

# **NEXT FINANCIAL GROUP, INC.**

2500 Wilcrest Drive, Suite 620

Houston, TX 77042

877.876.6398

[www.nextfinancial.com](http://www.nextfinancial.com)

Form ADV Part 2A

Brochure

**January 31, 2012**

This Brochure provides information about the qualifications and business practices of NEXT Financial Group, Inc. (“NEXT”). If you have any questions about the contents of this Brochure, please contact us at 877-876-6398. 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.

NEXT Financial Group, Inc. is a Registered Investment Adviser. Registration as an Investment Adviser does not imply any level of skill or training.

Additional information about NEXT Financial Group, Inc. is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

The purpose of this page is to provide a summary of material changes since March 31, 2011, which is the date of NEXT Financial Group, Inc.'s ("NEXT") last update.

In the future, if NEXT amends this Brochure because of a material change, it will provide its clients with a summary of those material changes either on an annual basis or as required by regulation.

The following items are material changes since NEXT's last update:

- Item 4—The amount of assets under management has been updated, as is required on an annual basis. During the update, it was noted that there was a typographical error in the 2010 Form ADV Part 2A, which caused the amount of assets under management to appear too high. Please note that NEXT has consistently maintained roughly \$1.3 billion in assets under management for the past several years.
- Item 9—Disciplinary Information: the following disciplinary action was added: On November 22, 2011, FINRA alleged that NEXT in its capacity as a broker/dealer failed to have reasonable grounds for conducting due diligence, censured NEXT and ordered restitution.
- Item 10—The members of NEXT's Board of Directors are individually identified.

## Item 3 – Table of Contents

Item 1—Title Page	Page 1
Item 2—Material Changes	Page 2
Item 3—Table of Contents	Page 3
Item 4—Advisory Business	Page 5
NEXT Advisor’s Account	Page 5
NEXT Advisor’s Account II	Page 6
Educational Workshops/Seminars	Page 6
Consulting Services Program	Page 6
Sub-Account Management	Page 7
Recommendation of Third Party Money Managers	Page 8
Global Management Account Program	Page 8
Item 5—Fees and Compensation	Page 9
NEXT Advisor’s Account	Page 9
NEXT Advisor’s Account II	Page 13
Educational Workshops/Seminars	Page 15
Consulting Services Program	Page 16
Sub-Account Management	Page 17
Recommendation of Third Party Money Managers	Page 18
Global Management Account Program	Page 19
General Information Concerning Fees	Page 19
Item 6—Performance-Based Fees and Side-by-Side Management	Page 20
Item 7—Types of Fees	Page 20
Item 8—Methods of Analysis, Investment Strategies and Risk of Loss	Page 20
Methods of Analysis	Page 20
Investment Strategies	Page 21
Risk of Loss	Page 21
Item 9—Disciplinary Information	Page 22
Item 10—Other Financial Industry Activities and Affiliations	Page 23
Broker/Dealers	Page 23
Investment Companies	Page 24
Independent Registered Investment Advisers	Page 24
Accountant or Accounting Firm	Page 25
Lawyer or Law Firm	Page 25
Insurance Companies	Page 25
Board of Directors	Page 26
Item 11—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	Page 26
Code of Ethics	Page 26
Participation or Interest in Client Transactions	Page 26
Personal Trading	Page 27
Item 12—Brokerage Practices	Page 27
Selection of Broker/Dealers	Page 27
Research and Other Soft Dollar Benefits	Page 27
Brokerage for Client Referrals	Page 27
Directed Brokerage Accounts	Page 27
Aggregation	Page 28
Item 13—Review of Accounts	Page 28

### **Item 3 – Table of Contents (Cont'd)**

Item 14—Client Referrals and Other Compensation	Page 29
Revenue Sharing	Page 29
Solicitor's Fees	Page 29
Professional Edge Program	Page 29
Item 15—Custody	Page 29
Item 16—Investment Discretion	Page 30
Item 17—Voting Client Securities	Page 30
Item 18—Financial Information	Page 30
Attachments:	
Brochure Supplement(s)	

## Item 4 – Advisory Business

NEXT Financial Group, Inc. (“NEXT”) was formed in 1999 as a corporation organized under the laws of the State of Virginia. NEXT is a wholly owned subsidiary of NEXT Financial Holdings, Inc. NEXT Financial Holdings, Inc. is not a publicly traded corporation, and owns 100% of NEXT. NEXT has affiliates, all of which are wholly owned by NEXT Financial Holdings, Inc. Services may be offered through these affiliates including: WE2, Inc., Visionary Asset Management, Inc., AlphaSource Investment Counsel, Inc., and NEXT Financial Insurance Services Company.

NEXT is registered as a full service general securities broker/dealer and a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”) and as a Registered Investment Adviser with the U.S. Securities and Exchange Commission (“SEC”). Registered Persons affiliated with NEXT Financial Group, Inc. recommend certain securities for which they receive a commission, markup or markdown. Registered Persons affiliated with NEXT Financial Group, Inc. that offer various advisory services for which they receive a fee are called Investment Advisory Representatives (“IARs”). For purposes of this document, NEXT Financial Group, Inc. (“NEXT”) refers to its registration as a Registered Investment Adviser. The advisory services offered through NEXT Financial Group, Inc. are described in this Disclosure Brochure.

There are risks associated with any investment or advisory service. There are no guarantees of the success of any particular investment or strategy and it is possible that some or all of the principal could be lost. Past performance is not a guarantee of future performance; clients invest at their own risk.

Tax implications are a critical component of any investment strategy. Therefore, depending on the strategy that a client chooses to implement, it is possible that any trading activity could result in a taxable event and lower investment return. Investments may have tax or legal consequences, so clients should contact their own tax professionals and attorneys to help answer questions about specific situations or needs.

As of January 9, 2012, the total amount of assets managed by NEXT’s IARs on a discretionary basis is \$1,250,814,135.06, and \$65,832,322.90 on a non-discretionary basis. Discretion means that an IAR does not need prior permission to conduct transactions or render advisory services in client accounts.

NEXT’s IARs may offer the following services to their clients:

1. NEXT Advisor’s Account;
2. NEXT Advisor’s Account II;
3. Educational Workshops/Seminars;
4. Consulting Services;
5. Sub-Account Management;
6. Recommendation of Third Party Money Managers; and
7. Global Management Account Program.

Below is specific information about each service.

### **1. NEXT Advisor’s Account**

- The NEXT Advisor’s Account (“NAA”) is a program designed to provide investment advisory services to the client by a NEXT IAR through a NAA Agreement and to assist in the development of an asset allocation using select securities designed to meet the client’s individual investment needs and goals. It is an “unbundled” program. This means that transaction charges, advisory fees and

administrative fees are separate and distinct from one another, and are all paid by the client. This pricing arrangement may be more cost effective for accounts that have infrequent trading activity. Depending on the level of trading activity in the account, the client may or may not pay higher total costs than in a wrap pricing structure (described below in the NEXT Advisor's Account II section). Generally, a client must invest \$20,000.00 minimum to open an NAA account, however this requirement can be waived at the discretion of the IAR and/or NEXT.

- Each IAR tailors the advisory services within NAA accounts to the individual needs of a client by obtaining information regarding the client's individual objectives, goals and risk tolerance, and developing an investment strategy, or selecting a portfolio designed to work toward the particular clients' needs. The client may impose restrictions on investing in certain types of securities by informing the IAR of their wishes.

## **2. NEXT Advisor's Account II**

- The NEXT Advisor's Account II ("NAA II") is a wrap program designed to provide investment advisory services to the client by a NEXT IAR through an NAA II Agreement and to assist in the determination of an asset allocation utilizing selected securities designed to meet the client's individual investment needs and goals. Generally, the client must invest \$20,000.00 minimum to open an NAA II account, however this requirement can be waived at the discretion of the IAR and/or NEXT.
- Each IAR tailors the advisory services within NAA II accounts to the individual needs of their clients by obtaining information regarding the client's individual objectives, goals and risk tolerance, and developing an investment strategy, or selecting a portfolio designed to work toward the particular client's needs. The client may impose restrictions on investing in certain types of securities by informing the IAR of their wishes.
- While there may be no differences between the manner in which wrap accounts (NAA II) and non-wrap accounts (NAA) are managed, a wrap pricing structure allows the client to pay an inclusive fee for account management, brokerage, clearance, custody and administrative services. A portion of the fee is paid to the IAR and to NEXT for the respective services of each. Clients should consider that, depending upon the level of the wrap fee charges, the amount of portfolio activity in their accounts, the value of services that are provided under the investment program, and other factors, the wrap fee may or may not exceed the aggregate cost of services if they were to be provided 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 infrequent trading activity. Clients opening a NAA II should receive a copy of NEXT's Wrap Fee Program Brochure. The Wrap Fee Program Brochure contains additional information concerning wrap programs in general, and the NAA II program in specific.

## **3. Educational Workshops/Seminars**

- On occasion, IARs may conduct educational workshops or seminars on various financial topics that may encourage clients to seek investment advisory services or purchase securities or insurance products.
- Because a wide variety of clients attend, workshops and/or seminars are generally not designed to meet the needs of individual clients, but to appeal to a larger audience.

