

# **NEXT FINANCIAL GROUP, INC.**

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Wrap Fee Program Brochure

**January 31, 2012**

This Wrap Fee Program 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 of an Investment Adviser does not imply any level of skill or training. The oral and written communications of a registered investment adviser provide you with information about which you determine to hire or retain a registered investment adviser.

Additional information about NEXT Financial Group, Inc. also 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's 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 last update:

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 9—The members of NEXT's Board of Directors are individually identified.

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## Item 4 – Services, Fees and Compensation

NEXT Financial Group, Inc. was formed in 1999 as a corporation organized under the laws of the state of Virginia. NEXT Financial Group, Inc. 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 Financial Group, Inc. NEXT Financial Group, Inc. has affiliates, all of which are 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 Wrap Fee Program 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.

### **Services**

The NEXT Advisor’s Account II (“NAA II”) is a wrap program designed to provide investment advisory services to the client by a NEXT Investment Advisory Representative 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.

A wrap pricing structure allows the client to pay an inclusive fee for account management, brokerage, clearance, custody and administrative 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 total 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 little trading activity.

Through the NAA II program, NEXT’s IARs provide discretionary and non-discretionary portfolio management services where the investment advice provided is tailored to meet the needs and investment objectives of the client. At the inception of the relationship, the IAR will gather relevant information

from the client such as the client's risk tolerance, investment objectives and other relevant information and will recommend an initial portfolio to the client.

Pursuant to a grant of discretionary authority, which may be full discretion or discretion limited to transactions in mutual funds, subject to any written guidelines or restrictions the client may set, the IAR executes transactions without further approval from the client. Once the portfolio is constructed, the IAR monitors the account on a continuous basis and re-balances the portfolio as changes in market conditions and client circumstances may require. For non-discretionary accounts, the IAR will contact the client prior to executing any transactions.

### **Fees**

- 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 Investment Advisory Representative 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.
- 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.

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
<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

#### **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

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.

#### **General Wrap Fee Program Disclosures**

- Wrap Fee Programs may not be suitable for all investment needs, and any decision to participate in a Wrap Fee Program should be based on the client's individual financial circumstances and investment goals.
- The benefits under a Wrap Fee Program depend, in part, upon the size of a client's account and the number of transactions likely to be generated in the account. For example, wrap fee accounts may not be suitable for accounts with little activity.
- Participating in a Wrap Fee Program may cost more or less than the cost of purchasing investment advice, brokerage and other services separately.
- NEXT and the IAR receive compensation as a result of the client's participation in a Wrap Fee Program.
- The IAR may have a financial incentive to recommend Wrap Fee Programs over other programs and services, as the amount of compensation may be more than what the IAR would receive if the client participated in other programs or paid separately for investment advice, brokerage, and other services.

### **Item 5 – Account Requirements and Types of Clients**

#### **Account Requirements**

Generally, the client must invest \$20,000.00 minimum to open an NAA II account, and maintain the minimum amount in order to retain the account, however this requirement can be waived at the discretion of the IAR and/or NEXT.

#### **Types of Clients**

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

### **Item 6 – Portfolio Manager Selection and Evaluation**

NEXT does not have an investment committee. Instead, each IAR develops their own portfolio strategies to offer to their clients. There are no Portfolio Managers employed by NEXT to manage NAA IIs. All IARs managing client accounts through the NAA II program are deemed Portfolio Managers. This may present conflicts of interest as noted under the "Fees" section of Item 4 above.

#### **Program Description**

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.

### **Performance-Based Fees**

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.

### **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 Investment Advisory Representatives 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 Investment Advisory Representatives 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.

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

Because the IAR acts as the client's portfolio manager through a NAA II, at the inception of the relationship, the IAR will gather relevant information from the client such as the client's risk tolerance, investment objectives and other information and will maintain updated information as it is supplied by the client. It is important that clients notify their IAR quickly when changes to their financial situation, objectives, or other personal information occur, so that the IAR may make adjustments to their management of the client's portfolio if necessary.

## **Item 8 – Client Contact With Portfolio Managers**

Because the IAR acts as the client's portfolio manager through a NAA II, there are no restrictions placed upon clients' ability to contact and consult with the manager of their NAA II.

## **Item 9 – Additional Information**

### **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.

#### **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 payment 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.

### **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**

Investment Advisory Representatives 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.

### **Review of Accounts**

Each Investment Advisory Representative 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 Investment Advisory Representatives, NEXT utilizes the following systems and procedures to supervise client accounts:

- 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 Investment Advisory Representatives 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.

### **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 Investment Advisory Representatives 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 Investment Advisory Representatives.

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 Investment Advisory Representatives, 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 Investment Advisory Representative.

#### **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 Investment Advisory Representative as a result of their participation in the Professional Edge Program will be no more or less than fees charged by Investment Advisory Representatives who do not use the Program.

#### **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.