

# **1ST DISCOUNT BROKERAGE, INC.**

## **1st Discount Brokerage, Inc. Wrap Program Brochure**

**Form ADV, Part II, Schedule H**

**Dated: June 28, 2010**

**Please contact us at:**

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420 State Road 7, Suite 114  
Royal Palm Beach, FL 33411**

**This brochure provides clients with information about 1st Discount Brokerage, Inc. and the 1st Discount Brokerage, Inc. Wrap Program that should be considered before becoming a client 1st Discount Brokerage, Inc. Wrap Program. This information has not been approved or verified by any governmental authority.**

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## I. GENERAL INFORMATION

1st Discount Brokerage, Inc. (hereinafter, "1DB"). operates its investment advisory business as (hereinafter, "1DB"). 1DB offers the following wrap-fee program, where appropriate, to interested persons and advisory clients. 1DB, a corporation organized under FL law (IRS Empl. Ident. No. 65-0592899), is an SEC-registered investment adviser (SEC File Number 801-68364). 1DB maintains its principal office at 420 State Road 7, Suite 114, Royal Palm Beach, FL 33411. If you have questions regarding the material contained herein, please contact Yulia Kalk, Compliance Director of 1DB, at 925-947-6770.

## II. 1ST DISCOUNT BROKERAGE, INC. WRAP PROGRAM DESCRIPTION

1DB is the sponsor and investment manager of the 1st Discount Brokerage, Inc. Freedom Program ("Program"). A "wrap-fee" program is one that provides the client with advisory and brokerage execution services for an all-inclusive fee. The client is not charged separate fees for the respective components of the total service. 1DB actively solicits advisory clients for the Program. 1DB is also responsible for the marketing of the Program.

1DB provides investment supervisory services through the Program, defined as giving continuous advice to a client or making investments for a client based on the individual needs of the client. 1DB, through its qualified Investment Adviser Representatives ("Advisors"), will continuously manage client portfolios based on the individual needs of the client. All Advisors hold all required licenses and/or qualifications. At the time of a client's initial investment in the program, an Advisor will assist the client in determining the client's current financial situation, financial goals and objectives, and attitudes toward risk. This determination will allow the Advisor to review the client's situation, and determine an appropriate asset allocation. Account supervision is guided by the stated objectives of the client.

At this time, 1DB's Advisors are the sole portfolio managers in the Program. The minimum balance for a Freedom Account is \$50,000. 1DB will manage the Program accounts on discretionary or non-discretionary basis.

With the assistance of Penson Financial Services, 1DB will render services to the Client with respect to the Freedom Account:

- a. 1DB will process transactions, administer the Account, and provide quarterly portfolio statements. The statements will reflect all investment positions, current market values for each investment, and the current total market value and performance of investments in the Account.
- b. 1DB will annually provide one or more statements required for tax reporting purposes with respect to income, gains, and losses realized in the Account.

- c. 1DB will provide, through Penson Financial Services, monthly brokerage statements that reflect all transactions during the month, current positions and market values, and current total market value.

However, the client may incur additional cost for the fees and expenses charged by mutual funds and exchange-traded funds ("ETFs") to their shareholders, mark-ups, mark-downs, exchange fees, transfer taxes, and certain administrative fees for wire transfers or certificate issues.

In evaluating the Program, clients should consider that, depending upon the level of the wrap fee charged, the amount of portfolio activity in the client's account, the broker dealer's usual commission rates and other factors, the wrap fee may be more or less than the aggregate cost of such services if they were to be provided separately and if 1DB were to negotiate commissions and seek best price and execution of transactions for the client's account.

1DB will ensure that the client has reasonable access to the 1DB professional(s) managing the client's account.

**Block Trading:** 1DB may block trades if possible and advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts. Block trading may permit equity trades to be executed in a timelier and more equitable manner while allowing 1DB to obtain an average share price for clients participating in the block. No trades for 1DB's proprietary accounts or the personal accounts of its affiliated persons will ever be included in any client blocks.

