

**FIRM BROCHURE**  
(Part 2A of Form ADV)

March 27, 2012

**Walson & Associates, Inc.**

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Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of Walson & Associates, Inc. If you have any questions about the contents of this Brochure, please contact us at (877) 992-5766. 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.

Walson & Associates, Inc. is registered as an investment adviser with the State of Nevada; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.

Additional information about Walson & Associates, Inc. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2 MATERIAL CHANGES

This Brochure dated March 27, 2012 contains material changes since the last update of the Walson & Associates, Inc. (“Walson”) Firm Brochure dated February 27, 2012. Specifically, the Dodd-Frank Wall Street Reform Act and Consumer Protection Act (“Dodd-Frank Act”) requires certain “mid-sized advisers” (advisers with assets under management between \$25 million and \$100 million) to switch from registration with the U.S. Securities & Exchange Commission (“SEC”) to registration with one or more state securities authorities. Accordingly, because Walson is a mid-sized adviser and is no longer eligible for SEC registration, the updates made to this Brochure reflect that Walson has withdrawn from registration with the SEC and is now registered with the state of Nevada. Please note that this summary of material changes discusses only those material changes that have occurred since the last annual update of the Brochure.

Walson encourages each client and prospective client to read this brochure in its entirety and to call us with any questions you may have. In particular, please note that the following Items contain additional information not found in prior versions of Walson’s Form ADV Part 2A:

**Item 4 – Advisory Business:** This Item contains new information pertaining to the fact that Walson is no longer registered with the SEC and is now registered as an investment adviser in the state of Nevada.

**Item 19 – Requirements for State-Registered Advisers:** Item 19 contains certain information applicable to state-registered which was not previously required while Walson was registered with the SEC.

Walson will ensure that clients receive, within 120 days of the close of Walson’s fiscal year, either a free updated Brochure that includes a summary of material changes or a summary of material changes that includes an offer to provide a copy of the updated Brochure and information on how to obtain the Brochure. Additionally, as Walson experiences material changes in the future, we will send you a summary of our “Material Changes” under separate cover. Walson’s Brochure is also available upon request and may be requested by contacting Forrest G. Walson, President and Chief Compliance Officer at 877-9WALSON (992-5766).

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## **ITEM 4      ADVISORY BUSINESS**

### **A. Description of Firm**

Walson & Associates, Inc. (“Walson” or the “Firm”) is a Las Vegas, Nevada-based investment management firm, originally founded in Orange County, California in 1973. Walson provides investment management services to individuals, businesses, pensions, trusts, estates and/or charitable organizations. As discussed more fully below, Walson utilizes various instruments in providing investment advice to clients, including mutual funds, high yield corporate bond funds, exchange traded funds (“ETFs”), money market funds, closed end bond funds, and/or short term fixed income alternatives to achieve strategic asset allocation while constructing an investment portfolio based upon the client's investment objectives.

Walson is currently registered with the Securities Division of the State of Nevada (the “Division”) as an investment adviser. The Firm’s principal owners are L. Richard Runyon, who also serves as the Vice President and Forrest Walson, who also serves as the Firm’s President and Chief Compliance Officer.

### **B. Types of Advisory Services Offered**

Walson offers clients a tailored investment management solution that encompasses a strategic asset allocation approach based upon a thorough understanding of each client’s independent investment objectives. At the onset of the client relationship, Walson generally interviews each client and memorializes the client’s investment objectives, risk tolerance, investment guidelines, time horizons and other important and necessary information. Walson recommends that clients provide this information in a Client Questionnaire, which is generally completed prior to the commencement of investment management services. Should anything in the Client Questionnaire change due to various circumstances, it is the client’s responsibility to notify Walson in writing as soon as possible.

Based upon this information, Walson selects the appropriate model(s) (*i.e.*, conservative, moderately conservative, moderate, moderately aggressive, or aggressive) for on-going management. Please refer to Item 8 for more information on Walson’s investment strategies and their associated risks.

