

## APPENDIX 1 – WRAP FEE BROCHURE



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## WRAP FEE DISCLOSURE BROCHURE

### USA Strategic Portfolio

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This brochure provides important information about the qualifications and business practices of USA Financial Securities Corporation. If you have questions about the contents of this brochure, please contact our compliance department at (888)407-8198. The information contained in this document has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or any state securities authority. This brochure was last revised on March 14, 2012.

Additional information about USA Financial Securities is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Please consider carefully before becoming a client. USA Financial Securities is an SEC registered adviser, SEC File No. 801-68276. SEC registration does not imply a certain level of skill or training.

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## **MATERIAL CHANGES**

USA Financial Securities' last brochure update was March 30, 2011. Since then we have not made any material changes to our business practices or the information contained in this brochure.

You may request a copy of our Brochure by contacting the compliance department at (888)407-8198.

Additional information about our firm is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any individuals affiliated with us who are registered, or are required to be registered, as investment adviser representatives of the firm.

## WRAP-FEE BROCHURE TABLE OF CONTENTS

MATERIAL CHANGES .....	2
SERVICES, FEES AND COMPENSATION.....	4
Services.....	4
Fees and Compensation .....	4
ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS.....	5
PORTFOLIO MANAGER SELECTION AND EVALUTION .....	5
Advisory Business .....	5
Performance-Based Fees and Side-By-Side Management.....	6
Methods of Analysis, Investment Strategies, and Risk of Loss .....	6
Voting Client Securities.....	7
CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS .....	7
CLIENT CONTACT WITH PORTFOLIO MANAGERS .....	7
ADDITIONAL INFORMATION .....	7
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 .....	9
Financial Information .....	10
ACKNOWLEDGMENT OF RECEIPT.....	11

## SERVICES, FEES AND COMPENSATION

### Services

The primary purpose of this Appendix is to provide detailed information regarding our firm's wrap-fee program, called *USA Strategic Portfolio*. A wrap-fee program bundles various services together and charges an all-inclusive fee, named a "wrap fee" because it wraps around all of the services rather than charging a separate fee for each service. USA Financial Securities receives a portion of the wrap fee, as does your investment adviser representative. The *USA Strategic Portfolio* program provides clients with investment advisory, execution, clearing, and custodial services, through our clearing firm, Pershing.

Because wrap-fee accounts are charged a monthly fee, these accounts are typically best suited for investors who anticipate engaging in moderate to high levels of investment activity within their account. Infrequent trading is not supported by the fee structure, and clients with very little trading activity or account management are often better served in a traditional commission-based brokerage account.

### Fees and Compensation

*USA Strategic Portfolio* accounts are charged a monthly fee, in arrears, based on the assets under management. Fees may be negotiated between you and your investment adviser representative, provided that the negotiated fee is within the appropriate assets under management fee range.

<u>Account Value (Assets Under Management)</u>	<u>Annualized Management Fee</u>
\$15,000 but less than \$99,999	2.70% - 2.00%
\$100,000 but less than \$249,999	2.45% - 1.75%
\$250,000 but less than \$499,999	2.20% - 1.50%
\$500,000 but less than \$999,999	1.95% - 1.25%
\$1,000,000 or more	1.40% - .70%

USA Financial Securities does not utilize portfolio managers – your investment adviser representative will manage your portfolio based on your stated needs, objectives, and risk tolerance. Your investment adviser representative receives between 70 and 100 percent of the annualized management fee, which may be an incentive to recommend this wrap-fee program over other programs or services. However, USA Financial Securities monitors trading frequency, and if we do not believe your account activity warrants the wrap-fee, we will request that you move your *USA Strategic Portfolio* account to a Pershing brokerage account.

Because wrap-fee programs charge a single fee for a range of services that could potentially be obtained separately, it is possible that our wrap fee may be more or less than the cumulative fees you would be charged if you obtained each service separately.

The Annualized Management Fee, above, includes all fees and charges related to Pershing's and USA Financial Securities' services, except for brokerage charges and termination fees for IRA and qualified retirement plan accounts. Brokerage charges are assessed on each trade, whether it is a buy or sell. The brokerage charges are, as follows:

<i>Stocks</i>	\$20* + \$.025 per share
<i>Mutual Funds</i>	\$20*
<i>Unit Investment Trusts (UIT)</i>	\$20*
<i>Corporate Bonds</i>	\$20* + \$1.00 per share
<i>Bonds (other than corporate)</i>	\$20*
<i>CDs and ELCDs</i>	\$40*
<i>Mutual Fund Systematic Withdrawals</i>	\$1.00 confirmation fee

**Please Note:** \*There is a \$2 confirmation fee on all buys and sells (except for mutual fund systematic withdrawals, as referenced above). There is also a \$10 mutual fund surcharge, assessed by the mutual fund company, on a limited number of mutual funds.

