

Item 1 – Cover Page

Duncan-Williams, Inc.

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This brochure provides information about the qualifications and business practices of Duncan-Williams, Inc. If you have any questions about the contents of this brochure, please contact us at (800) 827-0827. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Duncan-Williams, Inc. is also available on the Internet at www.adviserinfo.sec.gov. You can view information on this website by searching for Duncan-Williams, Inc.'s name or by using the firm's CRD number: 6950.

*Registration as an investment advisor does not imply a certain level of skill or training.

Item 2 – Material Changes

There have been no material changes since our last annual update was filed. We will ensure that you receive a summary of material changes, if any, to this and subsequent disclosure brochures within 120 days after our fiscal year ends. Our fiscal year ends on December 31 so you will receive the summary of material changes, if any, no later than April 30 each year. At that time we will also offer a copy of the most current disclosure brochure. We may also provide other ongoing disclosure information about material changes as necessary.

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Item 4 – Advisory Business

Ownership

Duncan-Williams, Inc. (“Duncan-Williams” or “Advisor” or “we”) is an investment advisor registered with the Securities and Exchange Commission since February 2008. We are a Tennessee corporation, and our principal owners (at least 25%) are Carolyn Williams-Bennett and Duncan F. Williams.

General Description of Primary Advisory Services

We offer personalized investment advisory services including financial planning and asset management services and referrals to third party money managers. The following are brief descriptions of our primary services. A detailed description is provided in **Item 5, Fees and Compensation**, so that clients and prospective clients (“clients” or “you”) can review the services and description of fees more thoroughly.

Financial Planning Services (Plans and Consultations)

Financial planning can be described as helping individuals determine and set their long-term financial goals, through investments, tax planning, asset allocation, risk management, retirement planning and other areas. The role of a financial planner is to find ways to help clients understand their overall financial situation and help them set financial objectives.

We offer advisory services in the form of financial plans and consultations. These services do not involve actively managing your accounts. Instead, comprehensive planning services focus on your overall financial situation. Modular planning services and consultations focus on specific areas of concern to you.

Asset Management Services

We offer asset management services providing you with continuous and ongoing supervision over your accounts. This means that we continuously monitor your account and make trades in that account when necessary so long as you give us discretion. We also serve as a sub-advisor for unaffiliated registered advisors using our U.S. Treasury Note Yield Enhancement Program.

Referrals to Third Party Money Managers

We offer advisory services by referring clients to outside, or unaffiliated, money managers that are registered or exempt from registration as investment advisors. Third-party money managers are responsible for continuously monitoring client accounts and making trades in client accounts when necessary.

Limits Advice to Certain Types of Investments

We generally offer investment advice to clients on the following types of investments:

- Exchange-listed securities
- Securities traded over-the-counter
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Variable life insurance
- Variable annuities

- Mutual fund shares
- United States government securities
- Option contracts on securities
- Interests in partnerships investing in real estate
- Interests in hedge funds

However, we reserve the right to offer advice on any investment product that may be suitable for each client's specific circumstances, needs, goals and objectives. Please also see **Item 5, Fees and Compensation**, for additional information about portfolio holdings in managed accounts.

Please refer to **Item 8, Methods of Analysis, Investment Strategies and Risk of Loss** for more information.

Tailor Advisor Services to Individual Needs of Clients

Our services are always provided based on your specific needs. You have the ability to impose restrictions on your accounts, including specific investment selections and sectors. However, we will not enter into an investment advisor relationship with a prospective client whose investment objectives may be considered incompatible with our investment philosophy or strategies or where the prospective client seeks to impose unduly restrictive investment guidelines.

Wrap-Fee Program versus Portfolio Management Program

We offer services through both traditional and wrap-fee management programs. In traditional management programs, advisory services are provided for a fee but transaction services are billed separately on a per-transaction basis. In wrap-fee programs, advisory services (including portfolio management or advice regarding selecting other investment advisors) and transaction services are provided for one fee. The Duncan-Williams Wrap Fee Program (described in **Item 5, Fees and Compensation**) is a wrap-fee program. Whenever a fee is charged to a client for services described in this Disclosure Brochure (whether wrap fee or non-wrap fee), we receive all or a portion of the fee charged.

For suitability purposes, each investment in each account is reviewed according to investment objectives, risk tolerance and overall net worth. Investments are recommended as part of a holistic wealth management approach to asset allocation for accounts within a wrap-fee program. The essential difference between transactional accounts and those under management in a wrap-fee program is the way in which transaction services are paid.

Client Assets Managed by Advisor

The amount of clients assets managed by Advisor totaled \$30,043,423 as of December 31, 2011, with \$3,733,781 managed on a discretionary basis, and \$26,309,642 managed on a non-discretionary basis.

Item 5 – Fees and Compensation

In addition to the information in **Item 4, Advisory Business**, this section provides additional details regarding our services along with descriptions of each service's fees and compensation arrangements.

Financial Planning Services

Financial Plans

We offer written financial plans that can be either modular or comprehensive. Financial plans take into consideration your objectives, risk tolerances, investment knowledge, net worth, income, age, projected retirement, unusual or material funding requirements, inheritance possibilities, pensions, Social Security, children/relative funding issues, estate issues and living expenses expressed in today's dollars requested for retirement. Our investment advisor representatives ("representatives") meet with you to gather information and documentation needed to perform an analysis and review of your situation as well as your objectives and goals. One or more meetings may be required in order to gather all needed information and determine the services best suited to help meet your needs.