Walson generally offers two types of distinct platforms: an income-oriented program and a growth-oriented program, both of which are provided on a fully discretionary basis. Depending upon the client’s objectives, Walson may select only one or both of these platform styles to manage the client’s portfolio.

#### **1. Income-Oriented Program (Bond Asset Class)**

Based on a variety of factors, including market conditions and client objectives, Walson customizes a client’s income-oriented program using no-load mutual funds, high yield instruments, money market fund allocations. In addition, client funds may be placed in a money

market account and/or short term fixed income alternatives until such time that there is a buying opportunity suitable for the client's investment needs.

Walson often uses high-yield bond funds to offer an appropriate balance between acceptable risk and expected return. The high-yield securities used within the fund typically are corporate debt securities rated below investment grade by the primary rating agencies, which generally provide higher current yields than other investment vehicles. Walson may also invest in closed-end bond funds and exchange traded funds ("ETFs").

Walson's Income-Oriented Program strategically allocates client portfolio investments between high-yield bond funds, ETFs, money market accounts and/or short term fixed income alternatives. While the Income-Oriented Program generally trades two to three times during a typical year, the actual number could be more or less.

## 2. Growth-Oriented Program (Equity Asset Class)

Walson typically utilizes index mutual funds and/or ETFs in the management of growth-oriented portfolios. Walson may customize a client's portfolio using ETF allocations to establish the equity asset class. Both index mutual funds and ETFs mimic various indices, which seek to provide investment returns that correlate to the performance of a specific benchmark.

Walson believes that monitoring the market as a whole and strategically allocating assets can be more effective than monitoring both the market environment and then selecting individual stocks. Consequently, Walson generally utilizes various index funds which it believes offer opportunities in the market while balancing acceptable risk and expected return. However, in certain situations, Walson may use individual mutual funds or ETFs as part of a client's overall portfolio, where appropriate.

Walson's Growth-Oriented Program strategically allocates client portfolio investments between mutual funds, index funds, ETFs, and money market funds. Again, money market funds and/or short term fixed income alternatives generally are used until such time that there is a buying opportunity suitable for the client's investment needs. While the Growth-Oriented Program generally trades between three to five times during a typical year, the actual number could be more or less.

## C. Information About All of Walson's Advisory Services

Walson manages all client assets on a fully discretionary basis, but for select clients, may provide non-discretionary management upon request and at the sole discretion of Walson. In exercising full discretionary authority, Walson selects, without first obtaining client's permission, (1) the securities to be bought and sold; (2) the amounts of securities to be transacted and whether it will be individually or block traded; and (3) the broker-dealer through which transactions will be executed. Walson's discretionary authority may be subject to conditions imposed by a client. This may occur when a client restricts or prohibits transactions in a security for an industry sector, or requests that the Firm place trades with a specific broker-dealer (aka "directed brokerage").

Clients could invest in mutual funds or ETFs directly without the services of Walson. In that case, the client would not receive the services provided by Walson which are designed, among other things, to assist the client in determining which investment products are most appropriate to each client's financial condition and objectives. The mutual funds and ETFs utilized within Walson's client portfolios are selected through a disciplined screening, monitoring and evaluation process. The universe of mutual funds are screened and reviewed for style consistency, historical performance, risk metrics, and other information. The funds selected by Walson are generally diversified among multiple strategies and asset classes. Each fund selected is based on an extensive analysis by Walson's senior management and once implemented, is monitored to ensure the fund adheres to the investment style and objectives for which it was selected.

Clients generally are allowed to impose reasonable restrictions on the types of securities and/or industries they do not want to be included in their portfolio. For example, clients have the ability to leave standing instructions with their designated Investment Adviser Representative ("IAR") to refrain from investing in particular types of securities, or to invest in limited amounts of securities. Once this information is gathered initially, each client is responsible for informing Walson in writing of any changes to these restrictions or to their overall investment objectives. Walson does not assume any responsibility for the accuracy of information provided by clients.