In addition to the Annualized Management Fee and brokerage charges, Pershing also charges a \$35 annual maintenance fee and a \$75 termination fee on all IRA and qualified retirement plan accounts. These fees apply to all IRA and qualified retirement plan accounts at Pershing, not just accounts on the *USA Strategic Portfolio* program. Therefore, the \$35 annual maintenance fee and the \$75 termination fee are not included in the *USA Strategic Portfolio* management fees, however, these fees will appear on your account statement. Pershing will deduct administrative charges from the management fee.

## **ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS**

Your account value must be at least \$15,000 to participate in the *USA Strategic Portfolio* program. Exceptions may be made, solely at the Firm's discretion, based on such factors as prior or anticipated investment activity. USA Financial Securities monitors account values and will remove billing on your account if the account cannot maintain values exceeding \$15,000. Billing will be reinstated once your account exceeds \$15,000.

The *USA Strategic Portfolio* program services individual, corporate, and trust accounts. Because the *USA Strategic Portfolio* program charges a quarterly fee, regardless of whether you make trades in your account during a given quarter, the program is designed to accommodate accounts with moderate to high trading frequency. Therefore, as referenced above, USA Financial Securities monitors trading frequency, and if we do not believe your account activity warrants the wrap-fee, we will request that you move your *USA Strategic Portfolio* account to a Pershing brokerage account.

## **PORTFOLIO MANAGER SELECTION AND EVALUTION**

USA Financial Securities does not utilize portfolio managers. Your investment adviser representative manages your accounts based on your investment objectives.

### **Advisory Business**

USA Financial Securities is an investment adviser registered with the United States Securities and Exchange Commission ("SEC"). Our firm is also registered as a broker-dealer. USA Financial Securities was founded in 1998 and is a wholly-owned subsidiary of Wealthnetic Corporation ("Wealthnetic"). Michael Walters, Gary Walters, and Brent Enders own Wealthnetic.

Our firm utilizes investment adviser representatives. Our representatives frequently work with individuals who are either planning for retirement or are currently retired, however, neither our firm nor our representatives specialize in any specific area or type of investment advice. As of March 14, 2012, our firm was managing approximately \$70 million in assets.

### **Financial Planning Services**

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USA Financial Securities' representatives provide financial planning services. Financial planners use a comprehensive planning method. They help clients set and achieve long-term financial goals through investments, tax planning, asset allocation reviews, risk management analyses, retirement planning and estate planning. USA Financial Securities collects important financial information from you, and we use that information, along with any additional information you communicated to your financial professional, to develop a plan designed to meet your unique goals and objectives.

Financial planning fees may be charged in addition to commissions or asset under management fees. You are not obligated to follow USA Financial Securities' recommendations or to pursue the recommendations through USA Financial Securities. As the client, you have control over your investment decisions – you may place restrictions on investing in certain types of securities or engaging in various investment activities. It is important that you communicate your investment goals and objectives, including any restrictions, to your investment adviser representative. An open and honest dialogue between you and your financial professional will help facilitate a successful working relationship.

### Investment Advice

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USA Financial Securities' investment adviser representatives also offer advice regarding a wide variety of investment products, including, but not limited to, the following:

- Unit investment trusts;
- Annuities (fixed, equity index, and variable);
- Mutual funds and exchange-traded funds;
- Stocks and bonds;
- Brokerage accounts; and,
- Certificates of deposit.

Our investment advice is designed to help you achieve your financial goals and objectives, as communicated by you.

### Performance-Based Fees and Side-By-Side Management

USA Financial Securities does not charge performance-based fees. Our representatives may charge you a comprehensive financial planning fee and also receive an asset-based fee for any dollars you invest in the *USA Strategic Portfolio* program.

Side-by-side management occurs when an investment adviser manages both performance-based fee accounts non-performance based fee accounts at the same time. Side-by-side management can result in conflicts of interest because there is an incentive to direct clients to performance-based fee accounts because the firm will, most likely, receive more fees. However, because Portformulas does not charge performance fees, we do not engage in side-by-side management and have no conflicts of interest relevant to side-by-side management.

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

#### Methods of Analysis and Investment Strategies

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USA Financial Securities' investment adviser representatives may utilize many different methods of analysis when developing your specific financial plan. For example, your investment adviser may review past investments that you made and compare those investments with your current objectives to determine whether those investments are still a good fit, or he or she may use software to design a plan that supplements your current plan.

