

Sontag Advisory, LLC

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This brochure provides information about the qualifications and business practices of Sontag Advisory, LLC (“SA”). If you have any questions about the contents of this brochure, please contact us at (212) 973-1200 or rross@sontagadvisory.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Sontag Advisory, LLC also is available on the SEC’s website at www.adviserinfo.sec.gov. References herein to Sontag Advisory, LLC as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.

Item 2 Material Changes

There have been several material changes made to Sontag Advisory LLC's disclosure statement since last year's Annual Amendment filing on May 24, 2011.

1. First, SA has re-stated its assets under management due to a new understanding regarding the calculation of assets under management. Although the firm oversees, advises and reports upon client assets in excess of \$6 billion, the amount of assets under SA's management is \$3,331,739,084, as provided in Item 5.
2. SA has negotiated a lower fee schedule with Polen Capital Management. The new fee schedule is reflected below in Item 5.
3. SA has revised its client agreements and instituted a new fee schedule for new clients of the firm, which is provided in Item 5 below.

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Item 4 Advisory Business

- A. Sontag Advisory, LLC (the “SA”) is a limited liability company formed on April 5, 1995 in the State of New York. SA became registered as an Investment Adviser Firm in June, 1995. SA is owned by National Financial Partners, Corp. (“NFP”), which owns other registered investment advisers, broker-dealers, insurance agencies and other product and service providers (“NFP Affiliates”). From time to time, SA may recommend that its clients purchase or sell products and services from or through NFP Affiliates and these NFP Affiliates and SA may receive compensation as a result of such recommendations. A recommendation that a client purchase or sell products or services by or through an NFP Affiliate may be deemed to create a **conflict of interest** since it could result in increased compensation to an NFP Affiliate or SA.
- B. As discussed below, SA offers to its clients (individuals, pension and profit sharing plans, business entities, trusts, estates and charitable organizations, etc.) investment advisory services, and, to the extent specifically requested by a client, financial planning and related consulting services.

INVESTMENT ADVISORY SERVICES

The client can determine to engage SA to provide discretionary and/or non-discretionary investment advisory services on a *fee* basis. SA’s annual investment advisory fee shall vary (from 0.40% up to 1.00% of the total assets placed under SA’s management/advisement) and shall be based upon the level and scope of the overall investment advisory services to be rendered, which is based upon **various objective and subjective factors**, including, but not limited to, the amount of the assets placed under SA’s management, the level and scope of financial planning and consulting services to be rendered, and the complexity of the engagement. (See Fee Differentials below).

FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)

To the extent requested by a client, SA *may* determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone separate fixed-fee basis. SA’s planning and consulting fees are negotiable, but generally start from a minimum fee of \$5,000.00, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s). Prior to engaging SA to provide planning or consulting services, clients are generally required to enter into a *Financial Planning and Consulting Agreement* with SA setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee that is due from the client prior to SA commencing services. If requested by the client, SA may recommend the services of other professionals for implementation purposes, including SA’s representatives in their individual capacities as licensed insurance agents. (See disclosure at Item 10 C.8). The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from SA. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note:** It remains the client’s responsibility to promptly notify SA if there is

ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising SA's previous recommendations and/or services.

MISCELLANEOUS

Non-Investment Consulting/Implementation Services. To the extent requested by the client, SA may provide consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. Neither SA, nor any of its representatives, serves as an accountant, and no portion of SA's services should be construed as same. To the extent requested by a client, SA may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance agents, etc.), including representatives of SA in their separate licensed capacities as discussed below. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from SA. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note:** It remains the client's responsibility to promptly notify SA if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising SA's previous recommendations and/or services.

Please Note: Fee Differentials. As indicated above, SA shall price its services based upon various objective and subjective factors. As a result, SA's clients could pay diverse fees based upon the market value of their assets, the complexity of the engagement, and the level and scope of the overall financial planning and/or consulting services to be rendered. The services to be provided by SA to any particular client could be available from other advisers at lower fees. All clients and prospective clients should be guided accordingly.

Independent Managers. SA may allocate (and/or recommend that the client allocate) a portion of a client's investment assets among unaffiliated independent investment managers in accordance with the client's designated investment objective(s). In such situations, the *Independent Manager[s]* shall have day-to-day responsibility for the active discretionary management of the allocated assets. SA shall continue to render investment advisory services to the client relative to the ongoing monitoring and review of account performance, asset allocation and client investment objectives. Factors which SA shall consider in recommending *Independent Manager[s]* include the client's designated investment objective(s), management style, performance, reputation, financial strength, reporting, pricing, and research.