We rely on the information provided by you. Therefore, it is very important that the information you provide is complete and accurate. We are not responsible for verifying the information supplied by you. Our services do not include legal or tax advice. You are also urged to work closely with your attorney, accountant or other professionals regarding your financial and personal situation.

After completing a review and analysis of the information and documents received, our representatives develop their analyses and recommendations and present either a comprehensive or modular (segmented) written financial plan, as requested. A comprehensive plan focuses on your overall financial situation and covers several of the areas previously noted, as needed by your specific situation. A modular (segmented) plan focuses only on one or more specific area(s) of concern, and you should be aware that other important issues may not be taken into consideration when our representatives develop their analyses and recommendations relative to actions and investment strategies designed to attain your goals and objectives.

Consultations

If you do not desire a written financial plan, you can contract with us for consultations concerning any topic(s) of interest or concern to you. This can include non-securities advice as well. Consultations can be provided on a one-time basis or on an ongoing basis, as needed by you. You determine the length of consultations needed.

Fees

Fees for financial planning services can be billed on either a fixed or an hourly basis, with the billing method made by the head of our Private Client Group. All fees are negotiable based upon the actual services provided and your specific personal and financial situation. The minimum fixed fee charged is \$250, and the maximum is \$10,000. We disclose the fixed fee charge to you before providing any services. Hourly fees are charged at the rate of up to \$250 per hour with a minimum of one hour charged, with no maximum fee. We provide you with an estimate of the hours needed to provide the requested service. If we later determine that the actual time will exceed the estimate given, we contact you for authorization prior to providing any additional services. Fees are due upon receipt of our detailed billing statement.

Commission and Fee Offset

If you choose to implement our recommendations and elect our representatives to implement transactions in their separate capacities as a registered representative and/or independent insurance agent, they may earn additional commissions. If the representatives earn commissions in this manner, they may waive and/or reduce the financial planning fees by the amount of commissions actually received.

In addition, if you choose to implement our recommendations through our other advisory services described in this Disclosure Brochure, we may waive and/or reduce the financial planning fees as a result of earning additional advisory fees. Any adjustment to the financial planning fee is at our discretion and is disclosed to you prior to implementing any transactions or contracting for additional services.

Termination

Financial planning services terminate upon presentation of the financial plan or completion of the consultation services. Either party may terminate services at any time by submitting written notice to all appropriate parties. Termination is effective immediately and there are no fees due and no penalty imposed. In addition, the entire financial planning fee due, in most circumstances, is waived if you are not satisfied with the financial plan prepared by us. However, in these cases, we retain intellectual property rights over the financial plan prepared and the plan must be returned to us.

Asset Management Services

Some of our clients elect to engage us to provide fee-based asset management services where we are solely responsible for making all investment recommendations and also for making changes to the managed account. If you elect to engage us for this service, we develop an individualized investment program for your account(s). We provide various investment strategies through our management services; a specific investment strategy and investment policy is crafted for you and focuses on your specific goals and objectives. When managing assets, we may also utilize model portfolios provided by institutional investment strategists and/or introduce you to investment managers who provide discretionary management of individual portfolios. Asset management services are separate from and in addition to the financial planning services previously discussed.

To provide these services, we need to obtain certain information from you to determine your financial situation and investment objectives. At least annually, you are reminded to notify us whether your financial situation or investment objectives have changed or if you want to impose and/or modify any reasonable restrictions on management of your accounts. At least annually, we contact you to determine whether your financial situation or investment objectives have changed, or if you want to impose and/or modify any reasonable restrictions on your managed accounts. We are always reasonably available to consult with you relative to the status of your accounts. You have the ability to impose reasonable restrictions on the management of your accounts, including the ability to instruct us not to purchase certain securities. Your beneficial interest in a security does not represent an undivided interest in all the securities held by the custodian, but rather represents a direct and beneficial interest in the securities which comprise the account. A separate account is maintained for you with the custodian and you retain right of ownership of the account (e.g., the right to withdraw securities or cash, exercise or delegate proxy voting and receive transaction confirmations).

It is important that you understand we manage investments for other clients and may give them advice or take actions for them or for our personal accounts that is different from the advice we provide to you or actions we take for you. We are not obligated to buy, sell or recommend to you any security or other investment that we may buy, sell or recommend for any other clients or for our own accounts.

Conflicts may arise in allocating investment opportunities among accounts that we manage. We strive to allocate investment opportunities believed appropriate for your account(s) and other accounts advised by us among equitably and consistent with the best interests of all accounts involved. However, there is no assurance that a particular investment opportunity that comes to our attention is allocated in any particular manner. If we obtain material, non-public information about a security or its issuer that we may not lawfully use or disclose, we have absolutely no obligation to disclose the information to your or any other client or use it for any client's benefit.

Duncan-Williams Wrap Fee Program

We have developed and sponsor the Duncan-Williams Wrap Fee Program (the "Program"). We manage these accounts on a discretionary or non-discretionary (client directed) basis. Please see **Item 16, Investment Discretion**, for additional information on discretionary and non-discretionary authority. We utilize platforms, models and/or other investment vehicles we deem suitable for you. As the primary investment advisor on the accounts, we are responsible for determining whether the account is a suitable investment vehicle you and whether the management options selected are suitable. We have the authority to enter orders, transfer funds, and transmit instructions. Pershing LLC ("Pershing") processes our orders and instructions provided it has received all necessary authorizations from you. Lockwood Advisors, Inc. ("Lockwood") provides us and, if applicable, you with proprietary workstations and technology to assist with order entry, account viewing and account tracking.