Your investment goals are always considered when analyzing an investment, and regardless of which analysis method your investment adviser representative uses, any analysis is conducted based on your unique and specific investment objectives. Your investment adviser representative will review your investment objectives and help you design an investment strategy or make investment decisions that will attempt to further those objectives.

All investments bear different types and degrees of risk. *USA Strategic Portfolio* accounts are used for making securities investments. Investing in securities involves risk of loss, which you need to be prepared to bear.

While our investment advice is designed to provide appropriate investment diversification, some investments have significantly greater risks than others. Obtaining higher rates of return on investments entails accepting higher levels of risk. Our firm's investment advice seeks to balance risks and rewards to achieve investment objectives. It is important that you ask your investment adviser representative questions and that you request clarification if you do not understand the risks associated with a particular investment or strategy.

We strive to render our best judgment on behalf of our clients. Still, we cannot guarantee that your investments will be profitable or that there will be no losses in your investment portfolio. It is important for you to understand that while past performance is an important consideration with respect to any investment or investment adviser but is not a reliable predictor of future performance. We continuously strive to provide outstanding long-term investment performance, but many economic and market variables beyond our control can affect the performance of an investment portfolio.

### **Voting Client Securities**

USA Financial Securities will not be responsible for responding to proxies that are solicited with respect to annual or special meetings of shareholders of securities held in your account. Proxy solicitation materials will be forwarded to you for response and voting.

Please also note that USA Financial Securities will not be obligated to take action or render any advice involving legal action on behalf of its clients with respect to securities or other investments held in the *USA Strategic Portfolio* account, or the issuers thereof, which become the subject of legal notices or proceedings, including bankruptcies

### **CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS**

USA Financial Securities does not utilize traditional money managers. As stated above, your investment adviser representative manages your *USA Strategic Portfolio Account* based on your investment goals and objectives. Your investment adviser representative has access to the information you provide to USA Financial Securities, as well as any additional information you choose to share.

### **CLIENT CONTACT WITH PORTFOLIO MANAGERS**

Because your portfolio manager is your representative, there are no restrictions on your ability to speak or meet with your investment adviser representative, other than ordinary scheduling conflicts.

### **ADDITIONAL INFORMATION**

#### **Disciplinary Information**

Neither USA Financial Securities nor its owners, officers, or directors have ever been involved in a material, disciplinary action.

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

##### Other Financial Industry Activities

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USA Financial Securities' primary business activity is conducting business as a broker-dealer. As a broker-dealer we are regulated by the SEC, FINRA, and state securities regulators. Our SEC file number is 8-52342, and our CRD number is 103857.

The majority of our Firm's investment adviser representatives are also registered representatives of USA Financial Securities. The proportion of time each representative spends on securities brokerage, investment adviser, insurance and other activities varies from representative to representative. You should always feel free to ask your adviser representative about their service activities.

#### Other Financial Industry Affiliations

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USA Financial Securities is a wholly owned subsidiary of Wealthnetic Corporation. Wealthnetic also owns three other companies: USA Financial Distribution Corporation, Portformulas Investing, Corporation, and Plug-N-Run Corporation. USA Financial Distribution wholesales fixed insurance products to independent insurance agents. Portformulas Investing is an SEC-registered investment adviser. Plug-N-Run develops and distributes marketing and technology solutions for financial professionals.

Michael Walters is the chief executive officer of USA Financial Distribution, Portformulas Investing, and Plug-N-Run and Brent Enders is the president of all three companies.

USA Financial Securities obtains many of its representatives through USA Financial Distribution. The company has a vast number of agents who may elect to utilize USA Financial Securities as their broker-dealer. Additionally, USA Financial Securities, USA Financial Distribution, and Portformulas Investing have an expense sharing agreement, whereby certain administrative expenses are shared by both parties. These expenses include equipment rental, telephone services, health insurance, cleaning services and a security system. This arrangement is essential to USA Financial Securities' ability to provide services to its clients.

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

#### Code of Ethics

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USA Financial Securities conducts its advisory business professionally and ethically, adhering at all times to relevant rules, laws, and guidelines. Accordingly, pursuant to Rule 204A-1 of the Investment Advisers Act of 1940, we have adopted a *Code of Ethics*. Copies will be provided upon request.