## **4. Consulting Services Program**

- The NEXT Financial Group Consulting Services Program ("Consulting Services") typically involves providing a variety of services that are mostly advisory in nature, to clients regarding the management of their financial resources based upon an analysis of their individual needs. Areas addressed may include, but are not limited to:
  - Financial plan preparation;

- Risk management;
- Asset allocation;
- Advice regarding investments not held at NEXT;
- Insurance;
- Portfolio evaluation;
- Educational funding;
- Retirement planning;
- Employee benefits;
- Estate planning;
- Cash flow analysis;
- Ongoing consulting;
- Financial options; and
- Charitable donations.

Following are important items that Consulting Services clients should be aware of:

- The U.S. Department of Labor uses the term “fiduciary” to describe persons who provide advice and/or services to Employee Retirement Income Security Act (“ERISA”) qualified retirement plans. Persons or organizations requesting these types of services are strongly advised to consult with attorneys and tax advisors who are familiar with ERISA regulations that affect retirement accounts to ensure that the retirement plan follows all applicable regulations. While NEXT’s IARs may offer some advice, they may not act as an administrator of the retirement plan itself.
- When NEXT IARs advise clients on securities and/or accounts which are not held at NEXT, the IAR offers advice only. The accounts are not discretionary—the IAR will not be able to make any changes within the account(s). Clients may request that their chosen IAR advise them on asset allocation within those accounts. As NEXT and the IAR are unable to view the accounts directly, the client must provide the IAR with updated account statements, listings of available choices within the account, and the amount and regularity of contributions. In these situations, the IAR will provide the client(s) with allocation advice, however the client is responsible for completing the transactions within the account. The client may not give user names and passwords to the IAR for accounts.
- Consulting services offered by IARs should not be considered comprehensive, and clients are advised to consult with other professionals including but not limited to accountants, tax advisors, attorneys, insurance professionals, etc. for a more comprehensive review and evaluation of the effects of advice offered by the IAR on a client’s particular situation.
- Services provided through Consulting Services are based on the client’s financial situation at the time, and are based on the financial information disclosed by the client to the IAR. Clients are advised that certain assumptions may be made with respect to interest and inflation rates and the use of past trends and performance of the market and economy. Past performance is in no way an indication of future performance. NEXT cannot offer any guarantees or promises that the client’s financial goals and objectives will be met. As the client’s financial situation, goals, objectives, or needs change, the client should notify the IAR promptly.

## **5. Sub-Account Management**

- NEXT’s IARs may enter into agreements with clients permitting IARs to actively manage the sub-accounts for variable annuity contract(s). The assets within the variable annuity will be held by the issuing sponsor company. The IAR will establish limited trading authorization over the contract sub-accounts and will manage the sub-accounts based upon the client’s risk tolerance and objectives. The IAR will have discretionary authorization from the client to reallocate between and among sub-accounts of the client’s annuity contract(s).
- The client will supply information regarding their risk tolerance, investment objectives, time horizon, age, and financial data to the IAR to assist in determining the suitability of underlying sub-accounts via NEXT’s Account Information Form, variable annuity application, NEXT VA/VUL Disclosure

Form and other information gathered through discussions and documents. The client cannot impose restrictions on investing in certain securities or types of securities, since the only securities being managed are sub-accounts.

## **6. Recommendation of Third Party Money Managers**

- After gathering information about a client's financial situation, investment objectives, risk tolerance and other data, an IAR of NEXT may assist the client in selecting a particular Third Party Money Manager. IARs may utilize a number of factors in determining a prudent Third Party Money Manager including but not limited to performance, investment objectives, fees and methods of analysis, and comparing those factors to the client's goals and objectives (determining risk tolerance and investment styles). Clients who are referred to a Third Party Money Manager are directed to the disclosure document for the Third Party Money Manager and any separate written agreement(s) between the client and the Third Party Money Manager for more complete information regarding the terms and conditions of the client's relationship with the Third Party Money Manager. When Clients are referred to Third Party Money Managers, the IAR does not manage the Client's assets. The assets are directly managed by the selected Third Party Money Manager.
- NEXT's IARs may refer a client to one of various Third Party Money Managers for asset management services. Third Party Money Managers may have differing minimum account requirements and a variety of fee ranges. All securities transactions are decided upon and executed by the Third Party Money Manager. IARs may contact the client periodically and may review the client's financial situation, objectives, and restrictions and communicate information to the Third Party Money Manager; and may assist the client in understanding and evaluating the services provided by the Third Party Money Manager. Each Third Party Money Manager maintains its own separate execution, clearing and custodial relationships.
  - Please Note: When investing in mutual funds and variable annuities, clients are strongly encouraged to review the applicable prospectus. Mutual funds, variable annuities and certain variable annuity riders may impose certain restrictions on the frequency, timing and dollar amount of transactions and may impose penalty fees based upon short-term trading patterns. These restrictions may impact the services provided by a Third Party Money Manager.

## **7. Global Management Account Program**

- NEXT's IARs may provide portfolio management services through its Global Management Account Program ("GMA" or "GMA Program"). The GMA provides clients with a range of investment advisory programs through an account administration and sub-advisory relationship with Envestnet Asset Management, Inc. ("Envestnet"), and a brokerage and custodial arrangement with Pershing Advisory Solutions, Inc. ("PAS"). Details regarding the services provided by Envestnet, PAS and third-party sub-advisers and other service providers participating in the GMA Program are contained in the respective GMA: (i) disclosure documents; (ii) new account applications; and (iii) service agreements, must be completed by clients in the GMA Program.

Clients in the GMA Program are provided with access to various types of investment advisory and management services such as Multi-Manager Accounts ("MMA"), Mutual Fund Wrap Accounts ("MFW"), and Separately Managed Accounts ("SMA") through a single integrated GMA. The GMA Program provides access to services such as:

- Assessment of the client's investment needs and objectives;
- Investment policy planning;
- Development of an asset allocation strategy designed to meet the client's objectives;
- Recommendations on suitable style allocations;
- Identification of appropriate managers and investment vehicles suitable to the client's goals;
- Evaluation of asset managers and investment vehicles meeting style and allocation criteria;



- Engagement of selected asset managers and investment vehicles on behalf of the client;
- Ongoing monitoring of individual asset manager's performance and management (for approved SMA managers and mutual funds only);
- Review of client accounts to ensure adherence to policy guidelines and asset allocation;
- Recommendations for account rebalancing, if necessary; and
- Online reporting of client account's performance and progress.

Through the GMA Program, IARs provide each client continuous investment advice based on the needs and circumstances of each client.

- The IAR will first determine if the GMA Program is suitable for each client by performing an initial interview and obtaining a completed profile questionnaire to ascertain a client's financial position, investment goals and objectives, investment limitations, reasonable restrictions and risk tolerance. Additional information concerning the GMA program is contained in the account opening GMA documentation.
- Wrap programs are available through the GMA Program. While there are no differences between the manner in which wrap accounts and non-wrap accounts are managed, a wrap pricing structure allows the client to pay an inclusive fee for account management, brokerage, clearance, custody and administrative services. A portion of the fee is paid to the IAR and to NEXT for the respective services. Clients should consider that, depending upon the level of the wrap fee charges, the amount of portfolio activity in their accounts, the value of services that are provided under the investment program, and other factors, the wrap fee may or may not exceed the aggregate cost of services if they were to be provided separately. Generally, wrap programs are relatively less expensive for actively traded accounts; however, they may result in higher overall costs in accounts that experience infrequent trading activity.

## Item 5 – Fees and Compensation

Clients should note that the same or similar service to those described in Item 4 above may be available elsewhere at a lower cost to the client. Specific information concerning the fees and compensation for each type of investment advisory service offered through NEXT by its IARs is noted in Item 4 above. This section of the Brochure lists additional information concerning fees and compensation.

Fee information for the advisory services offered through NEXT is listed below:

### **1. NEXT Advisor's Account**

- IARs are compensated for their services by charging an advisory fee ("Fee"). Fees are disclosed to clients as a percentage of the value of the assets in the client's account, based upon the following NAA Program Fee Schedule included in the NAA Agreement:

Asset Size	Maximum Client Fee	Your Fee*
0 - \$100,000	2.50%	
\$100,001 - \$250,000	2.50%	
\$250,001 - \$500,000	2.50%	
\$500,001 - \$1,000,000	2.50%	
Above \$1,000,000	2.50%	

\*The client's fees are negotiated between the client and the IAR and may vary.

- The annual advisory fee for a NAA is negotiable at the discretion of the IAR depending upon a number of factors including, but not limited to, the amount of the assets under management, the nature and extent of account relationships between NEXT and its affiliates with the client, the type

and complexity of services requested, and other factors that the IAR deems relevant. The fee will not exceed 2.5% of the client's assets under management.

- The advisory fee is based on the asset value of client's account on the last day of the previous quarter, and is deducted on a quarterly basis directly from the client's account.