1DB will not be able to block trades for client accounts who direct the use of broker other than 1DB, and therefore a disparity in commission charges may exist between the commissions charged to other clients.

**Class Actions, Bankruptcies and other Legal Proceedings:** 1DB will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements.

**Proxy Policy:** As a matter of firm policy and practice, 1DB does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios.

### **III. INVESTMENT STRATEGIES AND SECURITIES ANALYSIS**

1DB will create a portfolio consisting of one or more of the following: equities, options, mutual funds, fixed income products. The mutual funds and ETFs will be selected on the basis of any or all of the following criteria: the fund's performance history; the industry sector in which the fund invests; the track record of the fund's manager; the fund's investment objectives; the fund's management style and philosophy; and the fund's management fee structure. 1DB will allocate the client's assets among various investments taking into consideration the objectives of the

client (i.e., maximum capital appreciation, growth, income, or growth and income). Portfolio weighting between market sectors will be determined by each client's individual needs and circumstances. 1DB will manage the Program accounts on a non-discretionary basis. Clients will retain individual ownership of all securities. An Advisor of 1DB will make recommendations with respect to changes to a client's account based on market, economic and political circumstances, and the individual characteristics of securities.

1DB continuously monitors and evaluates securities relative to market and industry conditions and may use charting, fundamental, technical, and cyclical analyses in this process.

1DB may utilize a number of sources of financial information in the firm's analysis of securities including financial newspapers and magazines, research materials and reports prepared by others, corporate rating services, timing services, annual reports, prospectuses, SEC filings, and company press releases. Research services are received in various forms, which may include written reports, or information obtained via the World Wide Web.

1DB may utilize one or more of the following investment strategies in servicing Program participants: long term purchase (securities held at least a year), short term purchases (securities sold within a year), short sales, margin transactions, and option writing. Because short sales, margin transactions, and option writing strategies involve certain additional degrees of risk, they will only be recommended when consistent with the client's stated tolerance for risk.

#### IV. FEE SCHEDULE

1DB charges clients an annual "wrap-fee" for participation in the Program. The annual "wrap-fee" is charged as a percentage of assets under management.

Recommended Client Fee	Account Balance
2.00%	\$50,000 - \$250,000
1.95%	\$250,000 - \$500,000
1.85%	\$500,000 - \$1,000,000
1.75%	\$1,000,000 - \$2,000,000
1.50%	\$2,000,000 - \$5,000,000
1.25%	> \$5,000,000

Fee may differ for each account; account specific fees are disclosed on the individual client agreements.

#### V. ADDITIONAL INFORMATION ABOUT FEES AND SERVICES

Fee may differ for each account; account specific fees are disclosed on Section IV contained in each individual client agreement.

**Fees:**

In consideration of the services rendered by 1DB and the Advisory Representative, the Client will pay the following fees and charges:

- a. **Freedom Advisory Fees.** Fees payable for investments advisory services will be a percentage of the total equity value of the assets invested in the Freedom Account. The annual percentages that will be applied to the equity value of the Account on a monthly or quarterly basis are specified in Section IV to this document. These fees are set by the Advisory Representative and are agreed to by the Client via execution of this Agreement. Ongoing advisory fees are payable to the Advisory Representative in advance. The initial account fee will be based on the total equity in the Account at that time the Account is opened and will be due when the initial deposit is made. The subsequent fees will be based on the average equity value of investments as of the end of the preceding period. The fee for assets transferred into the Freedom Account (in excess of \$10,000) shall be pro-rated for the remaining portion of the period and will be deducted from the account at the next billing cycle. Fees shall be refunded on a pro-rated basis for partial account withdrawals in excess of \$10,000, and will be adjusted at the next billing cycle. Upon termination of the account, a refund of fees will be pro-rated, based on the number of days remaining during the billing cycle after the date of effective termination.

**Advisory Fees in General:** Clients should note that similar advisory services may (or may not) be available from other registered investment advisers for similar or lower fees.