If SA refers a client to an Independent Manager(s), and the client engages the Independent Manager(s), SA shall be compensated for its services by receipt of a referral fee to be paid by the Independent Manager(s) to SA in accordance with the requirements of Rule 206 (4)-3 of the Investment Advisors Act of 1940 and any corresponding state laws or requirements. As such, SA shall be acting as a solicitor for the Independent Manager(s). The referral fee shall be paid solely from the Independent Manager(s) investment management fee, and shall not result in any additional charge to the client. In addition to SA's written disclosure statement, the client shall also receive the Independent Manager(s) written disclosure statement discussing its fees and services. **SA's Chief Compliance Officer, Aaron Broudo remains available to address any questions that a client or prospective client may have regarding the above**

arrangement and any corresponding perceived conflict of interest such arrangement may create.

List of Independent Manager[s] - the Independent Manager[s] that may be engaged and/or recommended by SA include:

Breckinridge Capital Advisors, Inc.: SA receives .10% to .50% of the account value for accounts up to \$499,999.00 and .20% to .50% for accounts greater than \$500,000.00. SA reserves the right to review the imposition of the fee on an individual case basis and in its discretion, reduce the fee, when it feels that the magnitude of the relationship warrants that the scheduled imposition of such fee be altered.

Campbell Cowperthwait: For accounts with a total fair market value up to and including \$2,000,000, SA receives 25% of the fees charged to the client. For accounts with a total fair market value exceeding \$2,000,000, SA receives .35% (35 basis points) annually of the accounts fair market value (determined quarterly). The accounts fair market value is determined on a quarterly basis as of the first day of each calendar quarter.

Corby Asset Management, LLC (“CAM”): For the Global Cash Flow Strategy, SA receives .60% (60 basis points) and CAM receives .65% (65 basis points) per annum of the referred accounts’ value under management. Note that the fees received by SA increased by .10% (10 basis points) and the fees received by CAM decreased by .10% (10 basis points) effective as of the 2nd calendar quarter of 2010. This new fee arrangement has no net effect on the overall fee to clients.

For the Municipal Bond Strategy, SA receives an annual referral fee in accordance with the following schedule:

Assets up to \$499,999	25 basis points (0.25%)
Asset \$500,000 to \$1,999,999	20 basis points (0.20%)
Assets \$2,000,000 and above	15 basis points (0.15%)

For the High Yield Municipal Bond Strategy, SA receives a referral fee of .40% (40basis points) per annum of the referred accounts’ value under management.

Corbyn Investment Management, LLC: Corbyn acts as a Sub-Advisor for SA. SA receives a referral fee of 0.30% per annum of the account value under management.

Cornerstone Investment Partners, LLC: Cornerstone acts as a Sub-Advisor for SA. SA receives a referral fee of 0.65% per annum of the account value under management.

Corsair Partners LP: SA receives a referral fee of 0.50% per annum of the account value under management.

Hamlin Capital Management (“HCM”): SA refers clients to HCM for management in HCM’s equity portfolio, balanced portfolio and/or municipal bond portfolio. SA will charge a separate fee, in addition to the fee charged by HCM, to the client as follows: For equity accounts, 65 bps; for balanced accounts, 65bps; and for municipal bond accounts, 50 bps. For client accounts opened after the 2nd calendar quarter of 2010, SA

will increase its fee on the equity portfolio by 10bps to 75bps and HCM will reduce its fee by 10bps with no net effect to the overall fee for the client.

Knightsbridge Asset Management, LLC: Knightsbridge acts as a Sub-Advisor for SA. SA receives a referral fee of 0.5% per annum of the account value under management.

Manning & Napier: Manning & Napier acts as a Sub-Advisor for SA. SA receives a referral fee of 0.5% per annum of the account value under management.

Metropolitan West Capital Management ('MetWest'): SA receives 25% of the Advisory fees charged to the client accounts referred to MetWest.

Miller Howard Investment Management ('Miller Howard'): SA receives 50% of the Advisory fees charged to client accounts referred to Miller Howard.

Morgan Stanley Smith Barney ('MSSB'): SA receives 50% of the Advisory fees charged to client accounts referred to MSSB.