In addition to the advisory fees, clients will be charged all transaction fees, annual maintenance fees, custodial fees, and termination fees within the NAA subject to the pricing schedule set by Pershing, LLC. SEC fees will be assessed on liquidations at the effective SEC rate, and are also the responsibility of the client. The following schedule of charges is for NEXT brokerage accounts at Pershing. These charges are billed "per order" as opposed to "per ticket". "Per order" is defined at the point/time of order entry and may result in multiple executions from a single order:

<b>ITEM</b>	<b>AMOUNT</b>
<b><u>Ticket Charges</u></b>	
Equities (Market Order < 2,100 Shares)	\$16
Equities (Market Order 2,100 Shares or More)	\$14 + \$0.01/share
Equities (Limit Orders)	\$14 + \$0.012/share
Equities on Regional Exchange (Market Orders)	\$16
Equities on Regional Exchange (All Other Orders)	\$16
OTC Equities	\$16
Physical Certificates	\$35
<b><u>Options</u></b>	
Equity and Index Option Trades	\$16 + \$0.50/contract
Equity and Index Option Assignments	\$25
<b><u>Bonds</u></b>	
Listed Corporate Bonds	\$25 + \$1/bond
OTC Corporate Bonds	\$25
Municipal Bonds	\$25
Treasury Bonds	\$25
Government Agency Bonds	\$25
Money Market Instruments (Ba's, CD's, CP)	\$25
Mortgage Backed When Issued	\$10
<b><u>Mutual Funds</u></b>	
Purchases-FundServ Eligible	\$14
Purchases-Non-FundServe Eligible	\$48
Purchases-NAV	\$14
Redemptions	\$12
Exchanges	\$6
Systematic Redemption System ("SRS")	\$2.50
No Load Mutual Fund Purchases	\$14
No Load Mutual Fund Redemptions	\$12
No Load Mutual Fund Exchanges	\$6
<b><u>Unit Investment Trusts</u></b>	
Purchases	\$20
Redemptions	\$20
<b><u>Precious Metals</u></b>	\$25

Unless otherwise stated, all charges listed below are on a "per event" basis:

<b><u>Account Transfer Fees</u></b>	
Outgoing Transfer Fee	\$75
DRS Transfers	\$20
GNMA/Legal Transfers	\$75

Transfer and Ship	\$75
Foreign Clearance Fee (ACATS)	\$75
Euro Clear (ACATs)	\$50
<b><u>Asset Movement Fees</u></b>	
Certified Check Delivery	\$12
Insufficient Funds Charge	\$25
Voided Check Fee	\$25
Loan Processing Fee	\$50
Overnight Check Fee	\$12
Overnight Check Fee (Sat Delivery)	\$18
Foreign Overnight Check Fee	\$25
Federal Wire Fee	\$25
Margin Extension Filing Fee	\$20
<b><u>Custodial Fees</u></b>	
Inactivity Fee – Mixed Acct	\$30
Inactivity Fee – Mutual Fund Only	\$10
Equity Dividend Reinvestment Fee (Min \$3 dividend)	\$1 per dividend
Paper Delivery Confirmation Fee	\$1 per confirmation
Paper Delivery Statement Fee	\$1 per statement
Special Product Processing Fee	\$50
Special Product Review Fee	\$100
Special Product annual custodial fee	\$35
Special Product IRA transfer fee	\$35
Voluntary Reorg	\$25
Safekeeping	\$2/month/security
Confirmation Fee	\$3.50/Confirmation
Cashless Option Exercise	\$50
<b><u>Mutual Fund Charges</u></b>	
Mutual Fund Liquidation Fee	\$18
NTF Fund Short Term Redemption Fee	\$51.50
NTF SRS Short Term Redemption Fee	\$5
SRS Processing Fee	\$2.50/transaction
<b><u>Checking Fees</u></b>	
Corestone Silver Annual Fee	\$25
Corestone Gold Account Annual Fee	\$100
Corestone Gold Account Annual Fee – Corp	\$150
Corestone Platinum Account Annual Fee	\$150
Corestone Platinum Account Annual Fee - Corp	\$250
Personal check initial order	\$10
Personal Check Reorder	\$15
ProCash Silver below min fee	\$2/month
Carbon Copy Check initial order	\$15
Carbon Copy Check Reorder	\$25
Business initial Check Order	\$50
Business Style Reorder	\$40
Reorder business style check binder	\$20
Copy of check or Visa draft	\$5/item
Overnight mailing of checkbooks	\$20
Stop Payment Fee	\$25
Returned Check/ACH Fee	\$35

### **Other Charges**

Interest on all cash account delinquencies (Cash Due Interest) in a customer account will be charged directly to the customer account at then current rate.

Transfer Agent Servicing fees will be passed through to the client and can vary based upon the transfer agent and position.

### **Retirement Account Fees (Pershing L.L.C. as custodian)**

Traditional IRA, Roth IRA, Coverdell Education Savings Accounts and IRA Model 5305 SEP

- Mutual Fund Only Annual Custodial Fee \$10
- Mixed Account Annual Custodial Fee \$35
- Termination Fee \$75

SARSEP/Prototype SEP, SIMPLE IRA, Qualified Plan (Money Purchase, Profit Sharing, 401(k), Individual (k) and 403(b)(7) custodial accounts

- Annual Custodial Fee \$50
- Termination Fee \$75

- In the event that a NAA is cancelled, the advisory fee will be pro-rated for the quarter in which the agreement was cancelled. The pro-rated amount will be based upon the number of days remaining in the calendar quarter. The advisory fee for that number of days will be returned to the client's account, minus any transaction costs that were not paid earlier in the quarter. NEXT may impose an additional fee in the event of an account cancellation.
- Advisory fees due for NAAs must be paid quarterly in advance.
- NEXT and the IAR may receive compensation from the sale of securities or other investment products, including but not limited to: investment company securities, variable products, or other assets purchased within advisory accounts. Additionally, these products may have additional internal expenses such as custodial fees, account maintenance fees and/or a portion of fund manager fees that the client will pay indirectly through the cost of the fund. This compensation may be in addition to any advisory fee and may result in increased costs to the client.
- This practice presents a perceived conflict of interest, as IARs may receive a trail (12b-1 fee) on certain investments. To combat these conflicts, NEXT has implemented the following policies:
  - While Class B and Class C share mutual funds may be transferred into the NAA, any further purchases in the mutual funds within the NAA will be made at net asset value (NAV) in Class A shares, which will not result in the client paying a commission in addition to the annual advisory fee.
  - The client may be entitled to a fee offset for certain securities transferred into or sold within NAAs ("Fee Offset Program"). A fee offset amount may apply if a security was purchased through NEXT, and the IAR earned a commission within one year before the security was transferred into the account. Securities that may be eligible for a fee offset include variable products, alternative investments, and/or Class B and Class C share mutual funds.
- Clients have the option to purchase investments recommended by NEXT's IARs through other persons who are not affiliated with NEXT.
- NEXT's IARs may not receive commissions and advisory fees simultaneously for products purchased through a NAA. Please note however that an IAR may recommend and/or sell a product to the client, receive a commission, and link that product to the NAA after one year for ongoing management services. In lieu of waiting a full year to link the product to the NAA, the IAR may utilize the Fee Offset Program described above.
- Payment of the IAR's advisory fees will be paid directly to NEXT by Pershing, LLC, the qualified custodian holding the client's funds and securities. Advisory fees will be assessed pro rata in the event the NAA Agreement is entered into at any time other than the first day of a calendar quarter. If

assets are deposited in a NAA after the beginning of a quarter and then withdrawn from the account before the end of the same quarter, and are equal to or more than \$10,000, the advisory fee chargeable with respect to such assets as of the calculation date will be pro-rated based on the number of days during the quarter the assets were held in the NAA. If the amount is under \$10,000.00, the client will not receive a rebate of advisory fees paid.

## **2. NEXT Advisor's Account II**

- IARs are compensated for their services by charging an advisory fee ("Fee"). Fees are disclosed to clients as a percentage of the value of the assets in the client's account, based upon the following NAA II Program Fee Schedule included in the NAA II Agreement:

<b>Asset Size</b>	<b>Maximum Client Fee</b>	<b>Your Fee*</b>
0 - \$100,000	2.50%	
\$100,000 - \$250,000	2.50%	
\$250,000 - \$500,000	2.50%	
\$500,000 - \$1,000,000	2.50%	
Above \$1,000,000	2.50%	

\*The client's fees are negotiated between the client and the IAR and may vary.

- The annual advisory fee for the NAA II is negotiable at the discretion of the IAR depending upon a number of factors including, but not limited to, the amount of the assets under management, the nature and extent of account relationships between NEXT and its affiliates with the client, the type and complexity of services requested, and other factors that the IAR deems relevant. The fee will not exceed 2.5% of the client's assets under management.
- The advisory fee is based on the asset value of client's account on the last day of the previous quarter, and is deducted on a quarterly basis directly from the client's account.