#### Participation or Interest in Client Transactions

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USA Financial Securities or its representatives may buy or sell securities for its or their own account(s) ("Proprietary Account(s)"), securities that we recommend to our clients, including clients that are related persons. Neither our firm nor our related persons are permitted to enter into or have an interest in an investment transaction that would create a conflict between our interests and your interests without fully disclosing the conflict to you. Neither our firm nor our related persons are permitted to benefit, directly or indirectly, from transactions made in your account. Proprietary Accounts may benefit on the same basis and to the same extent as clients' accounts when each holds the same investment. We do not allow "cross transactions" between clients or between clients and Proprietary Accounts.

#### Personal Trading

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Generally, investments may only be purchased for proprietary accounts simultaneously or after client purchases. Investments may only be sold simultaneously or after client sell-orders are completed. Exceptions may be made for personal securities trades that we believe do not involve potential conflicts of interest, such as open-ended mutual funds, U.S. Treasury securities, and small amounts of stock or closed-end funds that have very large market capitalization and/or very high average trading volume.

### Review of Accounts

USA Financial Securities reviews every client account prior to the account being established. Before USA Financial Securities will execute an investment advisory agreement with you, we require your investment adviser representative to submit, along with the investment advisory agreement, a written document evidencing your financial plan. We use the information you provided on your Client Profile, along with the written financial plan, to determine the suitability of your investment adviser's recommendations.

After your investment advisory agreement is established, USA Financial Securities will send you a written report regarding your account. The report will document the basic information you provided on your client profile – such as, net worth, annual income, and investment objective. USA Financial Securities uses this information to perform its initial and ongoing suitability reviews, therefore, it is important to review this report and if you see any information that does not appear to be accurate, contact USA Financial Securities immediately.

Furthermore, as stated above, because wrap-fee accounts are charged a monthly fee, these accounts are typically best suited for investors who anticipate engaging in moderate to high levels of investment activity within their account. Infrequent trading is not supported by the fee structure, and clients with very little trading activity or account management are better served in a traditional commission-based brokerage account. Therefore, USA Financial Securities monitors your account activity, to determine whether a wrap-fee account is the best option, or whether you would be better suited in a traditional brokerage account. If we review the account and determine that your trading activity does not warrant a *USA Strategic Portfolio* account, we will contact your investment adviser representative and switch your account to a Pershing brokerage account.

### Client Referrals and Other Compensation

#### Client Referrals

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USA Financial Securities does not compensate any person or company, directly or indirectly, for client referrals.

#### Other Compensation

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Because USA Financial Securities is a registered broker-dealer, the firm may receive commissions on any products that you purchase through the broker-dealer. This may or may not create a conflict of interest. Furthermore, commissions paid to USA Financial Securities may be higher or lower than those obtainable at other broker-dealers.

Many of USA Financial Securities' investment adviser representatives are also registered representatives of our broker-dealer. These representatives, may receive additional compensation and/or commissions from the purchase and sale of stocks, mutual funds, variable annuities, other investment and insurance products through the broker-dealer. This compensation includes 12b-1 fees.

Additionally, in order to provide the best service possible, USA Financial Securities offers clients the opportunity to invest with outside, third-party money managers. These arrangements generally work one of two ways. If USA Financial Securities refers you to a third-party money manager, our firm is considered to be the solicitor, and the third-

party money manager is the registered investment adviser. However, some third-party money managers simply provide investment platforms for USA Financial Securities to utilize, and while the third-party money manager executes trades and directs the management of your assets, USA Financial Securities retains its investment adviser status. Under both of these arrangements, USA Financial Securities receives a fee from the third-party. Our fee is a portion of the third party adviser's fee that you paid, as the client.

Finally, it is standard industry practice for registered representatives of broker-dealers to have marketing agreements with product suppliers. These suppliers may include mutual fund companies, variable annuity companies, unit investment trust companies or real estate investment trusts. These marketing agreements provide for payment of marketing expenses to the selling broker-dealer or its registered representative in addition to commissions. These fees are not normally a direct expense of a particular product, but are paid by the sponsoring company to make up for costs incurred by the broker-dealer or its registered representative for marketing the product. USA Financial Securities employs investment adviser representatives, who in their capacity as registered representatives of a broker-dealer, may receive marketing allowances through their broker-dealer with respect to recommended products.

### **Financial Information**

Because USA Financial Securities has discretionary authority over client accounts, we are required to disclose, to you, whether any financial conditions exist that would be likely to impair our ability to meet contractual commitments. We are pleased to report that no such financial issues or conditions exist at this time.

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**ACKNOWLEDGMENT OF RECEIPT**

By signing below, I/we certify that I/we have received and read carefully this WRAP-FEE DISCLOSURE BROCHURE and had the opportunity to ask such questions as may have occurred in reading and/or discussing the services provided and the costs of those service.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_

Signed: \_\_\_\_\_ Date: \_\_\_\_\_