Nuveen Investments ("NWQ"): SA will receive .80% (80 basis points) for accounts with an assets value of \$499,999.00 and .30% (30 basis points) for assets above \$500,000.00. For the NWQ managed portfolio, SA will receive .80% (80 basis points) for accounts up to \$500,000.00 and 0.30% (30 basis points) for assets over \$500,000.00. For NWQ International accounts, SA will receive .80% (80 basis points) for assets up to \$499,999.00 and .45% (45 basis points) on assets above \$500,000.00. SA reserves the right to review the imposition of the fee on an individual case basis and in its discretion, reduce the fee, when it feels that the magnitude of the relationship warrants that the scheduled imposition of such fee be altered.

Pinnacle Associates Ltd.: SA receives 25% of the fees charged to the client.

Polen Capital Management Corp.: SA receives .625% (625 basis points) of the referred accounts' value under management on asset values up to \$499,999 and .25% (25 basis points) on assets above \$500,000.

Santa Barbara Asset Management: SA receives .50% (50 basis points) of the referred accounts' value under management.

Scharf Investments: SA receives 50% of the annual investment advisory fee received by Scharf.

Schaenen Fox: SA receives 10% of the annual base fee and 10% of the annual incentive fee charged to the client.

Smith Group Asset Management: SA receives 50% of the management fee paid to Smith Group. Total management fee charged by Smith Group is 1% of assets under management.

Standish Mellon Asset Management Company LLC ("SMAM"): SA has contracted with SMAM to serve as sub-adviser. SA receives .15% (15 basis points) annually of the accounts fair market value for the regular investment strategy, .20% (20 basis points) for the Standish Opportunistic investment strategy and .10% (10 basis points) for the

Standish Pre-Refunded investment strategy. The account's fair market value is determined on a quarterly basis as of the first day of each calendar quarter.

Uniplan Investment Counsel, Inc. ("Uniplan"): SA has contracted with Uniplan to serve as sub-adviser. SA receives 50% of the management fee paid to Uniplan. Total management fee charged by Uniplan is 1.25% of assets under management.

U.S. Trust Value Investment Management: For all accounts, SA receives 1/3 of the annual fees charged to the client. SA receives .3% (30 basis points) annually of the accounts fair market value (determined quarterly). The accounts fair market value is determined on a quarterly basis as of the first day of each calendar quarter.

W.H. Reaves & Co.: SA receives 40% of the fees charged by manager to the client per annum.

W.H. Reaves & Co. Current Income: SA receives 48% of the fees paid to manager by client per annum.

W.H. Reaves & Co. Inflation Biased: SA receives 40% of the fees paid to manager by client per annum.

W. P. Stewart: For accounts opened prior to May 20, 1999, SA receives 25% of the fees charged to the client. For accounts opened after May 20, 1999 but prior to March 31 2009, SA receives 1/3 (33.33%) of the fees charged to the client. For accounts opened after March 31, 2009 SA will receive one half (50%) of the investment management fee paid to W.P. Stewart by clients introduced by SA.

Please Note: The above list is subject to change. Any questions regarding this list should be directed to SA's Chief Compliance Officer, Aaron Broudo.

Unaffiliated Private Investment Funds. SA may provide investment advice regarding private unaffiliated investment funds. SA's role relative to the private investment funds shall be limited to its initial and ongoing due diligence and investment monitoring services. If a client determines to become a private fund investor, the amount of assets invested in the fund(s) shall be included as part of "assets under management" for purposes of SA calculating its investment advisory fee. SA's clients are under absolutely no obligation to consider or make an investment in a private investment fund(s).

Please Note: Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike other liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

Please Also Note: Valuation. In the event that SA references private investment funds owned by the client on any supplemental account reports prepared by SA, the value(s) for all such private investment funds shall reflect either the initial purchase and/or the most recent valuation provided by the fund sponsor. If the valuation reflects the initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be **significantly more or less** than the original purchase price.

Please Note: Inverse/Enhanced Market Strategies. SA may utilize long and short mutual funds and/or exchange traded funds that are designed to perform in either an: (1) inverse relationship to certain market indices (at a rate of 1 or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; and (2) enhanced relationship to certain market indices (at a rate of 1 or more times the actual result of the corresponding index) as an investment strategy and/or for the purpose of increasing gains in an advancing market. There can be **no assurance** that any such strategy will prove profitable or successful. In light of these enhanced risks/rewards, a client may direct SA, in writing, not to employ any or all such strategies for his/her/their/its accounts.