In addition to the advisory fees, clients will be charged fees for some extra services, annual maintenance fees, custodial fees, and termination fees within the NAA II subject to the pricing schedule set by Pershing, LLC. SEC fees will be assessed on liquidations at the effective SEC rate, and are also the responsibility of the client. The following schedule of charges is for NEXT brokerage accounts at Pershing. Unless otherwise stated, all charges are on a "per event" basis:

<b>ITEM</b>	<b>AMOUNT</b>
<b><u>Account Transfer Fees</u></b>	
Outgoing Transfer Fee	\$75
DRS Transfers	\$20
GNMA/Legal Transfers	\$75
Transfer and Ship	\$75
Foreign Clearance Fee (ACATS)	\$75
Euro Clear (ACATs)	\$50
<b><u>Asset Movement Fees</u></b>	
Certified Check Delivery	\$12
Insufficient Funds Charge	\$25
Voided Check Fee	\$25
Loan Processing Fee	\$50
Overnight Check Fee	\$12
Overnight Check Fee (Sat Delivery)	\$18
Foreign Overnight Check Fee	\$25
Federal Wire Fee	\$25
Margin Extension Filing Fee	\$20

**Custodial Fees**

Inactivity Fee – Mixed Acct	\$30
Inactivity Fee – Mutual Fund Only	\$10
Equity Dividend Reinvestment Fee (Min \$3 dividend)	\$1 per dividend
Paper Delivery Confirmation Fee	\$1 per confirmation
Paper Delivery Statement Fee	\$1 per statement
Special Product Processing Fee	\$50
Special Product Review Fee	\$100
Special Product annual custodial fee	\$35
Special Product IRA transfer fee	\$35
Voluntary Reorg	\$25
Safekeeping	\$2/month/security
Confirmation Fee	\$3.50/Confirmation
Cashless Option Exercise	\$50

**Mutual Fund Charges**

Mutual Fund Liquidation Fee	\$18
NTF Fund Short Term Redemption Fee	\$51.50
NTF SRS Short Term Redemption Fee	\$5
SRS Processing Fee	\$2.50/transaction

**Checking Fees**

Corestone Silver Annual Fee	\$25
Corestone Gold Account Annual Fee	\$100
Corestone Gold Account Annual Fee – Corp	\$150
Corestone Platinum Account Annual Fee	\$150
Corestone Platinum Account Annual Fee - Corp	\$250
Personal check initial order	\$10
Personal Check Reorder	\$15
ProCash Silver below min fee	\$2/month
Carbon Copy Check initial order	\$15
Carbon Copy Check Reorder	\$25
Business initial Check Order	\$50
Business Style Reorder	\$40
Reorder business style check binder	\$20
Copy of check or Visa draft	\$5/item
Overnight mailing of checkbooks	\$20
Stop Payment Fee	\$25
Returned Check/ACH Fee	\$35

**Other Charges**

Interest on all cash account delinquencies (Cash Due Interest) in a customer account will be charged directly to the customer account at then current rate.

Transfer Agent Servicing fees will be passed through to the client and can vary based upon the transfer agent and position.

**Retirement Account Fees (Pershing L.L.C. as custodian)**

Traditional IRA, Roth IRA, Coverdell Education Savings Accounts and IRA Model 5305 SEP

- Mutual Fund Only Annual Custodial Fee \$10
- Mixed Account Annual Custodial Fee \$35
- Termination Fee \$75

SARSEP/Prototype SEP, SIMPLE IRA, Qualified Plan (Money Purchase, Profit Sharing, 401(k), Individual (k) and 403(b)(7) custodial accounts

- |                        |      |
|------------------------|------|
| • Annual Custodial Fee | \$50 |
| • Termination Fee      | \$75 |

- In the event that a NAA II is cancelled, the advisory fee will be pro-rated for the quarter in which the agreement was cancelled. The pro-rated amount will be based upon the number of days remaining in the calendar quarter. The advisory fee for that number of days will be returned to the client's account, minus any transaction costs that were not paid earlier in the quarter. NEXT may impose an additional fee in the event of an account cancellation.
- Advisory fees due for NAA IIs must be paid quarterly in advance.
- NEXT and the IAR may receive compensation for the sale of securities or other investment products, including but not limited to: investment company securities, variable products, or other assets purchased within advisory accounts. Additionally, these products may have additional internal expenses such as custodial fees, account maintenance fees and/or a portion of fund manager fees that the client will pay indirectly through the cost of the fund. This compensation may be in addition to any advisory fee and may result in increased costs to the client.
- This practice presents a perceived conflict of interest, as IARs may receive a trail (12b-1 fee) on certain investments. To combat these conflicts, NEXT has implemented the following policies:
  - While Class B and Class C share mutual funds may be transferred into the NAA II, any further purchases in the mutual funds within the NAA II will be made at net asset value (NAV) in Class A shares, which will not result in the client paying a commission in addition to the annual advisory fee.
  - The client may be entitled to a fee offset for certain securities transferred into or sold within NAA IIs ("Fee Offset Program"). A fee offset amount may apply if a security was purchased through NEXT, and the IAR earned a commission within one year before the security was transferred into the account. Securities that may be eligible for a fee offset include variable products, alternative investments, and/or Class B and Class C share mutual funds.
- Clients have the option to purchase investments recommended by NEXT's IARs through other persons who are not affiliated with NEXT.
- NEXT's IARs may not receive commissions and advisory fees simultaneously for products purchased through an NAA II. Please note however that an IAR may recommend and/or sell a product to the client, receive a commission, and link that product to the NAA II after one year for ongoing management services. In lieu of waiting a full year to link the product to the NAA II, the IAR may utilize the Fee Offset Program described above.
- Payment of the IAR's advisory fees will be paid directly to NEXT by Pershing, LLC, the qualified custodian holding the client's funds and securities. Advisory fees will be assessed pro rata in the event the client agreement is entered into at any time other than the first day of a calendar quarter. If assets are deposited in an NAA II after the beginning of a quarter and then withdrawn from the account before the end of the same quarter, and are equal to or more than \$10,000, the advisory fee chargeable with respect to such assets as of the calculation date will be pro-rated based on the number of days during the quarter the assets were held in the Account. If the amount is under \$10,000.00, the client will not receive a rebate of advisory fees paid.

### **3. Educational Workshops/Seminars**

- The fee for the workshop and/or seminars will vary on a case by case basis and is determined by the IAR(s) giving the presentation.
- The fees are generally a flat fee that is not negotiable.
- The amount of the fee may be higher in the event that a meal will be served or if printed documentation will be provided to attendees.

- The fee for a workshop/seminar may not be deducted from any existing client accounts, but must be paid by the client via personal check either before or at the time of the seminar. All client checks to pay for educational workshop/seminar fees must be made out to “NEXT Financial Group, Inc.”
- If workshop/seminar attendees opt to engage the IAR for additional advisory services or to purchase a product, the fees and/or commissions that the IAR receives as a result of this are over and above the seminar fee.
- In the event that a client pre-pays for a workshop/seminar and is unable to attend, the client must contact the IAR to determine whether all or a portion of their fee may be refunded. Refunds of these fees are at the discretion of the IAR.
- NEXT and the IAR may receive compensation for the sale of securities or other investment products provided or sold to the client following the seminar, including but not limited to: investment company securities, variable products, or other assets purchased within advisory accounts. Additionally, these products may have additional internal expenses such as custodial fees, account maintenance fees and/or a portion of fund manager fees that the client will pay indirectly through the cost of the fund. This compensation may be in addition to any advisory fee and may result in increased costs to the client.
- This practice presents a perceived conflict of interest, as IARs may receive a trail (12b-1 fee) on certain investments. To combat these conflicts, NEXT has implemented policies that are described in Item 5 under each applicable advisory program and/or service.
- Clients have the option to purchase investments recommended by NEXT’s IARs through other persons who are not affiliated with NEXT.

#### **4. Consulting Services**

- Compensation for Consulting Services is structured as a fee that is negotiable at the sole discretion of the IAR depending upon a number of factors including, but not limited to, the amount of the assets being reviewed, the nature and extent of account relationships between NEXT and its affiliates with the client, the type and complexity of services requested, and other factors that the IAR deems relevant. The fee for the services may be:
  - a pre-determined hourly rate which cannot exceed \$350.00 per hour. If an hourly fee is selected, an estimate of the total cost will be determined at the start of the advisory relationship. In limited circumstances, the cost/time could potentially exceed the initial estimate. In such cases, the IAR will notify the client and may request that the client approve the additional fee;
  - a flat fee for one-time services;
  - a semi-annual flat fee;
  - a quarterly flat fee; or
  - a monthly flat fee.
- The client may pay the fee either by writing a personal check (made payable to, “NEXT Financial Group, Inc.”) or by granting written permission to debit the fees from an existing account at NEXT. The client may select whether or not they wish to be billed or wish to have the fees debited from an existing account.
- In the event that the client elects to act on any recommendations made by the IARs, acting in their capacity as Registered Persons of NEXT, the Investment Adviser Representative may receive additional commissions, markups, markdowns or advisory fees if the client chooses to implement any plan recommended, and purchases a product or opens an account.
- Payment for services is due according to the terms noted in the Consulting Services Agreement. Services must be rendered within six (6) months of payment if the upfront payment of any fee option is selected.