With respect to accounts utilizing the Lockwood workstations and technology, Pershing is responsible for delivering clearing and custody services and providing statements and confirms through a clearing and custody arrangement with us. All other Program transactions are processed by FOLIOfn, Inc. ("FOLIOfn"), a registered broker/dealer and member FINRA/SIPC. We are not affiliated with Lockwood, Pershing or FOLIOfn. Pershing, and/or FOLIOfn maintain custody of all Program accounts. Neither we nor our representatives act as custodian of your account or have direct access to your funds and/or securities. There is a \$50,000 minimum account value required to establish a Program account, although we may grant exceptions on a case by case basis at our sole discretion. Our clients are permitted to bundle household accounts to reach the minimum.

The maximum annual management fee for Program accounts is 2% and is negotiable based on both the nature and total asset dollar value of your account. The exact fee charged is disclosed in the fee schedule portion of the client agreement that must be signed by both you and us before any services are provided. Management fees are billed quarterly and calculated based on the Average Daily Balance (ADB) of your account assets under management for the previous billing period. The Program management fee covers both our services and sub-advisor advisory services as well as all trade execution fees charged by Pershing and/or FOLIOfn. Specifically, the fee covers all commissions, prime broker fees and any other transaction fees relating to executing securities transactions within your accounts. Lockwood receives a portion of the fees charged to you.

Lockwood Performance Link Service and Fees

If you have Program accounts and one or more retail brokerage accounts with us, you can elect to receive consolidated performance reporting in accordance with the fees listed below. Fees are billed to your retail brokerage account.

<u>Household Account Value</u>	<u>Fee*</u>
First \$500,000	.03%
Next \$500,000	.02%
Over \$1,000,000	.00%

*Lockwood charges a minimum of \$35 and a maximum of \$62.50 per quarter per account for Performance Link.

Program services can be terminated at any time by providing written notice to all applicable parties, and termination is effective upon receiving that notice. Services are terminated without penalty and you receive a pro-rated refund based on the amount of time remaining in the billing period from the effective date of termination. We cooperate fully with request to deliver funds and securities held in your Program account to another custodian. FOLIOfn and/or Pershing may charge an account transfer fee. Transactions in closed account are subject to brokerage rates of the specific broker used. Terminating

services does not affect the liabilities or obligations of the parties arising out of transactions initiated prior to termination.

This section is intended as a summary of Program. If you contracting for Program services, you receive the Program Form ADV Part 2A Appendix providing detailed information regarding the Program.

Sub-Advisor Services

We have developed the U.S. Treasury Note Yield Enhancement Program (the "Note Program") through which we develop and manage U.S. Treasury Note portfolios as a sub-advisor for unaffiliated registered investment advisors. We have discretionary authority to determine the securities purchased and sold in the Note Program portfolio(s) as well as the broker/dealer used to implement the transactions. We are not be responsible for determining suitability of clients investing in the Note Program portfolio(s) as we do not have a direct relationship with the client. The unaffiliated investment advisor utilizing the Note Program is solely responsible for determining client suitability.

We charge the other registered investment advisor an annual fee of up to .05% of the Average Daily Balance of assets under management, which consists of the total of assets managed in Note Program portfolios recommended by the unaffiliated investment advisor. Fees are billed in arrears at the end of each calendar quarter. All amounts due are paid to us within 30 business days following the end of each calendar quarter. Fees for partial quarters are billed on a prorated basis based on the number of days services are provided during that billing period.

Referrals to Third Party Money Managers

We act as a solicitor and refer clients to unaffiliated third party investment advisors offering asset management and other investment advisory services. We perform due diligence in selecting the third party money managers recommended. Third-party investment advisors recommended by us must be registered or exempt from registration in the state where you client reside. Each solicitation arrangement is performed pursuant to a written solicitation agreement and is in compliance with SEC Rule 206(4)-3 and applicable state securities rules and regulations.

Through this service, we assist you to identify your risk tolerance and investment objectives and then recommend money managers relative to those objectives and tolerances. You select a recommended third party investment advisor based on your needs and enter into an agreement directly with the selected advisor, who provides the asset management services. Our representatives are available to answer client questions regarding your account. Our representatives also act as the communication conduit between you and the third-party investment advisors.

Third-party investment advisors may take discretionary authority to determine the securities to be purchased and sold for you. We do not have any trading or discretionary authority and are not responsible for selecting investments or implementing trades in your accounts. We are responsible for determining the initial and on-going suitability. We continue to render investment advisory services relative to the ongoing monitoring and review of account performance, asset allocation and your investment objectives.

We reviewed the performance of numerous third-party investment advisor firms and have entered into a relationship with Lockwood Advisors, Inc. ("Lockwood"), an SEC registered investment advisor. We also offer a Lockwood Sponsored Program, which includes separately managed accounts, AdvisorFlex™ Portfolios, Lockwood Investment Strategies or Lockwood Asset Allocation Strategies programs along with Lockwood's Performance Link consolidated performance reporting, technology workstations and online capacities. The account minimum in the Lockwood Sponsored Program varies depending upon the money manager selected. The Lockwood Asset Allocation Portfolio and AdvisorFlex™ Portfolios require a minimum account size of \$50,000, while Lockwood Investment Strategies requires a minimum of \$250,000. A complete description of Lockwood's services, fee schedules and account minimums are

disclosed in its Disclosure Brochure that is provided to you at the time an agreement for services is executed and an account established.