Legal Services. Certain of SA's employees may be licensed to practice law. However, no such persons provide legal services to any of SA's clients, and no corresponding attorney-client relationship is established. The above is provided for full disclosure purposes and the fact that certain of SA's employees may be licensed to practice law is **not material** to SA's investment advisory business or services. At the request of certain of SA's clients, two of these individuals, SA's Principals, Howard Sontag and Michael Delgass, for a fee, may serve in a Trustee capacity. As result of such service, SA is deemed to have custody of client funds and securities, and is required to comply with the surprise examination requirements of Rule 206(4)-2 under the Investment Advisers Act of 1940. The fee charged for Trustee services is separate from and in addition to SA's investment advisory fees. **SA's Chief Compliance Officer, Aaron Broudo, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.**

Sontag Special Opportunities Fund LP. SA is affiliated with Sontag Special Opportunities Fund LP (the "*Fund*"), a private investment fund whose objective is to provide investors with an above long-term rate of return with less volatility than is typical for direct investments in equity markets by investing in a diverse portfolio of alternative investment strategies and vehicles. The *Fund* has been closed to new investors since 2008. In January 2009, the *Fund* commenced an orderly liquidation process, which liquidation has been substantially completed. Upon liquidation of its few remaining investments, the *Fund* will terminate its operations.

Please Note: Non-Discretionary Service Limitations. Clients that determine to engage SA on a non-discretionary investment advisory basis **must be willing to accept** that SA cannot effect any account transactions without obtaining prior verbal consent to any such transaction(s) from the client. Thus, in the event of a market correction during which the client is unavailable, SA will be unable to effect any account transactions (as it would for its discretionary clients) without first obtaining the client's verbal consent.

Client Obligations. In performing its services, SA shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify SA if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising SA's previous recommendations and/or services.

Disclosure Statement. A copy of SA's written Brochure as set forth on Part 2A of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement or Financial Planning and Consulting Agreement*. Any client who has not received a copy of SA's written Brochure at least 48 hours prior to executing the *Investment Advisory Agreement or Financial Planning and Consulting Agreement* shall have five business days subsequent to executing the agreement to terminate SA's services without penalty.

- C. SA shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, SA shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on SA's services.
- D. SA does not participate in a wrap fee program.
- E. As of March 1, 2011, SA had \$3,331,739,084 in assets under management on a discretionary basis.

Item 5 Fees and Compensation

- A. The client can determine to engage SA to provide discretionary and/or non-discretionary investment advisory services on a *fee* basis.

INVESTMENT ADVISORY SERVICES

The client can determine to engage SA to provide discretionary and/or non-discretionary investment advisory services on a *fee* basis. SA's annual investment advisory fee for existing clients generally varies (from 0.40% up to 1.00% of the total assets placed under SA's management/advisement) and shall be based upon the level and scope of the overall investment advisory services to be rendered, which is based upon **various objective and subjective factors**, including, but not limited to, the amount of the assets placed under SA's management, the level and scope of financial planning and consulting services to be rendered, and the complexity of the engagement.

For new clients, SA has instituted a new fee schedule. There is a minimum annual fee of \$6,000, except in certain circumstances. The annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets on the last day of the previous quarter, based upon the following progressive schedule:

Fee Schedule For Managed Accounts ¹		
PORTFOLIO VALUE		FEE:
For the first	500,000 ²	1.20%
500,001	1,000,000	0.90%
1,000,001	2,000,000	0.85%
2,000,001	5,000,000	0.80%
5,000,001	10,000,000	0.45%
10,000,001	25,000,000	0.40%
25,000,001	+	Negotiated

For the initial quarter of investment management services, the Management Fee shall be calculated on a pro-rata basis, commencing on the day the assets are initially designated to Advisory for management. The fee will be assessed together with the first full quarterly fee at the beginning of the next quarterly billing cycle.

This fee schedule may be amended from time to time upon thirty (30) days written notice from Advisory to Client.

FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)

To the extent requested by a client, SA may determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone separate fixed-fee basis. SA's planning and consulting fees are negotiable, but generally have a minimum fee of \$5,000.00, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s).