**Negotiability of Fees:** 1DB's fees are negotiable. Advisory fees may vary among 1DB's clients based upon a number of factors, including, but not limited to, the size of the client's account, the types of investments in the client's account, and the length of the advisory relationship with a client. In addition, certain family members and personal acquaintances of 1DB's affiliated persons may receive advisory services at a discounted rate which is not available to advisory clients generally

**Other Fees and Expenses:** All fees paid to 1DB for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and ETFs (collectively, the "Funds") to their shareholders. These fees and expenses are described in each Fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the Fund also imposes sales charges, a client may pay an initial or deferred sales charge.

A client could invest in a Fund directly, without the services of 1DB. In that case, the client would not receive the services provided by 1DB which are designed, among other things, to assist the client in determining which Fund or Funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged

by the Funds and the fees charged by 1DB to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

**Fee Calculation:** The fee charged is calculated as described above and is not charged on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client, pursuant to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (hereinafter “IA Act”) or similar state provisions.

**Fee Payment:** Clients will be invoiced or have their account directly debited, as authorized. The “wrap fee” is charged monthly or quarterly based on the client’s preference, forward, based on the asset value of the account as of the last business day of the prior quarter. 1DB will not directly debit any client account without receiving written authorization from the client.

**Termination of Advisory Relationship:** A client agreement may be canceled at any time, by either party, for any reason upon receipt of written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

### **Advisory Services:**

The Advisory Representative will render the following services to the Client with respect to the Freedom Account:

- a. The Advisory Representative will gather from the client information about the Client, including the Client’s current investments, if any, to identify the Client’s current financial condition, goals, financial needs, and investment objectives. The Advisory Representative will analyze this information and discuss these findings with the Client.
- b. The Advisory Representative will recommend investments to build a portfolio suited to the Client’s identified goals, financial needs, and investment objectives in light of general economic and market conditions.
- c. The Advisory Representative will monitor the performance of the Client’s portfolio on at least a quarterly basis in light of changing general economic and market conditions.
- d. The Advisory Representative will meet with the Client annually or upon the Client’s reasonable request.

## **VI. CONFLICTS OF INTEREST**

Certain advisors of 1DB are also licensed insurance agents and can effect transactions in insurance products and earn the standard and customary commissions for these activities. Advisory clients of 1DB may have the insurance services of these Advisors recommended to them, where appropriate. Advisory clients of 1DB are not under any obligation to use the insurance services of these Advisors when considering implementation of advisory

recommendations. The implementation of any or all recommendations is solely at the discretion of the client.

The fees charged by 1DB for advisory services are separate and distinct from any insurance commissions earned by insurance agents for the sale and servicing of insurance products.

While these individuals endeavor at all times to put the interest of the clients first as part of 1DB's fiduciary duty, clients should be aware that the receipt of additional compensation itself creates a conflict of interest, and may affect the judgment of these individuals when making recommendations.

Additionally, 1DB may effect principal transactions for Advisory clients which represents an inherent conflict of interest between the Advisor and the client as the Advisor may benefit from the transaction by realizing additional profits beyond fees charged to the Advisory clients. For all principal transactions in Advisory accounts, 1DB will do the following:

1. obtain prospective written authorization, revocable consent from the Advisory clients prospectively authorizing the Advisor to enter into principal transactions;
2. make verbal disclosures to Advisory clients prior to effecting principal transaction(s);
3. obtain Advisory client(s)' consent prior to effecting principal transaction(s);
4. send to the Advisory clients confirmation statements disclosing the capacity in which the Advisor has acted (agency or principal);
5. deliver to the Advisory clients annual report itemizing the principal trades.

### **Code of Ethics:**

1DB has adopted a Code of Ethics expressing the firm's commitment to ethical conduct. 1DB's Code of Ethics requires high standards of business conduct and compliance with applicable federal and state securities laws. This Code of Ethics is based on the principle that all employees of the 1DB and certain other persons have a fiduciary duty to place the interest of clients ahead of their own and 1DB. This Code of Ethics applies to all employees, directors, officers, partners or members of 1DB who are required to avoid activities, interest, and relationships that might interfere with making decisions in the best interest of the client and prohibits the use of material non-public information.