- For services that will be provided for a flat fee, or one-time only services, the Consulting Services Agreement will no longer be in effect once the services have been completed by the IAR and the client has paid for the services.
- For ongoing consulting services, NEXT, the IAR, or the client may, upon written notice to the others, end the Consulting Services Agreement. In the event of cancellation, NEXT and/or the Investment Adviser Representatives may decide the amount to be charged to the client based upon the time and resources expended. Generally, clients will be charged for the portion of work performed and any unearned fees will be refunded to the client, as applicable.
- NEXT and the IAR may receive compensation for the sale of securities or other investment products provided or sold to the client following the provision of Consulting Services, including but not limited to: investment company securities, variable products, or other assets purchased within advisory accounts. Additionally, these products may have other internal expenses such as custodial fees, account maintenance fees and/or a portion of fund manager fees that the client will pay indirectly through the cost of the fund. This compensation may be in addition to any advisory fee and may result in increased costs to the client.
- This practice presents a perceived conflict of interest, as IARs may receive a trail (12b-1 fee) on certain investments. To combat these conflicts, NEXT has implemented policies that are described in Item 5 under each applicable advisory program and/or service.
- Clients have the option to purchase investments recommended by NEXT's IARs through other persons who are not affiliated with NEXT.

## **5. Sub-Account Management**

- IARs are compensated for the management of sub-accounts within a variable annuity by charging an advisory fee ("fee"). Fees are disclosed to clients as a percentage of the value of the assets in the client's account, based upon the following Sub-Account Management Program Fee Schedule included in the Sub-Account Management Agreement:

<b>Asset Size</b>	<b>Maximum Client Fee</b>	<b>Your Fee*</b>
0 - \$100,000	2.50%	
\$100,000 - \$250,000	2.50%	
\$250,000 - \$500,000	2.50%	
\$500,000 - \$1,000,000	2.50%	
Above \$1,000,000	2.50%	

\*The client's fees are negotiated between the client and the IAR and may vary.

- The advisory fee for the management of variable annuity sub-accounts is negotiable at the discretion of the IAR depending upon a number of factors including, but not limited to, the amount of the assets under management, the nature and extent of account relationships between NEXT and its affiliates with the client, the type and complexity of services requested, and other factors that the IAR deems relevant. The fee will not exceed 2.5% of the assets under management within the variable annuity.
- In some cases, the IAR's sub-account management fees may be deducted directly from the client's variable annuity account, while in other cases the IAR may either bill the client directly, or, if the client grants written permission, debit the fee from another account held at NEXT. NEXT will not have access to client funds for payment of fees without written consent by the client.
- The applicable fees include all fees and charges for the services of the IAR and NEXT, but do not include charges that may be charged by the insurance company, including but not limited to early surrender fees, optional rider fees, maintenance fees, separate account charges, and investment charges. The annuity's associated fees and charges will be detailed in the annuity's prospectus. The client is also responsible for taxes associated with any withdrawals including all taxes payable on withdrawals for sub-account management fees. Payment of a separate management fee will reduce

the overall performance of the account and may result in a taxable event for the client. Clients are urged to seek professional tax advice regarding their individual situations and accounts.

- The fees are due in advance, with the initial payment due upon entering into the Sub-Account Management Agreement (“Agreement”). The initial fee may be pro-rated in the event that the Agreement is completed at any time other than the first day of the billing cycle. Additional payments are due on the first day of each calendar quarter (for quarterly billing), based on the value of sub-accounts under management as of the close of business on the last business day of the preceding quarter. The value is determined by the insurance company. If additional funds are deposited after the beginning of a billing cycle and then withdrawn before the end of the same billing cycle, the fee with respect to those assets may be pro-rated based on the number of days during the quarter that the funds were held in the annuity. The assets will be treated as if they were held in the annuity as of the end of the preceding quarter. NEXT, the IAR, or the client may cancel the Sub-Account Management Agreement by providing written notice to the others. The client is still liable for and obligated to pay any fees that result from transactions initiated prior to the cancellation of the contract.
- If the IAR earned a commission on the client’s annuity contract purchase within the twelve (12) months before to the initial billing date NEXT or the IAR will not begin billing for Sub-Account Management Agreement services until twelve (12) months from the initial contract date. This offset applies to annuity contracts purchased through NEXT Financial Group, Inc.
- NEXT and the IAR may receive compensation for the sale of securities or other investment products provided or sold to the client following the effective date of Sub-Account Management services, including but not limited to: investment company securities, variable products, or other assets purchased within advisory accounts. Additionally, these products may have other internal expenses such as custodial fees, account maintenance fees and/or a portion of fund manager fees that the client will pay indirectly through the cost of the fund. This compensation is in addition to any advisory fee and may result in increased overall costs to the client.
- This practice presents a perceived conflict of interest, as IARs may receive a trail or 12b-1 fee on certain investments. To combat these conflicts, NEXT has implemented policies that are described in Item 5 under each applicable advisory program and/or service.
- Clients have the option to purchase investments recommended by NEXT’s IARs through other persons who are not affiliated with NEXT.

#### **6. Third Party Money Manager**

- The IAR will receive a portion of the fee charged by the Third Party Money Manager.
- Clients should be aware that Third Party Money Managers may not be willing to negotiate their fees, and NEXT is not authorized to negotiate a Third Party Money Manager’s fees.
- Fees charged to the client by Third Party Money Managers are debited directly from the client’s account. Compensation for Third Party Money Manager accounts generally consist of five elements:
  - i) Management and advisory fees shared by the Third Party Money Manager, NEXT, and its IARs;
  - ii) Transaction costs for the underlying securities;
  - iii) Custody fees;
  - iv) Revenue sharing compensation paid to NEXT; and
  - v) Administrative fees paid to NEXT for supervisory services.
- Some Third Party Money Managers’ fees may be separate from any advisory fee charged by NEXT. Further, compensation to NEXT may be in the form of commissions of the underlying securities being managed by the Third Party Money Manager. Certain Third Party Money Managers may give a portion of their advisory fees to NEXT as additional compensation for its administrative and supervisory service. This fee is not shared with IARs. Any fee given to NEXT may not increase the total cost to the client for the services of the Third Party Money Manager.
- Fees paid by the client to Third Party Money Managers are established and payable according to the Third Party Money Manager’s fee schedule. Third Party Money Manager accounts can only be

closed by following the process described in the Third Party Money Manager's disclosure documentation. Refunds of pre-paid fees may be obtained by the client as noted in the Third Party Money Manager's client agreement.

- NEXT and the IAR may receive compensation for the sale of securities or other investment products provided or sold to the client following the referral to the Third Party Money Managers, including but not limited to: investment company securities, variable products, or other assets purchased within advisory accounts. Additionally, these products may have other internal expenses such as custodial fees, account maintenance fees and/or a portion of fund manager fees that the client will pay indirectly through the cost of the fund. This compensation may be in addition to any advisory fee and may result in increased costs to the client.
- This practice presents a perceived conflict of interest, as IARs may receive a trail (12b-1 fee) on certain investments. To combat these conflicts, NEXT has implemented policies that are described in Item 5 under each applicable advisory program and/or service.
- Clients have the option to purchase investments recommended by NEXT's IARs through other persons who are not affiliated with NEXT.

## **7. Global Management Account Program**

- Fees for the GMA consist of a: (1) Sponsor Fee; (2) Custody Fee; and (3) Advisor Fee. The Sponsor Fee is paid to Envestnet for account administration, sub-advisory services provided for the GMA, as well as for fees paid to sub-managers where applicable. The Custody Fee is paid to Pershing Adviser Solutions for brokerage and custodial services provided for the GMA. NEXT receives the Advisor Fee, which is determined by the NEXT Investment Adviser Representative based on various factors including, but not limited to, the amount of the assets under management, the nature and extent of account relationships between NEXT and its affiliates with the client, the type and complexity of services requested, and other factors that the IAR deems relevant.
- Details of all the fees charged in connection with each type of GMA (e.g., Multi-Manager Accounts, Mutual Fund Wrap accounts, or Separately Managed Accounts) are fully disclosed in the GMA documents. Similar services may be obtained through other programs for a lower cost.
- Fees are debited from the GMA on a calendar quarter basis in advance and pro-rated to the end of the quarter upon the opening of the account. GMA fees charged are calculated as an annual percentage of assets based on the market value of the account at the end of the previous quarter. The level of the fee will vary with the amount of assets under management and the particular investment styles and investment options chosen or recommended.
- NEXT and the IAR may receive compensation for the sale of securities or other investment products provided or sold to the client following the opening of the GMA, including but not limited to: investment company securities, variable products, or other assets purchased within advisory accounts. Additionally, these products may have other internal expenses such as custodial fees, account maintenance fees and/or a portion of fund manager fees that the client will pay indirectly through the cost of the fund. This compensation may be in addition to any advisory fee and may result in increased costs to the client.
- This practice presents a perceived conflict of interest, as IARs may receive a trail (12b-1 fee) on certain investments. To combat these conflicts, NEXT has implemented policies that are described in Item 5 under each applicable advisory program and/or service.
- Clients have the option to purchase investments recommended by NEXT's IARs through other brokers or agents that are not affiliated with NEXT.