- B. Clients may elect to have SA's advisory fees deducted from their custodial account. Both SA's *Investment Advisory Agreement* and the custodial/ clearing agreement may authorize the custodian to debit the account for the amount of SA's investment advisory fee and to directly remit that management fee to SA in compliance with regulatory procedures. In the limited event that SA bills the client directly, payment is due upon receipt of SA's invoice. SA shall deduct fees and/or bill clients quarterly in advance, based upon the market value of the assets on the last business day of the previous quarter.
- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, SA shall generally recommend that Charles Schwab and Co., Inc. ("*Schwab*") and/or Fidelity Investments ("*Fidelity*") serve as the broker-dealer/custodian

¹ Includes accounts directly managed by Sontag Advisory as well as assets placed with third-party managers.

² Accounts with a portfolio value of less than \$500,000 are subject to a minimum annual fee of \$6,000, which means the effective base fee may be more than 1.20% for such accounts.

for client investment management assets. Broker-dealers such as *Schwab* and *Fidelity* charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to SA's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses).

- D. SA's annual investment advisory fee shall be prorated and paid quarterly, in advance, based upon the market value of the assets on the last business day of the previous quarter. SA does not generally require an annual minimum fee or asset level for investment advisory services. SA, in its sole discretion, may charge a lesser investment management fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

The *Investment Advisory Agreement* between SA and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, SA shall refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter.

- E. Neither SA, nor its representatives accept compensation from SAle of securities or other investment products.

Item 6 Performance-Based Fees and Side-by-Side Management

Neither SA nor any supervised person of SA accepts performance-based fees.

Item 7 Types of Clients

SA's clients shall generally include individuals, pension and profit sharing plans, business entities, trusts, estates and charitable organizations. SA does not generally require an annual minimum fee or asset level for investment advisory services. SA, in its sole discretion, may charge a lesser investment management fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

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

- A. SA may utilize the following methods of security analysis:
- Charting - (analysis performed using patterns to identify current trends and trend reversals to forecast the direction of prices)
 - Fundamental - (analysis performed on historical and present data, with the goal of making financial forecasts)
 - Technical – (analysis performed on historical and present data, focusing on price and trade volume, to forecast the direction of prices)
 - Cyclical – (analysis performed on historical relationships between price and market trends, to forecast the direction of prices)

SA may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Margin Transactions (use of borrowed assets to purchase financial instruments)
- Options (contract for the purchase or sale of a security at a predetermined price during a specific period of time)

Please Note: Investment Risk. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by SA) will be profitable or equal any specific performance level(s).

- B. SA's methods of analysis and investment strategies do not present any significant or unusual risks.

However, every method of analysis has its own inherent risks. To perform an accurate market analysis SA must have access to current/new market information. SA has no

control over the dissemination rate of market information; therefore, unbeknownst to SA, certain analyses may be compiled with outdated market information, severely limiting the value of SA's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

SA's primary investment strategies - Long Term Purchases and Short Term Purchases - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy.

In addition to the fundamental investment strategies discussed above, SA may also implement and/or recommend –use of margin, and/or options transactions. Each of these strategies has a high level of inherent risk. (*See discussion below*).

Margin is an investment strategy with a high level of inherent risk. A margin transaction occurs when an investor uses borrowed assets to purchase financial instruments. The investor generally obtains the borrowed assets by using other securities as collateral for the borrowed sum. The effect of purchasing a security using margin is to magnify any gains or losses sustained by the purchase of the financial instruments on margin. **Please note:** To the extent that a client authorizes the use of margin, and margin is thereafter employed by SA in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to SA may be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential ***conflict of interest*** whereby the client's decision to employ margin *may* correspondingly increase the management fee payable to SA. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

The use of options transactions as an investment strategy involves a high level of inherent risk. Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the recommendation to purchase an option contract by SA shall be with the intent of offsetting/"hedging" a potential market risk in a client's portfolio. **Please Note:** Although the intent of the options-related transactions that may be implemented by SA is to hedge against principal risk, certain of the options-related strategies (i.e. straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct SA, in writing, not to employ any or all such strategies for his/her/their/its accounts.

- C. Currently, SA primarily allocates client investment assets among various mutual funds and/or exchange traded funds ("ETFs") (including inverse ETFs and/or mutual funds that are designed to perform in an inverse relationship to certain market indices) and

Independent Manager(s) (pursuant to a sub-advisory agreement between SA and Independent Manager(s), on a discretionary and non-discretionary basis in accordance with the client's designated investment objective(s).

As disclosed above, SA may utilize long and short mutual funds and/or exchange traded funds that are designed to perform in either an: (1) inverse relationship to certain market indices (at a rate of 1 or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; and (2) enhanced relationship to certain market indices (at a rate of 1 or more times the actual result of the corresponding index) as an investment strategy and/or for the purpose of increasing gains in an advancing market. There can be no assurance that any such strategy will prove profitable or successful. In light of these enhanced risks/rewards, a client may direct SA, in writing, not to employ any or all such strategies for his/her/their/its accounts. (*See* Item 4 B).