#### **D. Assets Under Management**

As of February 1, 2012, the following represents the amount of client assets under management by Walson on a discretionary and non-discretionary basis:

Type of Account	Assets Under Management ("AUM")
Discretionary	\$59,070,980.00
Non-Discretionary	\$0.00
<b>Total:</b>	<b>\$59,070,980.00</b>

### **ITEM 5 FEES AND COMPENSATION**

#### **A. Description of Advisory Fees; Fee Schedule**

The advisory fees for Walson's investment management services are based upon the client's assets under management calculated as of the last day of the calendar quarter. All fees are billed quarterly in advance based on the following fee schedule outlined below:

<u>Assets Under Management</u>	<u>Annual Fee</u>
\$0 - \$2,000,000	1.75%
\$2,000,001+	1.00%

Although Walson believes its advisory fees are competitive, lower fees for comparable services may be available from other sources.

Advisory fees are due and payable once client funds are available and fully invested or at the beginning of the next full calendar quarter. Should a client open an account other than on the first day of the new calendar quarter, Walson's advisory fees will be prorated for assets held for a partial quarter based on the number of days that the account was open during the quarter. All subsequent payments will be deducted as soon as practicable during the first month of each calendar quarter. In the event that Walson's services are terminated mid-quarter, any paid, unearned fees will be promptly refunded to the client. Terminations generally are effective at the end of the month in which notice of termination is given. The number of months the account was managed during the quarter until termination is used to determine the percentage of the management fee earned and the balance is refunded.

All client assets will be held at an independent qualified custodian. Where applicable, in accordance with the client's advisory contract, payment of Walson's advisory fees will be made by the qualified custodian directly from the client's account upon receipt of Walson's quarterly invoice. The qualified custodian agrees to deliver an account statement, at least quarterly, to the client and Walson, showing all disbursements, including Walson's advisory fees, deducted from the account. The client is encouraged to review all account statements for accuracy. The custodian will not determine whether the fee is properly calculated. In addition, Walson sends customized quarterly performance reports to each client. Please refer to Item 13 for additional information about the nature and frequency of reports sent to clients.

#### **B. Other Fees and Expenses**

Clients should understand that the fees described above do not include certain charges imposed by third parties such as custodial fees, mutual fund fees and expenses, and execution costs. Client assets also may be subject to transaction fees, commissions, deferred sales charges on mutual funds initially deposited in the account, 12b-1 fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. For mutual funds and ETFs, you may be charged internal management fees, a possible distribution fee, and other expenses typically charged by mutual funds and ETFs to their shareholders. These fees are described in each fund's prospectus. The client should review all fees charged by pooled vehicles and Walson to fully understand the total amount of fees to be paid by the client. Notably, Walson will not receive any portion of these other fees and expenses.

The advisory fees described above, unless otherwise specified, do not include custodian fees. Brokerage trading commissions, stock transfer fees, and other similar charges that are incurred in connection with transactions for a client's account will be paid out of the assets in the account and typically are in addition to the advisory fees paid to Walson. Please refer to Item 12 of this Brochure for additional important information about the brokerage and transactional practices of Walson, including considerations for selecting broker-dealers for client transactions.

#### **C. Important Considerations**

Prior to engaging Walson to provide advisory services, the client will be required to enter into a written agreement with Walson setting forth the terms and conditions, including those fees under which Walson shall render its services.

In accordance with applicable law, Walson will provide a brochure and relevant brochure supplements to each client or prospective client prior to or contemporaneously with the execution of an investment advisory agreement. The advisory agreement between Walson and the client will continue in effect until terminated by either party pursuant to the terms of the Agreement.

Neither Walson nor the client may assign the Agreement without the consent of the other party. Transactions that do not result in a change of actual control or management of Walson shall not be considered an assignment.

## **ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Walson does not charge performance-based fees (*i.e.*, fees calculated based on a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client). Consequently, Walson does not engage in side-by-side management of accounts that are charged a performance-based fee with accounts that are charged another type of fee (such as assets under management). As described above, Walson provides investment management services for a fee based upon a percentage of assets under management. Notably, accounts that are managed in the same style (*e.g.*, moderately aggressive) may not be managed the same way due to the client's overall investment objective, discretion of the investment professional assigned to the account, asset size and account restrictions.

