



# 1st Discount Brokerage

## **1<sup>st</sup> Discount Brokerage Inc. Form ADV Part 2A Appendix 1 Wrap Fee Program Brochure**

420 S. State Road 7, Ste. 114  
Wellington, FL 33414

Telephone: 561-515-3200  
Email: [ykalk@1db.com](mailto:ykalk@1db.com)  
Web Address: [www.1db.com](http://www.1db.com)

05.04.2012

This wrap fee program brochure provides information about the qualifications and business practices of 1<sup>st</sup> Discount Brokerage, Inc. If you have any questions about the contents of this brochure, please contact us at 561-515-3200 or [support@1db.com](mailto:support@1db.com). 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. Additional information about 1<sup>st</sup> Discount Brokerage, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2     Material Changes**

The SEC adopted "Amendments to Form ADV" in July, 2010. This Firm Brochure, dated 05/04/2012, is our current disclosure document prepared according to the SEC's requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

After our initial filing of this Brochure, this Item will be used to provide our clients with a summary of new and/or updated information. We will inform you of the revision(s) based on the nature of the updated information.

Consistent with the current rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

| <b>Item 3</b> | <b>Table of Contents</b>                          | <b>Page</b> |
|---------------|---|-------------|
| Item 1        | Cover Page  | 1           |
| Item 2        | Material Changes                                  | 2           |
| Item 3        | Table of Contents                                 | 3           |
| Item 4        | Services, Fees and Compensation                   | 4           |
| Item 5        | Account Requirements and Types of Clients         | 6           |
| Item 6        | Portfolio Management Selection and Evaluation     | 6           |
| Item 7        | Client Information Provided to Portfolio Managers | 8           |
| Item 8        | Client Contact with Portfolio Managers            | 8           |
| Item 9        | Additional Information                            | 8           |
| Item 10       | Requirements for State-Registered Advisers        | 8           |

## **4. Services, Fees and Compensation**

### **A. Services and Fees.**

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, Wellington, FL 33411 If you have questions regarding the material contained herein, please contact Yulia Kalk, Compliance Director of 1DB, at 925-947-6770.

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.

### **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.

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.

**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.

**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

## **B. Cost of Wrap Program**

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.

**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.

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

The minimum balance for a Freedom Account is \$50,000. 1DB will manage the Program accounts on discretionary or non-discretionary basis. The Program will provide services to individuals, trusts, individual retirement and corporate accounts.

## **6. Portfolio Manager Selection and Evaluation**

### **A. Portfolio Manager Selection**

1DB provides the Program services through a number of affiliated advisers. 1DB selects advisers based on their education, investment experience and style of portfolio management. Portfolio managers’ performance is continuously monitored by 1DB and a replacement of portfolio manager may be recommended based on various criteria, including suitability of

specific investment strategy and portfolio performance.

1. Portfolio managers' performance is calculated based on industry standards;
2. 1DB reviews individual portfolio performance information to determine its accuracy; no third party reviews are currently conducted;

## **B. Related Persons and Conflicts of Interest**

Some of 1DB related persons act as portfolio managers for the Program, which in some instances may cause certain conflicts of interest. Specific conflicts of interest are addressed below:

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.

Related person portfolio managers are subject to the same selection and review as the other portfolio managers that participate in the Program.

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

Clients' portfolio managers will receive full investment profile of each client for whom they provide portfolio management services. Client information will include: 1DB New Account form, confidential customer questionnaire and any additional forms required to perform portfolio management services. Client information will be updated annually or as needed if any changes in the clients' financial situation occur. Updated information will be shared with the clients' portfolio manager when received by 1DB.

#### **8. Client Contact with Portfolio Managers**

There are no restrictions placed on clients' ability to contact and consult with their portfolio managers.

#### **9. Additional Information**

- A. Please see Item 9 (Disciplinary Information) and Item 10 (Other Financial Industry Activities and Affiliations) of Part 2A of Form ADV.
- B. Please see Items 11 (Code of Ethics, Participation or Interest in *Client* Transactions and Personal Trading), 13 (Review of Accounts), 14 (*Client* Referrals and Other Compensation), and 18 (Financial Information) of Part 2A of Form ADV.

#### **10. Requirements for State-Registered Advisers**

Please see item 19. E of Part 2A of Form ADV.