When referring you to third party money managers, we are paid a portion of the fee charged and collected by the third party investment advisor in the form of solicitor fees or consulting fees. You do not directly pay us for this referral service except in the Lockwood Sponsored Program. Fees are negotiated between us and the other money managers. Although the various money managers may negotiate the fee charged for management services with you (which is disclosed in the agreement for services executed between you and the sponsor or money manager), our portion of your total fee charged is non-negotiable with you. You should be aware that although this fee does not appear to be a direct cost to you, the money manager takes this fee into consideration when determining the amount of fee they charge you. All fees are calculated and charged by the sponsor or money manager, and the sponsor or money manager is responsible for our portion of the fee to us.

In Lockwood accounts, Lockwood collects a bundled fee from you that covers program administration services provided by Lockwood, custody and execution of transactions by Pershing and the discretionary asset management services provided by the third party money managers. Our fee is collected by Lockwood from the account and is in addition to the Lockwood fee.

We may have a conflict of interest in only offering those third party managers that have agreed to pay a portion of their advisory fee to us. You are advised that there may be other third party managed programs that may be suitable to you and that may be more or less costly. No guarantees can be made your financial goals or objectives will be achieved. Further, no guarantees of performance can be offered. Investments involve risk, including the possible loss of principal.

Additional Compensation

You have sole discretion about whether or not to contract for our services. In addition, you have sole discretion about whether or not to implement any recommendations made by our representatives. If you do decide to implement recommendations, you are responsible for taking any actions or implementing any transactions required. You are free to select any broker/dealer and/or insurance agent to implement our recommendations.

You should be aware that we are also registered as a broker/dealer and we are member of FINRA/SIPC. Our representatives are also registered representatives with the broker/dealer and can receive commissions for selling securities when acting in this separate capacity. This is a potential conflict of interest. As a registered representative, they may sell mutual funds and receive 12(b)-1 fees in addition to commissions. The 12(b)-1 fees, named after a section of the *Investment Company Act of 1940*, are annual marketing or distribution fees and considered an operational or administrative expense. The fees are included as a part of the mutual fund's total expense ratio and paid from fund assets. Therefore, the fees come indirectly from your account. Every mutual fund prospectus includes a description of the fund's fees and expenses. Receiving 12(b)-1 fees represents an incentive for a registered representative to recommend funds with 12(b)-1 fees or with higher 12(b)-1 fees than funds with no fees or lower fees. This is also a potential conflict of interest. Our representatives will only recommend mutual funds to you if those funds are suitable for you and appropriate to help fulfill your objectives.

We are also a licensed insurance entity and our representatives may also be licensed as insurance agents and sell insurance products to any client. They can earn commissions when selling insurance products in this separate capacity. This is a potential conflict of interest, since any commissions earned could be in addition to advisory fees earned in their capacity as an investment advisor representative.

Please see **Item 10, Other Financial Activities and Affiliations**, and **Item 12, Brokerage Practices**, for additional discussion on these conflicts of interest.

From time to time, we may receive expense reimbursement for travel and/or marketing expenses from distributors of investment and/or insurance products. Travel expense reimbursements are typically a

result of attendance at due diligence and/or investment training events hosted by product sponsors. Marketing expense reimbursements are typically the result of informal expense sharing arrangements in which product sponsors may underwrite costs incurred for marketing such as advertising, publishing and seminar expenses. Although receipt of these travel and marketing expense reimbursements are not predicated upon specific sales quotas, the product sponsor reimbursements are typically made by those sponsors for whom sales have been made or it is anticipated sales will be made. We endeavor at all times to put your interests first as a part of our fiduciary duty. However, you should be aware that receiving additional compensation through nominal sales awards, expense reimbursements, etc. creates a conflict of interest that may impact our judgment when making advisory recommendations.

Comparable Services

We believe our fees for advisory services are reasonable with respect to the services provided and the fees charged by other investment advisors offering similar services. However, lower fees for comparable services may be available from other sources.

Item 6 – Performance-Based Fees and Side-By-Side Management

Performance-based fees are defined as fees based on a share of capital gains on or capital appreciation of the assets held in a client's account. We do not receive performance-based fees.

Item 7 – Types of Clients

We provide investment advice to the following types of clients:

- Individuals (including high-net worth individuals)
- Banks or thrift institutions
- Pension and profit sharing plans
- Trusts, estates, or charitable organizations
- Corporations or business entities other than those listed above

Minimum Investment Amounts Required

We charge a minimum \$250 fixed fee or a minimum one hour charge (\$250) for financial planning services.

There is a minimum \$50,000 required to establish managed Program accounts, although we may grant an exception from time to time on a case by case basis in our sole discretion. If you utilize the Lockwood Performance Link services, Lockwood charges a minimum of \$35 per quarter per account.

There is a minimum requirement of \$100,000 to establish a third party money manager account at Lockwood.

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

Methods of Analysis

We use fundamental, technical, cyclical and charting analysis when considering investment strategies and recommendations for clients.