Unaffiliated Private Investment Funds. SA may provide investment advice regarding unaffiliated private investment funds. SA's role relative to the private investment funds shall be limited to its initial and ongoing due diligence and investment monitoring services. If a client determines to become a private fund investor, the amount of assets invested in the fund(s) shall be included as part of "assets under management" for purposes of SA calculating its investment advisory fee. SA's clients are under absolutely no obligation to consider or make an investment in a private investment fund(s).

Please Note: Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike other liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

Please Also Note: Valuation. In the event that SA references private investment funds owned by the client on any supplemental account reports prepared by SA, the value(s) for all such private investment funds shall reflect either the initial purchase and/or the most recent valuation provided by the fund sponsor. If the valuation reflects the initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be significantly more or less than the original purchase price.

Independent Managers. SA may allocate (and/or recommend that the client allocate) a portion of a client's investment assets among unaffiliated independent investment managers in accordance with the client's designated investment objective(s). In such situations, the *Independent Manager[s]* shall have day-to-day responsibility for the active discretionary management of the allocated assets. SA shall continue to render investment advisory services to the client relative to the ongoing monitoring and review of account performance, asset allocation and client investment objectives. Factors which SA shall consider in recommending *Independent Manager[s]* include the client's designated investment objective(s), management style, performance, reputation, financial strength, reporting, pricing, and research.

Item 9 Disciplinary Information

SA has not been the subject of any disciplinary actions.

Item 10 Other Financial Industry Activities and Affiliations

- A. Neither SA, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither SA, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C.
 - 2. **Investment Funds.** SA's owner, *NFP*, is affiliated with the following investment-related limited partnerships: P&A Diversified Managers Fund, L.P.; P&A Multi-Sector Fund, L.P., P&A Select Strategy Fund, L.P., P&A Balanced Fund, L.P., P&A Multi-Sector Fund II, L.P., Sontag Special Opportunities Fund, L.P., Advisors Realty Income, LLC, Advisors Realty Growth, LLC, Advisors Alternative Investment, LLC, Advisors Realty Growth II, LLC, Advisors Healthcare Fund, LLC and Advisors Realty Income II, LLC. None of SA's clients are solicited to invest in any of the above investment funds.
 - 3. **Other Investment Advisors/Companies.** SA is owned by National Financial Partners, Corp. ("*NFP*"), which owns other registered investment advisors, broker-dealers insurance agencies and other product and service providers ("*NFP Affiliates*"). From time to time, SA may recommend that its clients purchase or sell products or services from or through *NFP Affiliates* and these *NFP Affiliates* and SA may receive compensation as a result of such recommendation. The recommendation that a client purchase or sell a product or service from an *NFP Affiliate* presents a conflict of interest, because such recommendation *may* result in increased compensation to SA. **SA's Chief Compliance Officer, Aaron Brouda, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

In addition, SA is also related to various other investment advisers through its relationship with *NFP* and/or *NFPSI*: 401K Advisors, Inc. (SEC Filing Number 801-66107); Balser Financial Corp. (CRD #148426); Beacon Retirement Planning Services, Inc. (SEC Filing Number 801-57962); Compass Capital Management, LLC

(CRD#118649); Delessert Financial Services, Inc.; DiMeo Schneider & Associates, L.L.C. (SEC Filing Number 801-48820; Executive Securities, LLC (CRD#25299); Financial Concepts of the Twin Cities, Inc. (SEC Filing Number 801-51852); Lenox Advisors, Inc. (CRD#119386); NFP IndeSuite Inc. (SEC Filing Number 801-70743); NFP Securities, Inc. (SEC Filing Number 801-56126); P&A Capital Advisors, Inc. (SEC Filing Number 801-58097); Retirement Investment Advisors, Inc. (CRD#106316); Schmidt Financial, Inc. (CRD#119841); Asset Management Partners, Inc. (CRD#129758); Northeast Financial Group, Inc. (CRD#134224); Sontag Advisory, LLC (CRD#106181) and UA Advisory Services, Inc. (SEC Filing Number 801-64727).