## **ITEM 7 TYPES OF CLIENTS**

Walson provides investment advisory services primarily to individuals, businesses, pensions, trusts, estates and charitable organizations.

The recommended minimum portfolio size for the Investment Management Program is \$200,000, but this is negotiable. Smaller accounts may be accepted or the minimum account level waived at any time in the sole discretion of Walson. The Firm also reserves the right to accept or decline a potential client for any reason in its sole discretion.

## **ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **A. Methods of Analysis**

As mentioned in Item 4 above, Walson utilizes various methods of analysis in formulating its investment advice for managing assets. Walson employs a defined process for each step in the investment management cycle. This includes ongoing selection, implementation and monitoring of investments held in client accounts.

Walson carefully selects its best-in-class investments by beginning with an evaluation of investment performance and risk metrics of the broadest possible universe of funds and managers. During this phase, Walson gains insights through reviewing reports from external industry data providers, including market news reports, financial publications, corporate rating



services, outside research reports, annual reports, prospectuses, SEC filings and company press releases. Utilizing this broad information gathering process, Walson attempts to determine what investments appear to be suitable and in line with the investment objectives of each of its clients.

## **B. Investment Strategies**

The investment strategies Walson may pursue on behalf of clients may include long- and short-term purchases, dependent upon the client's investment objectives and current needs. Walson may recommend, on occasion, redistributing investment allocations to diversify the portfolio in an effort to reduce risk and increase performance. For example, Walson may recommend specific funds to increase sector weighting and/or dividend potential, or may recommend employing cash positions as a possible hedge against market movement which may adversely affect the portfolio. Additionally, Walson may recommend selling positions for reasons that include, but are not limited to, harvesting capital gains or losses, business or sector risk exposure to a specific security or class of securities, overvaluation or overweighting of the position(s) in the portfolio, change in the risk tolerance of the client, or any risk deemed unacceptable for the client's risk tolerance. The funds and ETFs selected by Walson may pursue investment approaches that are diversified among multiple strategies, asset classes, regions, industry sectors and holdings.

## **C. Risk of Loss**

### **1. Generally**

Investing in securities involves a significant risk of loss which clients should be prepared to bear. Walson's investment recommendations are subject to various market, currency, economic, political and business risks, and such investment decisions may not always be profitable. Clients should be aware that there may be a loss or depreciation to the value of the client's account. There can be no assurance that the client's investment objectives will be obtained and no inference to the contrary should be made. The primary risks involved in the mutual funds, ETFs, and other securities recommended by Walson may include, among others:

- *Stock market risk*, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.
- *Sector risk*, which is the chance that significant problems will affect a particular sector, or that returns from that sector will trail returns from the overall stock market. Daily fluctuations in specific market sectors are often more extreme than fluctuations in the overall market.
- *Nondiversification risk*, which is the chance that a fund's performance may be hurt disproportionately by the poor performance of relatively few stocks or even a single stock.
- *Interest rate risk*, which is the chance that changes in interest rates may adversely affect the value of bonds and other fixed-income securities. When interest rates rise, the value of fixed-income securities will generally fall. Longer-term securities are subject to greater

interest rate risk. This is closely related to *income risk*, which is the chance that the income from bonds or other debt instruments will decline because of falling interest rates.

- *Credit risk*, which is the chance that a bond issuer will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline.
- *Call risk*, which is the chance that during periods of falling interest rates, issuers of callable bonds may call (repay) securities with higher coupons or interest rates before their maturity dates. For mortgage-backed securities, this is known as *prepayment risk*.

Clients are advised that they should only commit assets for management that can be invested for the long term, that volatility from investing can occur, and that all investing is subject to risk and consequently, the value of the client's account may at anytime be worth more or less than the amount invested.

## 2. Risks Involved in Particular Securities Recommended by Walson

Mutual funds, ETFs, and closed end funds are not bank deposits or obligations, are not guaranteed by any bank, and are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board, or any other government agency. Investing in securities involves risk including the possible loss of principal. Investors considering these funds should have a long-term investment horizon. An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in such a fund. There can be no assurance that any fund will be able to achieve its investment objective.