Fundamental

Fundamental analysis is a method of evaluating a company or security by attempting to measure its intrinsic value. In other words, fundamental analysts try to determine its true value by looking at all aspects of the business, including both tangible factors (e.g., machinery, buildings, land, etc.) and intangible factors (e.g., patents, trademarks, "brand" names, etc.). Fundamental analysis also involves examining related economic factors (e.g., overall economy and industry conditions, etc.), financial factors (e.g., company debt, interest rates, management salaries and bonuses, etc.), qualitative factors (e.g., management expertise, industry cycles, labor relations, etc.), and quantitative factors (e.g., debt-to-equity and price-to-equity ratios).

The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis. Fundamental analysis is about using real data to evaluate a security's value. Although most analysts use fundamental analysis to value stocks, this method of valuation can be used for just about any type of security.

Technical

This method of evaluating securities analyzes statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity. Technical analysts believe that the historical performance of stocks and markets are indications of future performance.

Cyclical

Cyclical analysis looks at recurring periods of expansion and contraction that can impact a company's profitability and cash flow. Cyclical stocks tend to rise quickly when the economy turns up and fall quickly when the economy turns down (i.e., housing, automobiles, telecommunications, paper, etc.). Non-cyclical industries (i.e., food, insurance, drugs, health care, etc.) are not as directly impacted by economic changes.

Charting

Charting is a technical analysis that charts the patterns of stocks, bonds and commodities to help determine buy and sell recommendations for clients. It is a way of gathering and processing price and volume information in a security by applying mathematical equations and plotting the resulting data onto graphs in order to predict future price movements. A graphical historical record assists the analyst in spotting the effect of key events on a security's price, its performance over a period of time and whether it is trading near its high, near its low or in between. Chartists believe that recurring patterns of trading, commonly referred to as indicators, can help them forecast future price movements.

Investment Strategies

The investment strategies used when implementing investment advice include:

- Long term purchases (securities held at least a year)
- Short term purchases (securities sold within a year)
- Trading (securities sold within 30 days)
- Option writing (Including covered options, uncovered options or spreading strategies.) (Note: options are contracts giving the purchaser the right to buy or sell a security, such as stocks, at a fixed price within a specific period of time.)

We gather information from financial newspapers and magazines, inspection of corporate activities, research materials prepared by others, corporate rating services, annual reports, prospectus and other filings with the Securities and Exchange Commission and company press releases. For managed Program accounts, we may also use information, research, analysis, recommendations and asset allocation methodology of third party providers.

Risk of Loss

Investing in securities involves a risk of loss that you should be prepared to bear, including loss of your original principal. However, you should be aware that past performance of any security is not necessarily indicative of future results. Therefore, you should not assume that future performance of any specific investment or investment strategy will be profitable. We do not provide any representation or guarantee that your goals will be achieved. Further, depending on the different types of investments, there may be varying degrees of risk:

- **Market Risk.** Either the market as a whole, or the value of an individual company, goes down, resulting in a decrease in the value of client investments. This is referred to as systemic risk.
- **Equity (Stock) Market Risk.** Common stocks are susceptible to fluctuations and to volatile increases/decreases in value as their issuers' confidence in or perceptions of the market change. Investors holding common stock (or common stock equivalents) of any issuer are generally exposed to greater risk than if they hold preferred stock or debt obligations of the issuer.
- **Company Risk.** There is always a certain level of company or industry specific risk when investing in stock positions. This is referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that a company may perform poorly or that its value may be reduced based on factors specific to it or its industry (e.g., employee strike, unfavorable media attention).
- **Options Risk.** Options on securities may be subject to greater fluctuations in value than investing in the underlying securities. Purchasing and writing put or call options are highly specialized activities and involve greater than ordinary investment risk. Puts and calls are the right to sell or buy a specified amount of an underlying asset at a set price within a set time.
- **Fixed Income Risk.** Investing in bonds involves the risk that the issuer will default on the bond and be unable to make payments. In addition, individuals depending on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.
- **ETF and Mutual Fund Risk.** ETF and mutual fund investments bear additional expenses based on a pro-rata share of operating expenses, including potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities held by the ETF or mutual fund. Clients also incur brokerage costs when purchasing ETFs.
- **Management Risk.** Your investments also vary with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our strategies do not produce the expected returns, the value of your investments will decrease.

Item 9 – Disciplinary Information

We have no legal or disciplinary events that we believe are material to your evaluation of our business or the integrity of our management. However, the instructions to this Form require us to disclose that our broker-dealer received a fine of \$7,500 for late reporting of trade data on the Financial Industry Regulatory Authority, Inc.'s TRACE (a trade reporting system) in the first quarter of 2004. The late reporting was a result of an implementation of new TRACE reporting software previously unfamiliar to our broker-dealer.

Item 10 – Other Financial Industry Activities and Affiliations

We are not and do not have a related person that is:

- An investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, and offshore fund)
- A futures commission merchant, commodity pool operator or commodity trading advisor
- A banking or thrift institution
- Accountant or accounting firm
- A lawyer or law firm
- Real estate broker or agent
- A pension consultant
- A sponsor or syndicator of limited partnerships

Private Investment Company

We have a related person that is a private investment company or “hedge fund.” Ofelia Capital LLC, a Delaware limited liability company (“Ofelia”), is our wholly-owned investment adviser registered with the SEC. We are the sole owner of Ofelia, and some of our executive officers are also the executive officers of Ofelia. Therefore, Ofelia is an affiliated entity. It advises separately managed accounts and currently one fund exempt from registration under the *Investment Company Act of 1940*. Ofelia is primarily engaged in providing investment advice regarding high yield municipal securities. We do not believe that our relationship with Ofelia creates any conflicts of interest with our clients. On occasion, our representatives may refer you or other clients to Ofelia, and vice versa, although there are no referral fee arrangements between Ofelia and us.