8. **Licensed Insurance Agency/Agents.** SA is a licensed insurance agency. In addition, certain of SA's representatives, in their individual capacities, are licensed insurance agents, and may recommend the purchase of certain insurance-related products on a commission basis. As referenced in Item 4.B above, clients can engage certain of SA's representatives to purchase insurance products on a commission basis.

- **Conflict of Interest:** The recommendation by SA or its representatives that a client purchase an insurance commission product presents a *conflict of interest*, as the receipt of commissions may provide an incentive to recommend investment products based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any commission products from SA and/or its representatives. Clients are reminded that they may purchase insurance products recommended by SA through other, non-affiliated insurance agents. **SA's Chief Compliance Officer, Aaron Broudo, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

- D. If SA refers a client to an Independent Manager(s), and the client engages the Independent Manager(s), SA shall be compensated for its services by receipt of a referral fee to be paid by the Independent Manager(s) to SA in accordance with the requirements of Rule 206 (4)-3 of the Investment Advisors Act of 1940 and any corresponding state laws or requirements. As such, SA shall be acting as a solicitor for the Independent Manager(s). The referral fee shall be paid solely from the Independent Manager(s) investment management fee, and shall not result in any additional charge to the client. In addition to SA's written disclosure statement, the client shall also receive the Independent Manager(s) written disclosure statement discussing its fees and services. **SA's Chief Compliance Officer, Aaron Broudo, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.**

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

- A. SA maintains an investment policy relative to personal securities transactions. This investment policy is part of SA's overall Code of Ethics, which serves to establish a standard of business conduct for all of SA's Representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is

available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, SA also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by SA or any person associated with SA.

- B. Neither SA nor any related person of SA recommends, buys, or sells for client accounts, securities in which SA or any related person of SA has a material financial interest.
- C. SA and/or representatives of SA *may* buy or sell securities that are also recommended to clients. This practice may create a situation where SA and/or representatives of SA are in a position to materially benefit from SAle or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if SA did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, “front-running” (i.e., personal trades executed prior to those of SA’s clients) and other potentially abusive practices.

SA has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of SA’s “Access Persons”. SA’s securities transaction policy requires that an Access Person of SA must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person’s current securities holdings at least once each twelve (12) month period thereafter on a date SA selects; provided, however that at any time that SA has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. SA and/or representatives of SA *may* buy or sell securities, at or around SAmE time as those securities are recommended to clients. This practice creates a situation where SA and/or representatives of SA are in a position to materially benefit from SAle or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11.C, SA has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of SA’s Access Persons.

Item 12 Brokerage Practices

- A. In the event that the client requests that SA recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct SA to use a specific broker-dealer/custodian), SA generally recommends that investment management accounts be maintained at *Schwab* and/or *Fidelity*. Prior to engaging SA to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with SA setting forth the terms and conditions under which SA shall manage the client’s assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that SA considers in recommending *Schwab* and/or *Fidelity* (or any other broker-dealer/custodian to clients) include historical relationship with SA, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by SA's clients shall comply with SA's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect Same transaction where SA determines, in good faith, that the commission/transaction fee is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although SA will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, SA's investment management fee. SA's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

1. Research and Additional Benefits

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, SA may receive from *Schwab* and/or *Fidelity* (or another broker-dealer/custodian) without cost (and/or at a discount) support services and/or products, certain of which assist SA to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by SA may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by SA in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that *may* be received may assist SA in managing and administering client accounts. Others do not directly provide such assistance, but rather assist SA to manage and further develop its business enterprise.

SA's clients do not pay more for investment transactions effected and/or assets maintained at *Schwab* and/or *Fidelity* as a result of this arrangement. There is no corresponding commitment made by SA to *Schwab*, *Fidelity* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

SA's Chief Compliance Officer, Aaron Broudo, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.

SA has entered into a "Hard Dollar" arrangement with *Schwab* whereby *Schwab* pays SA an annualized fee of 17.5 basis points on the total assets of SA's clients

(excluding ERISA, IRA, tax-exempt or tax-deferred Trust and Advisor Network accounts) invested in *Schwab* OneSource® Mutual Funds. Because SA receives an economic benefit, SA has a potential **conflict of interest** in recommending to clients that they use Schwab as custodian and invest their assets in OneSource funds. SA may also have a potential **conflict of interest** in exercising its discretionary authority to buy and hold shares of OneSource funds. OneSource funds are all non-transaction fee funds. SA's clients do not pay more for investment transactions effected and/or assets maintained at *Schwab* as a result of this arrangement. There is no corresponding commitment made by SA to *Schwab* to invest any specific amount or percentage of client assets in any specific mutual funds as a result of the above arrangement. **Please Note:** In light of the **conflict of interest**, a client may direct SA, in writing, not to accept payment from *Schwab* for OneSource® Mutual Funds held in his/her/its accounts. **SA's Chief Compliance Officer, Aaron Brouda, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding conflict of interest any such arrangement may create.**