The market value of stocks will fluctuate with market conditions, and small-stock prices generally will fluctuate more than large-stock prices. Funds investing in equity securities are subject to price fluctuations in the overall equity markets and from factors affecting individual companies or industries. The market value of bonds will generally fluctuate inversely with interest rates and other market conditions. Funds investing primarily in fixed income and money market securities are subject to fluctuations in interest rates and reduction in an issuer's credit quality. Although high yield bonds have higher return potential, they are also subject to greater risk of loss of income and principal compared to higher-rated securities and are considered to be predominantly speculative with respect to the payment of interest and repayment of principal. Such securities may also be subject to greater volatility as a result of changes in prevailing interest rates than other debt securities.

Non-diversified funds are more susceptible to financial, market and economic events affecting the particular issuers and industry sectors in which they invest and therefore may be more volatile or risky than less concentrated investments. Diversification cannot ensure better performance or eliminate the risk of investment losses.

Funds investing in securities of foreign issuers will be subject to risks not typically associated with securities of domestic issuers. Foreign issuers, especially issuers located in emerging

markets, can be riskier and more volatile than investments in the U.S. market. Adverse political and economic developments, changes in the value of foreign currency, differences in tax and accounting standards, and difficulties in obtaining information about foreign companies can all negatively affect investment decisions.

Walson typically invests for the long-term and does not engage in high frequency trading or day trading. Notably, some of the funds selected by Walson may employ alternative or riskier strategies, such as the use of leverage or hedging. Leverage is the use of debt to finance an activity. For example, leverage is used when one uses margin to buy a security. Hedging on the other hand occurs when an investment is made in order to reduce the risk of adverse price movements in a security. For example, hedging is used when one takes an offsetting position in a related security, such as an option or short sale. While leverage or hedging can operate to increase rates of return, it also increases the amount of risk inherent in an investment. Other mutual funds may employ other alternative techniques which carry inherent higher degrees of risks. Please review the models and underlying funds carefully prior to investing.

## **ITEM 9 DISCIPLINARY INFORMATION**

Registered investment advisers such as Walson are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of Walson or the integrity of its management. Walson does not have any such legal or disciplinary events and thus has no information to disclose with respect to this Item.

## **ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Neither Walson nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Moreover, the Firm does not have any relationship or arrangement that is material to its advisory business or to its clients. Walson does not recommend or select other investment advisers for clients in exchange for compensation from those advisers.

## **ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **A. Code of Ethics Summary**

Investment advisers such as Walson are subject to a fiduciary duty that requires Walson to act in the best interest of its clients. Walson's clients entrust us to use the highest standards of integrity when dealing with their assets and making investments that impact their financial future. Our fiduciary duty compels all employees to act with integrity in all of our dealings.

In furtherance of the Firm's fiduciary obligations, Walson has adopted a Code of Ethics ("Code"), which all personnel must follow. The Code sets forth standards of conduct expected of advisory personnel by the Firm and under federal securities laws, and includes general requirements designed to ensure that the Firm's supervised persons comply with their fiduciary obligations to clients and applicable securities laws. The Code also includes specific

requirements relating to, among other things, how Walson mitigates conflicts that may arise from personal trading activities by its personnel and contains written policies reasonably designed to prevent the unlawful use of material non-public information by Walson or any of its associated persons. The Code also requires that certain of Walson's personnel (called "Access Persons") report their personal securities holdings and transactions and obtain pre-approval for certain types of trades in certain circumstances. In addition, the Code contains procedures for reporting violations, escalation and enforcement. The Code is reviewed by Walson Senior Management and distributed to personnel no less than annually. For more information or to obtain a copy of our Code, please contact us at 877-9WALSON (877-992-5766).