Securities Services

Advisor is registered as a broker/dealer and is a member of FINRA/SIPC. In this capacity, we can offer securities products on a commission basis in addition to advisory services for a fee. Currently, the majority of our revenues are generated from the broker/dealer side of our business. Our advisory representatives are also registered representatives. You can engage them in this separate capacity to render securities brokerage services under a commission arrangement. They may have a financial incentive to recommend that a financial plan be implemented using a certain product or service. This is a conflict of interest because they could receive commissions in their capacity as a registered representative and could also receive advisory fees in their capacity as an investment advisor representative.

You are under no obligation to use the services of our representatives in this separate capacity, though when we effect any transactions for your account, we use Duncan-Williams, Inc.'s broker-dealer. The

commissions we charge as a broker/dealer may be higher or lower than those charged by other broker/dealers. If you select our representatives to implement securities transactions in their separate capacity as registered representatives, they must use us and you are required to enter into a new account agreement with us. In addition, our registered representatives may also receive additional ongoing 12b-1 fees for mutual fund purchases from the mutual fund company during the period that you maintain the mutual fund investment.

Pinnacle Brokerage Services, Inc. ("Pinnacle") is a registered broker-dealer and member FINRA/SIPC. We are the sole owners of Pinnacle and some of our executive officers are also the executive officers of Pinnacle. Therefore, Pinnacle is an affiliated entity. Several of our registered representatives are also registered with Pinnacle, though Pinnacle is not currently trading any securities.

Insurance Sales

Advisor is also licensed as an insurance agency and some of our representatives are licensed to sell insurance products through various insurance companies. When acting in this capacity, they may receive fees or commissions for selling these products. You are under no obligation to direct insurance transactions to us or to insurance companies with which our representatives may be licensed. Suitable insurance and investment products may be available from other companies.

Third-Party Money Managers

As described in **Item 5, Fees and Compensation**, we have formed relationships with independent, third-party money managers.

We may recommend you work directly with third-party money managers. When we refer you to a third party money manager, we receive a portion of the fee charged by the third party money manager. Therefore, we have a conflict of interest because we only recommend third party money managers that agree to compensate us by paying us a portion of the fees billed to your account managed by the third party money manager.

Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading

Code of Ethics

Section 204A-1 of the *Investment Advisers Act of 1940* requires all investment advisers to establish, maintain and enforce a Code of Ethics. We have established a Code of Ethics that applies to all of our associated persons. An investment adviser is considered a fiduciary according to the *Investment Advisers Act of 1940*. As a fiduciary, it is an investment adviser's responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of client at all times. We have a fiduciary duty to all clients. This fiduciary duty is considered the core underlying principle for our Code of Ethics, which also covers our insider trading and personal securities transactions policies and procedures. We require all of our supervised persons to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment or affiliation and when changes occur, all supervised persons sign an acknowledgement that they have read, understand and agree to comply with our Code of Ethics. We have the responsibility to make sure that the interests of all clients are placed ahead of our own or our supervised persons' own investment interests. We provide full disclosure of all material facts and potential conflicts of interest to clients prior to any services being conducted. We and our supervised persons must conduct business in an honest, ethical and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients. This disclosure is provided to give all clients a summary of our Code of Ethics. However, if a

client or a potential client wishes to review our Code of Ethics in its entirety, a copy is provided promptly upon request.

Participation in Client Transactions and Personal Trading

We or our associated persons may buy or sell securities or have an interest or position in a security for our personal account that is also recommended to clients. We are and will continue to be in compliance with *The Insider Trading and Securities Fraud Enforcement Act of 1988*. As these situations may represent a potential conflict of interest, it is our policy that no associated persons will prefer his or her own interest to that of the advisory client. No person employed by us may purchase or sell any security prior to a transaction or transactions being implemented for an advisory account. Associated persons will not buy or sell securities for their personal account(s) where their decision is derived, in whole or in part, by information obtained as a result of his/her employment unless the information is also available to the investing public upon reasonable inquiry. We maintain a list of all securities holdings for it and all associated persons, which is reviewed on a regular basis by a principal of the firm. This log is available for client review upon request.

Item 12 – Brokerage Practices

Duncan-Williams, Inc.

If you wish to implement our advice, we affect all of your securities transactions, whether in a transactional or fee-based account, through our registered broker-dealer, which is also Duncan-Williams, Inc. In other words, if you wish to have our representatives implement the advice in their capacity as registered representatives, then Advisor, in its separate capacity as a broker-dealer, is used. Our advisory representatives are also registered representatives of Advisor in its separate capacity as a broker/dealer and are required to use the services of the broker/dealer and its approved clearing broker-dealers when acting in their separate capacity as registered representatives. When acting in its separate capacity as broker-dealer, Advisor serves as the introducing broker-dealer. All accounts established through Advisor as a broker-dealer are cleared and held at FOLIOfn or Pershing. In Advisor's separate capacity as a broker-dealer, it has a wide range of approved securities products for which it performs due diligence prior to selection. Its registered representatives are required to adhere to these products when implementing securities transactions. Commissions charged for these products may be higher or lower than commissions you may be able to obtain if transactions were implemented through another broker/dealer.