## **General Information Concerning Fees**

- Fees could vary between IARs, and clients may pay more or less than those fees charged by another IAR for similar services or with more or less experience.

- Clients should be aware that account fees are charged on all mutual fund shares placed in advisory accounts and not excluded from billing. This includes shares deposited into the investment advisory account on which clients may have previously paid a sales charge. Also, to the extent that cash used for investments in an account comes from redemptions of clients' other non-managed mutual fund investments, clients should consider the cost, if any, of the sales charge(s) previously paid and redemption fees that would be incurred. Such redemption fees would be in addition to the account fee on those assets. Clients should be aware that such redemptions and exchanges between mutual funds within investment advisory accounts might have tax consequences, which should be discussed with their independent tax adviser.

## **Item 6 – Performance-Based Fees and Side-by-Side Management**

Advisory fees that are based upon a share of capital gains or capital appreciation of assets of an advisory client are commonly referred to as “performance-based fees.”

NEXT does not permit IARs to accept performance-based fees.

## **Item 7 – Types of Clients**

NEXT, through its IARs, offers investment advisory services to retail, entity and institutional clients.

Prior to opening an investment advisory account or engaging an IAR for any service through NEXT, clients must complete a NEXT Account Information Form, and any additional account documentation, contracts and/or agreements.

NAA and NAA II accounts require a minimum investment of \$20,000. This may be waived at the discretion of the IAR and/or NEXT.

No minimum investment is required for educational workshops/seminars, Consulting Services and Sub-Account Management services.

Clients wishing to participate in Third Party Money Manager or the GMA programs are advised to review the account opening documentation, as the minimum investment amounts vary for each program.

All types of advisory programs offered through NEXT may require that clients maintain these minimum investment amounts after the account opening in order to continue receiving the services chosen by the client.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

### **Methods of Analysis**

Each IAR affiliated with NEXT selects from a variety of sources from which they obtain information and data concerning securities, which they use to formulate their individual investment strategies. The main information sources include but are not limited to:

- Financial newspapers and magazines;
- Inspections of corporate activities;
- Research materials prepared by others;
- Timing services;

- Annual reports, prospectuses, filings with the SEC; and/or
- Company press releases.

The IARs may use charting, fundamental and/or technical analysis methods to formulate the investment advice that they give to their clients. Clients are advised to become familiar with the sources of information used by their IAR and to ask any questions that they may have regarding those information sources.

### **Investment Strategies**

Investment strategies used by IARs affiliated with NEXT may include, but are not limited to:

- Long term purchases;
- Short term purchases;
- Trading;
- Short sales;
- Margin transactions; and
- Options.

Prior to investing clients should ensure that they understand and agree with the investment strategy used by their IAR.

### **Risk of Loss**

Investing in securities involves risk of loss of principal that clients should be prepared to bear. All securities are subject to some level of risk which could cause the value of the client's securities to decrease in value, and in some cases, could result in a loss of the client's entire investment. The following are some types of risk that could affect the value of a client's portfolio:

- Market risk: The risk that changes in the overall market will have an adverse effect on individual securities, regardless of the issuer's circumstances.
- Business risk: Whether because of management or unfortunate circumstances, some businesses will inevitably fail. This is especially true during economic recessions. For example, a company stock may become worthless in the event of a bankruptcy, which would result in a loss of capital to the shareholders.
- Interest rate risk: If the Federal Reserve pushes interest rates higher, the market prices of bonds may be affected. When interest rates rise, the market price of bonds falls.
- Inflation risk: Uncontrolled inflation reduces the buying power of a dollar, and may cause uncertainty among individual investors, possibly resulting in corporations backing away from projects which could further reduce the value of corporate equities.
- Regulatory risk: Legislative, Regulatory and/or judicial changes that impact businesses can drastically change entire industries.
- Liquidity risk: Certain investments lack liquidity or the ability to access their principal quickly, without incurring substantial penalties, or the inability to sell the investment until sometime in the future.
- Opportunity risk: Clients or IARs may choose a conservative product to invest in, which could cause the client to miss out on market upswings which may have increased the value of securities with higher risk. The opposite is also true; market downturns could cause the client to lose a significant amount of principal invested in higher risk securities, when their funds could have been invested in lower risk options.
- Reinvestment risk: Clients may be unable to make additional purchases of a security already in their portfolio at the same rate at which the original purchase was made.

- Currency or exchange rate risk: Foreign securities face the uncertainty that the value of either the foreign currency or the domestic currency will increase or decrease; either of which may cause the value of the client's portfolio to fluctuate.
- Transactional cost risk: The client may incur significant transactional charges in an actively traded account. Frequent trading can decrease the value of a client's account due to increased brokerage and transaction costs. In addition, the frequent trading may cause taxable events to occur, which could increase the client's tax burden.
- Short sale risk: Positions have unlimited capability to increase in value, which in turn increases the client's risk, as they would be required to purchase the securities at a high rate in order to cover the short sale.
- Margin risk: Margin values could significantly increase if the position goes against the client.
- Options risk: Holding options for long-term periods could weaken and/or reduce the value of the underlying stock, or create the possibility of a worthless position.

Clients should understand and be willing to accept these and other types of risks before choosing to invest in securities or receive investment advisory services.

## **Item 9 – Disciplinary Information**

While NEXT is committed to high principles of ethical trade and promotes a culture of compliance, NEXT is required to disclose all material facts regarding any legal or disciplinary events that may be material to a client's evaluation of NEXT. Below is a list of those material events:

- On August 24, 2007, the U.S. Securities and Exchange Commission ("SEC") alleged that NEXT willfully violated federal laws concerning the disclosure of non-public customer information by giving customer information to non-affiliated third parties without allowing customers to opt-out of such disclosure.
  - On July 21, 2008, NEXT paid a \$125,000.00 fine and was ordered by the SEC to cease the practices that caused the violations to occur.
  - NEXT formulated policies and procedures to prevent future violations and develop procedures allowing customers to opt-out of information sharing.
- On May 12, 2008, FINRA alleged that NEXT in its capacity as a broker/dealer violated one of FINRA's by-laws by failing to report statistical and summary information to FINRA in a timely manner.
  - Without admitting or denying the findings, NEXT paid a \$10,000 fine.
  - NEXT formulated policies and procedures and conducts annual testing to review timely filings of reports required by FINRA.
- On May 15, 2008, FINRA alleged that NEXT in its capacity as a broker/dealer had failed to create a reasonable system and written procedures for supervising Office of Supervisory Jurisdiction Branch Managers.
  - On June 22, 2009, NEXT was assessed a fine of \$1,000,000.00 (to be paid to FINRA in installments) and restitution of \$5,638.86 to some customers. NEXT was also censured and required to adopt and implement systems and procedures including written supervisory procedures reasonably designed to achieve compliance with applicable federal securities laws and FINRA rules.
  - NEXT has complied with the order and has developed extensive policies and procedures.
- On August 18, 2008, the State of Kentucky cited NEXT in its capacity as a broker/dealer for failure to adequately supervise or perform an adequate internal examination of an office located in Kentucky.
  - On September 5, 2008, NEXT paid a \$1,000.00 fine to Kentucky.

- NEXT has complied with the order and has developed extensive policies and procedures.
- On November 10, 2010, FINRA alleged that NEXT in its capacity as a broker/dealer had not developed adequate measures to prevent violations of NEXT's trading, anti-money laundering, branch office examination, and surveillance policies.
  - Without admitting or denying the findings, NEXT consented to the sanctions and entry of findings. NEXT was fined \$400,000.00, ordered to pay \$103,179.84 to customers in restitution, and censured by FINRA.
  - NEXT's policies and processes have undergone significant revision in order to prevent future violations.
- On November 22, 2011, FINRA alleged that NEXT in its capacity as a broker/dealer failed to have reasonable grounds for approving the sale and allowing the continued sale of private offerings.
  - Without admitting or denying the findings, NEXT consented to the sanctions and entry of findings. NEXT was fined \$50,000.00, ordered to pay \$2,000,000.00 to customers in restitution, and censured by FINRA.
  - NEXT's policies and processes have undergone significant revision in order to prevent future violations.

## **Item 10 – Other Financial Industry Activities and Affiliations**

NEXT is registered as a broker/dealer and as an investment adviser with the U.S. Securities and Exchange Commission ("SEC"). NEXT is a member of the Financial Industry Regulatory Authority ("FINRA"), the Municipal Securities Rulemaking Board ("MSRB"), the Securities Investor Protection Corporation ("SIPC") and the National Futures Association ("NFA"). NEXT is also a licensure of the Texas Department of Insurance and also provides insurance services and products through its subsidiary, NEXT Financial Insurance Agency of Texas.

Below is information that all clients should be aware of concerning areas of potential conflicts of interest:

### **Broker/Dealers**

As stated under Item 4, NEXT is dually registered as both a broker/dealer, and as a registered investment adviser. Customers may purchase securities which result in the payment of commissions through NEXT in its capacity as a broker/dealer, while Clients receive continuous asset management services, and IARs receive a fee for assets under management through NEXT in its capacity as a registered investment adviser. This may create a perceived conflict of interest, and Clients are advised to clarify the capacity through which individual products or services are offered, and the type of payment that will be received.

