/7 access to online account information that includes current positions, unrealized gains and losses, realized gains and losses, allocation information, transaction history, time weighted returns (updated monthly), and other additional account data. You may also elect to receive your account statements quarterly in paper form for a nominal fee.

Your advisory representative will periodically review reports provided by the unaffiliated investment advisers. Your advisory representative will contact you periodically to:

- review your financial situation and objectives,
- communicate information to the unaffiliated investment adviser managing the account as warranted, and
- to assist you in understanding and evaluating the services provided by the unaffiliated investment adviser.

You are expected to notify us of any changes in your financial situation, investment objectives, or account restrictions. You may also directly contact the unaffiliated investment adviser managing the account or sponsoring the program.

#### **Client Referrals and Other Compensation**

We have entered into written compensation agreements with certain unaffiliated investment adviser representatives and professionals such as CPAs, attorneys, etc. We pay these persons a percentage of the fee that you pay to us if it is determined you have become clients as a result of their direct or indirect efforts. These payments are a portion of the fee that we charge and do not result in an increase in the amount of the fee that you pay. Any solicitation or referral arrangements will comply with applicable laws that govern:

- the nature of the service,
- fees to be paid,
- disclosures to clients, and
- any necessary client consents.

We generally recommend that the broker-dealer for your account be Kalos Capital and the custodian be Kalos' clearing agent, National Financial Services LLC ("NFS"), member NYSE/SIPC. Trades are effected through your custodian. We are affiliated with Kalos Capital, but are not affiliated with NFS. Our use of NFS is, however, a beneficial business arrangement for us and for NFS.

Information regarding the benefits of this relationship is described below. In recommending NFS as custodian and Kalos Capital as the securities brokerage firm responsible for executing transactions for your portfolios, we consider at a minimum NFS/Kalos Capital's:

- relationship with us,
- financial strength,
- reputation,
- reporting capabilities,
- execution capabilities,
- pricing, and
- types and quality of research.

The determining factor in the selection of NFS/Kalos Capital to execute transactions for your accounts is not the lowest possible transaction cost, but whether NFS/Kalos Capital can provide what is in our view the best qualitative execution for your account.

NFS/Kalos Capital provides us with access to its institutional trading and custody services, which includes:

- brokerage,
- custody,
- research, and
- access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

We are not required to place a minimum volume of transactions or maintain a

minimum dollar amount of client assets to receive these services.

NFS does not charge separately for holding our clients accounts, but may be compensated by you through other transaction-related fees associated with the securities transactions it executes for your accounts.

NFS/Kalos Capital also makes available to us other products and services that benefit us but may not benefit you directly. Some of these products and services assist us in managing and administering our client accounts, such as software and other technology that:

- provide access to account data such as:
  - duplicate trade confirmations,
  - bundled duplicate account statements, and
  - access to an electronic communication network for client order entry and account information;
- facilitate trade execution, including:
  - access to a trading desk serving advisory participants exclusively and
  - access to block trading which provides the ability to combine securities transactions and then allocate the appropriate number of shares to each individual account;
- provide research, pricing information and other market data;
- facilitate payment of our fees from client accounts; and
- assist with back-office functions,

record keeping and client reporting; and

- receipt of compliance publications.

NFS/Kalos Capital also makes available to us other services intended to help us manage and further develop our business. These services may include:

- consulting,
- publications and conferences on practice management,
- information technology,
- business succession,
- regulatory compliance, and
- marketing.

NFS/Kalos Capital may also make available or arrange for these types of services to be provided to us by independent third parties. NFS/Kalos Capital may discount or waive the fees it would otherwise charge for some of the services it makes available to us. It may also pay all or a part of the fees of a third party providing these services to us. Thus, we receive economic benefits as a result of our relationship with NFS/Kalos Capital, because we do not have to produce or purchase the products and services listed above.

Because the amount of our compensation or the products or services we receive may vary depending on the custodian/broker-dealer we recommend to be used by our clients, we may have a conflict of interest in making that recommendation. Our recommendation of specific custodian/broker-dealers may be based in part on the economic benefit

to us and not solely on the nature, cost or quality of custody and brokerage services provided to you and our other clients. We nonetheless strive to act in your best interests at all times.

Commissions and other fees for transactions executed through the custodian/broker dealer may be higher than commissions and other fees available if you use another custodian/broker-dealer firm to execute transactions and maintain custody of your account. We believe, however, that the overall level of services and support provided to our clients by NFS/Kalos Capital outweighs the benefit of possibly lower transactions cost which may be available under other brokerage arrangements.

Many of the services described above may be used to benefit all or a substantial number of our accounts, including

accounts not maintained at through NFS/Kalos Capital. We do not attempt to allocate these benefits to specific clients.

#### **Financial Information**

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to you and we have not been the subject of a bankruptcy proceeding.