Advisor, in its separate capacity as a broker-dealer, and our representatives, in their capacities as registered representatives, may receive commissions from the execution of securities transactions. In addition, they may receive 12(b)-1 fees from certain mutual fund companies as outlined in each fund's prospectus. The 12(b)-1 fees come from fund assets and, therefore, indirectly from your assets. Receiving such fees could represent an incentive for our representatives to recommend funds with 12(b)-1 fees over funds that have no fees or lower fees. As a result, there is a potential conflict of interest.

You must use FOLIOfn and/or Pershing's custodian and clearing services if you participate in our wrap fee program.

Best Execution

If we assist you in implementing any recommendations, we have a duty to ensure that you receive the best execution possible. Best execution of client transactions is an obligation we take seriously and is a catalyst in the decision to use FOLIOfn and/or Pershing. While quality of execution at the best price is an important determinant, best execution does not necessarily mean lowest price and it is not the sole consideration.

FOLIOfn and Pershing may make available to us at reduced or no cost other products and services that benefit us but may not benefit our clients' accounts. Some of these other products and services assist us in managing and administering client accounts. These include software and other technology that:

- Provide access to client account data (such as trade confirmations and account statements)
- Facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts)
- Provide research, pricing information and other market data
- Facilitate payment of fees to us from client accounts
- Assists with back-office functions, record-keeping and client reporting

FOLIOfn and Pershing may also offer other services intended to help us manage and further develop our business enterprise such as consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing.

As a fiduciary, we endeavor to act in your best interests. However, our recommendation that you maintain your assets at FOLIOfn and Pershing may be based in part on the benefit to us of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by FOLIOfn and Pershing. This may create a potential conflict of interest.

Handling of Trade Errors

We have implemented procedures designed to prevent trade errors; however, trade errors in client accounts cannot always be avoided. Consistent with our fiduciary duty, it is our policy to correct trade errors in a manner that is in the best interest of the client. In cases where the client causes the trade error, the client is responsible for any loss resulting from the correction. Depending on the specific circumstances of the trade error, the client may not be able to receive any gains generated as a result of the error correction. In all situations where the client does not cause the trade error, the client is made whole and we absorb any loss resulting from the trade error if we caused the error. If the error is caused by the broker/dealer, the broker/dealer is responsible for covering all trade error costs. If an investment gain results from the correcting trade, at times the gain will remain in the client's account unless the same error involved other client account(s) that should also receive the gains. Many times, whether the gain will remain in the client's account depends on the policy of a mutual fund if related to the transaction in question. It is not permissible for all clients to retain the gain. We may also confer with clients to determine if they should forego the gain (e.g., due to tax reasons). We never benefit or profit from trade errors.

Aggregate Trading

We do not currently aggregate the purchase or sale of securities for various client accounts since, at this time, each of our client accounts must be maintained separately from one another.

Item 13 – Review of Accounts

Account Reviews

Financial planning services terminate upon presentation of the written plan or completion of the financial planning consultation services. Therefore, no reviews are conducted for these accounts. If you elect to have a review and update to an original financial plan, additional fees are charged and you are required to sign a new client agreement.

At a minimum, your representative reviews wrap fee program accounts on a quarterly basis. The calendar is the main triggering factor, although more frequent reviews may also be triggered by your specific request, by changes in your circumstances or unusual market activity.

Accounts at third party investment advisors are reviewed and monitored by the selected third party investment advisors. The frequency of reviews conducted by third party investment advisors will vary from manager to manager. Triggering factors for changes to underlying portfolios within a money manager portfolio include the relative valuation changes between asset classes, deviation from management style by manager, or fund closures. At a minimum, your representative will also review these accounts at least quarterly, usually when copies of account statements are received.

Account Reports

You receive statements at least quarterly from the custodian where your accounts are maintained. In addition, you may elect to receive quarterly or on-demand position and performance reports from us. There is no charge for the reports the custodian prepares for you.

Item 14 – Client Referrals and Other Compensation

Client Referrals

While we do not currently have any arrangements in place, we may enter into agreements with unaffiliated solicitors (referring parties) to refer clients to us. If a client is referred to us by a solicitor, the solicitor provides the client with a copy of our Disclosure Brochure as required by Rule 204-3 of the *Investment Advisers Act of 1940*. The client also receives a copy of the solicitor disclosure statement containing the information set forth in Rule 206(4)-3 of the *Investment Advisers Act of 1940*. If a referred client enters into an investment advisory agreement with us, a referral fee is paid to the solicitor. The referral relationship will not result in clients being charged any fees over and above the normal fees charged for the advisory services provided.

The referral agreements between us and the solicitors will be in compliance with regulations as set out in 17 CFR §275.206(4)-3 and the Rules under the *Investment Advisers Act of 1940*.

Other Compensation

Please see **Item 5, Fees and Compensation**, **Item 10, Other Financial Industry Activities and Affiliations** and **Item 12, Brokerage Practices**, for additional discussion about solicitor/referral fees from third party managers, other compensation and non-economic benefits.