Clients who receive Consulting Services from NEXT IARs may purchase securities or insurance products offered through NEXT. IARs may receive commissions, markups or markdowns as Registered Persons or insurance agents in connection with such transactions. Additionally, the OSJ Managers ("supervisors") who are responsible for the immediate supervision of Registered Persons may receive a percentage of those commissions as an override to compensate them for their supervisory services. This may be perceived as a conflict of interest. However, NEXT's IARs, Registered Persons and supervisors maintain their independence because they have always been committed to their duties to each customer and regulatory obligations. The payments of either an override or commission is not the determining factor when making a recommendation. Clients are under no obligation to purchase products or services recommended by the IAR or through the IAR or otherwise through NEXT or its affiliates. Clients are free to implement recommendations through any broker/dealer. If the client requests that the IAR recommend a broker/dealer, the IAR will recommend NEXT; however, the client is under no obligation to effect transactions through NEXT.

NEXT Financial Holdings, Inc. is the parent company of NEXT. Some IARs may be shareholders of NEXT Financial Holdings, Inc. A portion of the commissions and fees generated by IARs is directly related to revenue, which may be directed to NEXT Financial Holdings, Inc. to pay for expenses or to increase the value of NEXT Financial Holdings, Inc. shares.

Pershing, LLC (“Pershing”) executes trades, settles securities transactions and custodies client assets in general securities accounts, NAAs, and NAA IIs. The commissions and/or transaction fees charged by NEXT and Pershing may be higher or lower than those charged by other broker/dealer/custodians. Further, the fees charged by NEXT and Pershing, or any other designated broker/dealer/custodian, may be exclusive or, and in addition to, NEXT investment advisory fees paid to IARs.

### **Investment Companies**

One or more of the persons assisting in making investment decisions and transactions in the underlying investments in the Neiman Large Cap Value Fund and Neiman Balanced Allocation Fund, are Registered Persons and IARs of NEXT and are IARs of Independent Solutions Wealth Management, Inc. These persons are minority owners of the Neiman Funds.

Similarly, one or more of the persons making investment decisions and transactions in the underlying investments in the Camelot Premium Return Fund are Registered Persons and IARs of NEXT, and are IARs of Camelot Portfolios, LLC. These persons formed the Camelot Premium Return Fund.

Clients should be aware that there may be a perceived conflict of interest, and should weigh this information when purchasing shares of Neiman Large Cap Value Fund and/or Neiman Balanced Allocation Fund, as these persons may receive compensation from NEXT, as well as from the fund, and may have a vested interest in advising Clients to invest in these funds. The Camelot Premium Return Fund can no longer be offered through NEXT, however some clients may have existing holdings that include the mutual fund, and should be aware of the same type of conflict of interest.

### **Independent Registered Investment Advisers**

In addition to or in lieu of their registration as IARs of NEXT, certain Registered Persons have chosen to set up and register their own investment adviser entities. A NEXT Registered Person may establish a separate Registered Investment Adviser which is referred to as an Independent Registered Investment Adviser, and a Registered Person who affiliates with such an Independent Registered Investment Adviser is referred to as an Independent IAR. These Independent IARs are dually licensed in states that permit dual licensing and/or registration. An independent IAR may have three different but concurrent roles:

1. As a Registered Person with NEXT who may receive commissions for recommending securities;
2. As an IAR of NEXT who may receive a fee for rendering advisory services; and
3. As an Independent IAR of an Independent Registered Investment Advisor who may offer services outside of NEXT.

However, the clients are under no obligation to purchase products recommended by their Independent IAR. **These Independent Registered Investment Advisers are not affiliated with NEXT. Clients should be clear which entity the services are being offered through, and that the appropriate Form ADV Part 2A and Brochure Supplement(s) have been obtained.** It is important to note that the information of clients using the services of these Independent Registered Investment Advisers will be shared with NEXT for the purpose of surveilling transactions in the clients’ account(s).

While a number of Independent IARs are affiliated with a variety of Independent Registered Investment Advisers, the following Independent Registered Investment Advisers are owned and operated by persons



who are Registered Persons of NEXT Financial Group, Inc. in its capacity as a broker/dealer, and who are dually registered with NEXT's Registered Investment Adviser as well:

- Independent Solutions Wealth Management;
- LVZ Advisors, Inc.; and
- Camelot Portfolios, LLC.

They are referenced individually in this Brochure because some services that they provide may be offered to clients by some of NEXT's IARs either as mutual fund sub-managers or as Third Party Money Managers. These companies are not affiliated with NEXT.

NEXT is affiliated with WE2, Inc. ("WE2"). WE2 wholly owns Visionary Asset Management, Inc. ("Visionary") and AlphaSource Investment Counsel, Inc. ("AlphaSource"), two SEC Registered Investment Advisers and portfolio managers for two wrap fee programs, the Visionary Asset Management Program and the AlphaSource Managed Wrap Fee Program, respectively. WE2 is a subsidiary of NEXT Financial Holdings, Inc., the parent company of NEXT. Investment Adviser Representatives may refer clients to these wrap fee programs and will receive compensation for such referrals and/or for other services provided in conjunction with the programs. The fees charged by the programs are separate and apart from the advisory services charged by NEXT and clients are advised that IARs may have an incentive to refer clients to the programs given the affiliation and solicitation arrangement. A portion of fees paid by clients may be paid to the parent company and may benefit those IARs who are shareholders. Client should refer to the Brochures for Visionary and AlphaSource for additional information on the programs. Other Third Party Money Managers may offer wrap fee programs as well. The client should always review the Brochure of the applicable Third Party Money Manager and be aware of the fee structure.

As stated under Item 5, IARs receive a solicitors' fee for referring clients to the services of Third Party Money Manager. Because the referral fee may differ depending upon the individual agreement with the Third Party Money Manager, IARs may have an incentive to recommend a particular Third Party Money Manager over another with which NEXT has less favorable compensation arrangements, investment managers with which NEXT has no compensation arrangement, or alternative advisory programs including those offered through other Independent Registered Investment Advisers.

#### **Accountant or Accounting Firm**

Some IARs may provide tax and/or accounting services through an accounting firm. IARs providing these types of services do so outside of their affiliation with NEXT, and the services are not offered through NEXT or endorsed by NEXT.

#### **Lawyer or Law Firm**

Some IARs may provide legal services through a law firm. IARs providing these types of services do so outside of their affiliation with NEXT, and the services are not offered through NEXT or endorsed by NEXT.

#### **Insurance Companies**

NEXT is affiliated with NEXT Financial Insurance Services Company ("NFISCO") a licensed insurance agency. NFISCO is a subsidiary of NEXT Financial Holdings, Inc., the parent company of NEXT. IARs, in their capacity as insurance agents with NFISCO or as independent insurance agents, may effect transactions in insurance products for clients and earn commissions for these activities. A portion of commissions paid by clients may be distributed to the parent company, and may benefit those IARs who are shareholders of NEXT Financial Holdings, Inc.

Clients are hereby advised that the fees paid to NEXT for advisory services are separate and distinct from the commissions earned by NFISCO and/or its insurance agents for placing the client in insurance products. Clients to whom NEXT offers advisory services are informed that they are under no obligation to use NFISCO and/or its insurance agents for insurance services and may use the insurance firm and agent of their choosing.

### **Board of Directors**

The members of the Board of Directors for NEXT Financial Holdings, Inc. serve as Board members for several of the affiliates of NEXT, as well as for NEXT itself. There may be a perceived conflict of interest however clients should be aware that the Board of Directors does not make decisions for NEXT Financial Group, Inc. without following the process set forth in the company's by-laws. The Board Members are Registered Persons, IARs and stock holders of NEXT Financial Holdings, Inc.

The Board Members of NEXT Financial Holdings, Inc. are:

- Gordon D'Angelo;
- Norman Grant, Jr.;
- David Holtz;
- Cary Cowan;
- Arthur Farr; and
- Jeffrey Saline

The members of the Board of Directors receive compensation for their service and tasks performed as members of the Board of Directors. This compensation is paid by NEXT Financial Holdings, Inc., and is not dependent upon the amount of assets under their management, or upon their production as Registered Persons of the broker/dealer. Any compensation that they receive in their capacity as Registered Persons of the broker/dealer, or as IARs of the registered investment adviser is payment for services rendered to Clients.

## **Item 11—Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading**

### **Code of Ethics**

NEXT has adopted a Code of Ethics ("Code"), the full text of which is available to clients and prospective clients upon request. NEXT has several goals in adopting this Code. First, NEXT desires to comply with all applicable laws and regulations governing its practice. The management of NEXT has determined to set forth guidelines for professional standards, under which all associated persons of NEXT are to conduct themselves. NEXT has set high standards, the intention of which is to protect client interests at all times and to demonstrate its commitment to its fiduciary duties of honesty, good faith and fair dealing with clients.