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

Because the Code would permit associated persons of Walson to invest in the same securities as clients, there is a possibility that the associated person could benefit from market activity by a client in a security held by that person. Employee trading is continually monitored under the Code, with an eye to reasonably prevent conflicts of interest between Walson and its clients. From time to time Walson and/or its access persons may take positions in the same securities (including mutual funds, ETFs, and closed end funds) that are recommended to clients. Typically, these instances are merely coincidental and involve securities that are widely held and readily marketable or redeemable. Consequently, such transactions have negligible effect on the market price and are minimal in relation to the total outstanding value of the security.

Walson does not affect any principal or agency cross securities transactions for client accounts, nor does it effect cross-trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Should Walson ever decide to effect cross-trades between client accounts, it will comply with all applicable laws and regulations governing such transactions.

## **C. Personal Trading**

As noted above, Walson and its officers, directors, agents, and employees ("Associated Persons") may invest personally in securities of the same classes as are purchased for clients and may own securities of the issuers whose securities are subsequently purchased for clients. They may also buy or sell securities for their own accounts, based on personal investment considerations that they do not consider appropriate to buy or sell for clients. There are, however, many restrictions on such activities. Walson's Code of Ethics contains certain requirements designed to address the conflicts that arise with regard to personal trading by Walson or its Associated Persons. It is Walson's expressed policy that the Firm and its Associated Persons must scrupulously avoid serving their personal interests ahead of the interests of Walson clients. No person employed by Walson shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment decision of advisory clients.

In recognition of the fact that situations may arise whereby individuals affiliated with Walson or its Associated Persons may buy or sell securities for their personal accounts identical or different than those recommended to clients, Walson has adopted policies and procedures to ensure that clients are not adversely affected by the personal trading activities of employees. For example, Associated Persons are prohibited from purchasing or selling (either directly or indirectly) a security in a personal account if, at the time of the transaction, they have actual knowledge that the security is being considered for purchase or sale in a client account or is actually being purchased or sold in a client account. These requirements are not applicable to transactions in certain securities, including, among others: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds, ETFs, closed end funds, or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Walson requires that all individuals must act in accordance with all applicable federal and state regulations governing registered investment advisory practices. Additionally, Walson has adopted written insider trading policies and procedures that are reasonably designed to prevent the unlawful use of material non-public information by Walson or any of its associated persons. Employees are required to report their personal securities transactions and holdings to the CCO.

## **ITEM 12    BROKERAGE PRACTICES**

All clients are required to establish custodial accounts with a qualified custodian of record. Generally, Walson recommends the institutional division of Charles Schwab & Co. ("Schwab") for custodial services, but clients are permitted to request another broker-dealer custodian in their Client Questionnaire. In addition, in most cases, a client's broker-dealer also may act as the custodian of the client's assets for little or no extra cost. Clients should thoroughly consider, however, the differences between having their assets custodied at a broker-dealer versus at a bank or trust company. Some of these differences include, but are not limited to, custodian costs, trading issues, security of assets, client reporting and technology.

When Walson places orders for execution in client accounts, transactions are allocated to broker-dealers for execution in various markets at prices and commission rates that, based upon Walson's good faith judgment, it believes will be qualitatively in the best interest of the client. There are several factors which Walson considers when selecting or recommending broker-dealers (including those broker-dealer custodians) for client transactions. The following discussion summarizes the material aspects of Walson's practices in selecting broker-dealers to execute fully discretionary client transactions.

### **A. Selection Criteria**

Since Walson generally affects all transactions for client accounts through a broker-dealer custodian, Walson typically recommends Schwab (or a similar discount broker) for its discounted rates, trade execution and custody services available to the client. Walson

periodically evaluates the commissions charged and the service provided by the custodian and compares those with other broker-dealers to evaluate whether overall best qualitative execution could be achieved by using alternative custodians. Other factors Walson may consider when evaluating its choice of custodian include:

- Ability to trade mutual funds and other investments that Walson determines suitable for a client's portfolio;
- Any custodial relationship between the client and the broker-dealer;
- Excellent customer service;
- Interaction simplicity with Walson;
- Discount transaction rates; and
- Reliability and financial stability.