Item 15 – Custody

Custody, as it applies to investment advisors, has been defined as having access or control over client funds and/or securities, but does **not** include the ability to execute transactions in client accounts. Custody is not limited to physically holding client funds and securities. If an investment advisor has the ability to access or control client funds or securities, the investment advisor is deemed to have custody for purposes of the *Investment Advisers Act of 1940* and must ensure proper procedures are implemented. Please note that regulators have deemed the authorization to trade in client accounts to not be custody. However, we are deemed to have custody of client funds and securities whenever we are given the authority to have fees deducted directly from client accounts. Our procedures do **not** result in our maintaining custody of client funds and securities.

For accounts where we are deemed to have custody, we have established procedures to ensure all client funds and securities are held at a qualified custodian in a separate account for each client under that client's name. Clients or an independent representative of the client will direct, in writing, the creation of all accounts and therefore are aware of the qualified custodian's name, address and the manner in which the funds or securities are maintained. Finally, account statements are delivered directly from the qualified custodian to each client, or the client's independent representative, at least quarterly. Clients should carefully review those statements and are urged to compare the statements against reports received from us. When clients have questions about their account statements, they should contact us or the qualified custodian preparing the statement.

In our capacity as a broker/dealer, we have established similar procedures to ensure that client funds and securities are held at a qualified custodian in a separate account for each client under that client's name. As an introducing broker/dealer, we do not have custody of client funds or securities.

Item 16 – Investment Discretion

In addition to having trading authority on your accounts, we implement trades in your managed accounts on a discretionary basis. This means we make all decisions to buy, sell or hold securities, cash or other investments in the managed account in our sole discretion without consulting with you before implementing any transactions. You must provide us with written authorization to exercise this discretionary authority.

When discretionary authority is granted, it is limited. We do not have access to your funds and/or securities with the exception of having advisory fees deducted from your account and paid to us by the account custodian. Any fee deduction is done pursuant to your prior written authorization provided to the account custodian. You have the ability to place reasonable restrictions on the types of investments that may be purchased in an account. You may also place reasonable limitations on the discretionary power granted to us so long as the limitations are specifically set forth or included as an attachment to the client agreement.

In accounts created under our U.S. Treasury Note Yield Enhancement Program, we have discretionary authority to determine the securities to be purchased and sold in program portfolios as well as the broker/dealer used to implement the transactions. We do not have direct relationships with clients investing in this program and do not contact them prior to affecting securities transactions.

If management services are provided on a non-discretionary basis, we always contact you before implementing any transactions in an account. You must accept or reject our investment recommendations, including (1) the security being recommended, (2) the number of shares or units and (3) whether to buy or sell. Once these factors are agreed upon, we are responsible for making decisions regarding the timing of the purchase or sale and the price at which it is bought or sold. You should know that if you are not able to be reached or are slow to respond to our request, it can have an adverse impact on the timing of implementing trades and we may not achieve the optimal trading price.

Item 17 – Voting Client Securities

We do not vote proxies on your behalf. You should read through the proxy materials provided and make a determination on the issues presented. You have sole responsibility for voting proxies.

Nor do we vote proxies with respect to assets subject to sub-advisory relationship. Sub-advisors vote proxies for the investments subject to sub-advisory agreement with us. For a description of the sub-

advisor's proxy voting policy, you should refer to each sub-advisor's Disclosure Brochure. Form ADV. You can request a complete copy of each sub-advisor's proxy voting policies and procedures as well as information on how your individual proxies are voted.

Item 18 – Financial Information

This item is not applicable to our brochure. We do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Therefore, we are not required to include a balance sheet for our most recent fiscal year. We are not subject to a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Finally, we have not been the subject of a bankruptcy petition at any time.

Customer Privacy Notice

In November of 1999, Congress enacted the *Gramm-Leach-Bliley Act* ("GLBA"). The GLBA requires certain financial institutions, such as investment advisor firms, to protect the privacy of customer information. In situations where a financial institution does disclose customer information to non-affiliated third parties, other than permitted or required by law, customers must be given the opportunity to opt out or prevent such disclosure. We do not share or disclose customer information to non-affiliated third parties except as permitted or required by law.

We are committed to safeguarding the confidential information of our clients. We hold all personal information provided by clients in the strictest confidence and it is our objective to protect the privacy of all clients. Except as permitted or required by law, we do not share confidential information about clients with non-affiliated parties. In the event that there is a change in this policy, we provide clients with written notice and clients are provided an opportunity to direct us whether such disclosure is permissible.

To conduct regular business, we may collect personal information from sources such as:

- Information reported by the client on applications or other forms the client provides to the advisor
- Information about the client's transactions implemented by the advisor or others
- Information developed as part of financial plans, analyses or investment advisory services

To administer, manage, service, and provide related services for client accounts, it is necessary for us provide access to customer information within our firm and to non-affiliated companies with whom we have entered into agreements. To provide the utmost service, we may disclose the information below regarding customers and former customers, as necessary, to companies to perform certain services on our behalf.

- Information we receive from the client on applications (name, Social Security number, address, assets, etc.)
- Information about the client's transactions with us or others (account information, payment history, parties to transactions, etc.)
- Information concerning investment advisory account transactions
- Information about a client's financial products and services transaction with us

Since we share non-public information solely to service client accounts, we do not disclose any non-public personal information about our customers or former customers to anyone, except as permitted by law. However, we may also provide customer information outside of the firm as required by law, such as to government entities, consumer reporting agencies or other third parties in response to subpoenas.