SA has also entered into a "Hard Dollar" arrangement with *Fidelity* whereby *Fidelity* pays SA an annualized fee of 12 basis points on certain assets of SA's clients invested in certain non-transaction fee mutual funds (excluding all ERISA, IRA, tax-exempt or tax-deferred Trust accounts). Because SA receives an economic benefit, SA has a potential **conflict of interest** in recommending to clients that they use *Fidelity* as custodian and invest their assets with *Fidelity*. SA's clients do not pay more for investment transactions effected and/or assets maintained at *Fidelity* as a result of this arrangement. There is no corresponding commitment made by SA to *Fidelity* to invest any specific amount or percentage of client assets in any specific mutual funds as a result of the above arrangement. **Please Note:** In light of the **conflict of interest**, a client may direct SA, in writing, not to accept payment from *Fidelity* for the certain non-transaction fee mutual funds held in his/her/its accounts. **SA's Chief Compliance Officer, Aaron Brouda, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding conflict of interest any such arrangement may create.**

2. SA does not receive referrals from broker-dealers.
3. SA does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and SA will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by SA. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

Please Note: In the event that the client directs SA to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the

client determined to effect account transactions through alternative clearing arrangements that may be available through SA.

SA's Chief Compliance Officer, Aaron Broudo, remains available to address any questions that a client or prospective client may have regarding the above arrangement.

- B. To the extent that SA provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless SA decides to purchase or sell SAme securities for several clients at approximately SAme time. SA may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among SA's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. SA shall not receive any additional compensation or remuneration as a result of such aggregation.

Item 13 Review of Accounts

- A. For those clients to whom SA provides investment supervisory services, account reviews are conducted on an ongoing basis by SA's Principals and/or representatives. All investment supervisory clients are advised that it remains their responsibility to advise SA of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with SA on an annual basis.
- B. SA *may* conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. SA may also provide a written periodic report summarizing account activity and performance.

Item 14 Client Referrals and Other Compensation

- A. As referenced in Item 12.A.1 above, SA may receive an indirect economic benefit from *Schwab* and/or *Fidelity*. SA, without cost (and/or at a discount), may receive support services and/or products from *Schwab* and/or *Fidelity*.

SA's clients do not pay more for investment transactions effected and/or assets maintained at *Schwab* and/or *Fidelity* as a result of this arrangement. There is no corresponding commitment made by SA to *Schwab*, *Fidelity* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

SA's Chief Compliance Officer, Aaron Broudo, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.

- B. If a client is introduced to SA by either an unaffiliated or an affiliated solicitor, SA *may* pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from SA's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to SA by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective client with a copy of SA's written Brochure with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between SA and the solicitor, including the compensation to be received by the solicitor from SA.

Item 15 Custody

SA shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. SA may also provide a written periodic report summarizing account activity and performance.

Please Note: To the extent that SA provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by SA with the account statements received from the account custodian. **Please Also Note:** The account custodian does not verify the accuracy of SA's advisory fee calculation.

Item 16 Investment Discretion

The client can determine to engage SA to provide investment advisory services on a discretionary basis. Prior to SA assuming discretionary authority over a client's account, the client shall be required to execute an *Investment Advisory Agreement*, naming SA as the client's attorney and agent in fact, granting SA full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage SA on a discretionary basis may, at anytime, impose restrictions, **in writing**, on SA's discretionary authority (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe SA's use of margin, etc.).

Item 17 Voting Client Securities

- A. SA does not vote client proxies. Unless an *Independent Manger* assumes proxy voting responsibility for client assets, clients maintain exclusive responsibility for: (1) directing

the manner in which proxies solicited by issuers of securities owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.

- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact SA to discuss any questions they may have with a particular solicitation.

Item 18 Financial Information

- A. SA does not solicit fees of more than \$1,200, per client, six months or more in advance of providing services to the client.
- B. SA is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. SA has not been the subject of a bankruptcy petition.

ANY QUESTIONS: SA's Chief Compliance Officer, Robert K. Ross, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.