1DB's Code of Ethics provides for sanctions when appropriate. Clients and prospective clients may obtain a copy of the firm's Code of Ethics upon request by contacting the firm's Compliance Director at 1DB's principal office address.

1DB or individuals associated with 1DB may buy or sell securities identical to or different than those recommended to clients for their personal accounts. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client

## **VII. EDUCATION AND BUSINESS STANDARDS**



All individuals that render investment advisory services on behalf of 1DB must have earned a college degree and/or have substantive investment-related experience. In addition, All individuals giving investment advice to clients are required to be in good standing with FINRA and have current S65 or S66 license.

## **VIII. PROFESSIONAL PERSONNEL**

### **William H. Corley, CEO**

Born 1961

Received BA from Palm Beach Atlantic College and MBA from Baptist Christian University. Mr. Corley has been president of 1<sup>st</sup> Discount Brokerage since July 1995.

### **Yulia Kalk, Compliance Director**

Born 1971

Received her BA in Business Economics from Mills College in 1995. Ms. Kalk has been a Compliance Officer for 1<sup>st</sup> Discount Brokerage since August of 2002 and Compliance Director since September 2004. Prior to that she was a Compliance Officer for Acument Securities for 5 years.

### **Robert Kohany, ROP**

Born 1968

Received BA in Economics from the University of Connecticut in 1989. Mr. Kohany has been a member of the 1DB Trading team since August of 2007 and Options Principal since November 2008. Mr. Kohany has been a market maker since 2002. Prior to joining 1DB he was an institutional market maker for Intercoastal Financial for 7 years.

### **Donald D. Phillip, Director, Fixed Income**

Born 1942

Received his BS in Mathematics from Purdue University and his JD from Golden Gate University School of Law. Mr. Phillips has been Senior Vice President, Fixed Income for 1<sup>st</sup> Discount Brokerage since August 2002 and Senior Vice President, Corporate Finance/Alternative Investments for 1<sup>st</sup> Discount Brokerage since March 2004. For 8 years prior to that he was Vice President, Fixed Income for Acument Securities.

### **J. Paul Arena, Regional Manger**

Born 1940

Received his BS in Business and minor in Accounting from Seton Hall University. Joined Paine Webber in 1968, become Operations Manager in NY branch and later VP Divisional Manager. Joined Dean Witter as a Branch Manager with 43 brokers. Mr. Arena has been a Regional Manager for 1<sup>st</sup> Discount Brokerage since August 2002, and a Regional Managers Supervisor since September 2006.

**Einar Tanger, Regional Manager**

Born 1945

Graduated from University of Buffalo in 1968 with a BA in Political Science. Was in the USAF 1968-72. Started in the brokerage business with Smith Barney in 1978. Currently a Branch Manager with an office in Davie, FL. He has been the Southeast Regional Manager for 1<sup>st</sup> Discount Brokerage since January 2006.

**Kevin Obley, Regional Manager**

Born 1952

Regional Manager for 1DB since 2004 and OSJ for 1DB since August 2002. Prior to that he was a Registered Broker and OSJ for Acument Securities since 1993.

## **IX. OTHER BUSINESS ACTIVITIES**

The principal executive officers and other employees of 1DB may also be insurance agents for one or more unaffiliated and unrelated insurance companies. 1DB is a broker-dealer who operates insurance business through 1DB Insurance Services, a subsidiary of 1DB Financial.

Please refer to Section VI. "Conflicts of Interest" for additional information.

## **X. CLIENT REPORTS**

Program clients will receive account statements and confirmations of transactions directly from their account broker-dealer/custodian. All clients should verify the accuracy of 1DB's fee calculation.

## **XI. REVIEW OF ACCOUNTS**

While the underlying securities within Program accounts are continuously monitored by Advisors of 1DB, these accounts will be formally reviewed at least monthly. Accounts are reviewed in the context of each client's stated investment objective and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

XII. ADDITIONAL COMPENSATION

None