### **Participation or Interest in Client Transactions**

Independent IARs affiliated with Independent Registered Investment Advisers offer services outside of NEXT, may also receive commissions for underlying investments whether sold through NEXT or through another broker/dealer. As noted under Item 10 above, some Independent Registered Investment Advisers have a material financial interest in sales of the mutual funds for which they serve in a sub-advisory capacity. NEXT has implemented supervisory procedures to review transactions and note exceptions that may require further inquiry.

Some IARs of NEXT may invest in the same securities that they sell/recommend to clients. They may also make their purchases for their own accounts at or about the same time as the purchases/sales are

made in client accounts. This presents a potential conflict of interest, because IARs may be tempted to place their trades before their clients. IARs are required to act in the best interests of their clients at all times. NEXT's process for addressing these conflicts are addressed under the "Personal Trading" section below.

### **Personal Trading**

IARs associated with the Firm may buy, sell, or recommend investment products identical to those purchased, sold or recommended to clients for their personal account(s). It is the express policy of NEXT that clients will receive the best execution price for the same side of the transaction on the same trading day. This investment policy has been established recognizing that some securities being considered for purchase and/or sale on behalf of NEXT's clients trade in sufficiently broad markets to permit transactions by clients to be completed without an appreciable impact on the markets of the securities. Under certain circumstances, exceptions may be made to the policies stated above. Records of these trades, including the reasons for the exceptions, will be maintained with NEXT's records in the manner set forth above. NEXT's policy may not apply to certain types of securities, such as obligations of the U.S. Government, and shares in open-end mutual funds. Open-end mutual funds are purchased or redeemed at a fixed net asset value price per share specific to the date of purchase or redemption. As such, transactions in mutual funds by Advisory Representatives are not likely to have an impact on the prices of the fund shares in which clients invest.

## **Item 12—Brokerage Practices**

### **Selection of Broker/Dealers**

NEXT believes that NEXT and Pershing, LLC provide best execution to its clients. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker/dealers' services.

### **Research and Other Soft Dollar Benefits**

Some Registered Investment Advisers receive products or services, other than execution of client transactions, from broker/dealers or third parties in connection with using their services. These benefits may include but are not limited to: marketing assistance, educational assistance, statements, downloads of information, research tools, etc. These are referred to as "soft dollar benefits", and are considered a benefit because the firm does not have to pay separate fees to obtain the services. These services may be used by IARs on behalf of their clients.

NEXT does not have any soft dollar arrangements, and receives no benefits or research from any broker/dealer.

### **Brokerage for Client Referrals**

In selecting or recommending broker/dealers, NEXT does not consider whether NEXT or its Registered Persons receive client referrals from a broker/dealer or third party. NEXT's IARs do not receive client referrals from a broker/dealer or third party.

### **Directed Brokerage Accounts**

Clients should be aware that not all firms require clients to custody their assets at a specified custodian, and may permit the client to select the broker/dealer of their choice (referred to as "directing brokerage accounts").

NEXT does not permit clients to direct brokerage accounts. As a result, IARs will recommend that a client in need of brokerage and custodial services utilize Pershing, LLC. Transactions are generally

executed through Pershing, subject to NEXT's duty to obtain "best execution," i.e., a price that is as favorable to clients as possible under the prevailing market conditions. While NEXT makes every attempt to obtain the best execution possible, there is no assurance that it will be obtained. Clients should consider whether NEXT's programs result in costs or other disadvantages to the client as a result of possibly less favorable trade executions.

### **Aggregation**

NEXT's IARs may aggregate orders in a block trade or trades when securities are purchased or sold through the same broker/dealer for multiple advisory accounts. The IAR must reasonably believe that the block order is consistent with NEXT's duty to seek best execution and may benefit each client participating in the aggregated order. The average price per share of each block trade is allocated to each account that participated in the block trade. Accounts that participate in the same block trade are charged transaction costs, if applicable, in accordance with their advisory contracts.

If a block order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day must be allocated in a manner that is consistent with the initial pre-allocation or other written statement. This must be done in a way that does not consistently advantage or disadvantage particular client accounts. For example, partial fills generally are filled pro rata among participating accounts.

Not all IARs aggregate orders. Clients are encouraged to ask their IAR about aggregate orders.

## **Item 13—Review of Accounts**

Each IAR will monitor client accounts and will conduct a review of accounts periodically. Factors that may stimulate additional reviews include, but are not limited to, significant market corrections, large deposits or withdrawals from an account, substantial changes in the value of a client's portfolio and a change in the client's investment objectives.

In addition to the account reviews conducted by IARs, NEXT utilizes the following systems and procedures to supervise client accounts:

- NAA and NAA II accounts are supervised through an electronic transactional review system for supervisory review.
- Other investment advisory products and services are reviewed through a number of internal reports run by NEXT.
- On an annual basis, NEXT audits all Offices of Supervisory Jurisdiction. During this Branch Office Examination, a sampling of accounts and/or transactions are reviewed by the auditor.

Any discrepancies identified may trigger additional reviews of client accounts, during which NEXT may request that IARs supply information concerning their clients' accounts and/or portfolios.

As a reminder, on at least a quarterly basis, clients receive account statements from the qualified custodian at which their account is held. Clients are strongly advised to carefully review all statements upon receipt.

## **Item 14—Client Referrals and Other Compensation**

### **Revenue Sharing**

NEXT has entered into arrangements called “Revenue Sharing Arrangements” with some product sponsors (referred to as “Premier Partners”). These Premier Partners provide compensation and in return, they receive increased marketing exposure to the sales force. To see a list of product sponsors who are considered Premier Partners, please visit our website at [www.nextfinancial.com](http://www.nextfinancial.com).

NEXT does not pay nor does it allow its IARs to receive any monetary compensation from Premier Partners in the form of bonuses or incentives either as an inducement to sell or as a reward for having sold a Premier Partner’s product. NEXT receives the revenue directly from the Premier Partners; the revenue is not paid to IARs.

NEXT uses the additional revenue from its Premier Partners to support certain marketing efforts. For example, the monies are used for NEXT’s National Educational Conference. The conference is an opportunity to communicate new product ideas to NEXT Registered Persons and IARs, train them and their assistants, and keep them abreast of regulatory requirements. The revenue is also used to pay for annual awards for the NEXT Registered Persons who generate the most sales overall and to pay for NEXT’s general marketing expenses. A NEXT Registered Person may receive an award, in the form of a trophy, medal, or plaque from NEXT as recognition for their total sales. As such, top producing NEXT Registered Persons may receive an award based on total sales with NEXT, which may or may not include Premier Partner products.

If a client has additional questions about NEXT’s Premier Partners and the revenue they contribute, the client should contact their IAR.

### **Solicitor’s Fees**

NEXT does not directly or indirectly compensate persons who are not affiliated with NEXT for client referrals.

### **Professional Edge Program**

The Professional Edge Program offers certain NEXT Investment Adviser Representatives, who are members of the Program, but who do not provide investment advisory services to clients themselves (they are referred to by NEXT as “Referral Representatives”), the capability to refer their clients to other Investment Adviser Representatives of NEXT. The Professional Edge Program members receive a portion of advisory fees charged by the Investment Adviser Representative managing the client’s account. The fees assessed to the client who has been referred to another IAR as a result of their participation in the Professional Edge Program will be no more or less than fees charged by IARs who do not use the Program.

## **Item 15—Custody**

Because many clients authorize NEXT to debit fees for investment advisory services directly from their accounts, NEXT is deemed to have “custody” of client funds and/or securities. Because client accounts are actually custodied through Pershing, LLC, the client will receive account statements from Pershing, and not directly from NEXT. Clients are strongly urged to review their Pershing statement, and to compare them to any documentation and/or information supplied by their IAR.

## **Item 16—Investment Discretion**

When opening either an NAA or NAA II account, clients of NEXT may choose one of the following options:

- Full discretion: The IAR has full judgment over the selection and amount of securities to be purchased or sold for their account, or the amount of securities to be bought or sold, without obtaining the client's prior consent or approval. However, the IAR's investment authority may be subject to specified investment objectives, limited to mutual funds or guidelines and/or conditions imposed by the client. For example, a client may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio and/or restrictions or prohibitions of transactions in the securities of a specific industry.
- Mutual fund only discretion: The IAR has full judgment over the selection and amount of mutual funds to be purchased or sold for their account, or the amount of securities to be bought or sold, without obtaining the client's prior consent or approval.
- No discretion: The IAR must obtain the client's approval prior to placing trades in the client's account.

All types of discretion are limited and do not extend to the withdrawal or transfer of funds. Discretion is granted in writing by the client and is listed on the NAA or NAA II Agreement at the time of execution of the document.

## **Item 17—Voting Client Securities**

NEXT or its IARs will 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 the client's assets may be invested. Generally, all proxy materials will be sent directly to the client. All proxy related materials received directly by NEXT or its IARs will be forwarded to the client for direct action and the client understands and agrees that the client retains the right to vote all proxies which are solicited for securities held in the investment advisory account.

## **Item 18—Financial Information**

There are no financial conditions that will reasonably impair NEXT's ability to meet contractual commitments to its clients. NEXT has never been the subject of a bankruptcy proceeding.