Schwab provides Walson with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services are made available at no charge, as long as a total of at least \$10 million of Walson's clients' assets are maintained in accounts at Schwab Institutional. Client accounts maintained in Schwab custody generally are not charged separately for custody, as Schwab is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through Schwab.

Schwab makes available software and technology to facilitate trade execution and access to client account data. In addition, Walson may purchase computer equipment, portfolio accounting software, and/or real-time computer data through Schwab or other independent companies.

From time to time Walson may recommend certain client accounts be opened with one or more mutual fund companies directly or through the broker-dealer custodian. In the latter case, clients may pay transaction fees to these brokers for the purchase of "no-load" funds. However, Investment Adviser Representatives of Walson are not registered representatives of Schwab and do not receive any commissions or fees from recommending these services.

For those clients who select broker-dealers not recommended by Walson, clients should be aware that Walson may not be able to seek better execution services or prices from other broker-dealers. As a result, the client may pay higher commissions and/or receive less favorable net prices on transactions for their account than might otherwise be the case and Walson will have limited ability to ensure the broker-dealer selected by the client will provide best possible execution.

#### 1. Best Execution

It is the policy and practice of Walson to strive for the best price and execution that are competitive in relation to the value of the transaction ("best execution"). In order to achieve best execution, Walson will use its best judgment to choose the broker-dealer most capable of providing the brokerage services necessary to obtain the best overall qualitative execution. Walson periodically evaluates the commissions charged and the services provided by the brokers utilized and compares those with other broker-dealers to evaluate whether overall best qualitative execution could be achieved by using alternative custodians. Walson's evaluation will consider the full range of brokerage services offered, which may include, but is not limited to price,

commission, timing, research, aggregated trades, capable floor brokers or traders, competent block trading coverage, ability to position, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers and administrative ability.

In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among other things, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while Walson will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions. When Walson believes that more than one broker can offer the brokerage and execution services needed to obtain the best available price and most favorable execution, consideration may be given to selecting those brokers which also supply research services of assistance to Walson in fulfilling its investment advisory responsibilities. Thus, clients may be deemed to be paying for research and related services (i.e., "soft dollars") provided by the broker which are included in the commission rate.

## 2. Research and Other Soft dollar Benefits

Walson may select a broker-dealer in recognition of the value of various services or products (beyond transaction execution) that such broker-dealer provides where, considering all relevant factors, it believes the broker-dealer can provide best execution. The commissions paid to such broker-dealer may be higher than what another, equally capable broker-dealer might charge. Selecting a broker-dealer in recognition of the provision of services or products other than transaction execution is known as paying for those services or products with "soft dollars."

Walson may receive unsolicited research information and services from Schwab or other broker-dealers as part of a bundled package by the provider which Walson may or may not use. However, Walson may utilize some of Schwab's research from time to time which it believes to be beneficial to its investment management decisions, and therefore, beneficial to its clients. This research is readily available to any investment adviser utilizing Schwab Institutional services.

The receipt of such services may benefit Walson because Walson does not have to produce or pay for the research or other products or services if such products and services are obtained by using client commissions. Consequently, these arrangements present potential conflicts of interest, including the incentive for Walson to select or recommend a broker-dealer based on Walson's interest in receiving research or other products or services, rather than on the clients' interest in receiving the most favorable execution. Additionally, Walson may have an incentive to effect more transactions than might otherwise be the case in order to obtain those benefits. The extent of any such conflict depends in large part on the nature and uses of the services and products acquired with soft dollars. The agreements between Walson and its clients generally authorize Walson to use client soft dollars for a wide range of purposes. Therefore, Walson feels it is important for clients to be aware of the issues surrounding soft dollars.

Section 28(e) of the Securities Exchange Act of 1934 recognizes the potential conflict of interest involved in this activity but permits investment managers such as Walson to use soft dollars to acquire a variety of “research” and “brokerage” services and products for which a client would not otherwise be required to pay—even if the brokerage commissions paid are higher than the lowest available—if certain conditions and requirements are met. For these purposes, “research” means services or products used to provide lawful and appropriate assistance to Walson in making investment decisions for its clients. “Brokerage” services and products are those used to effect securities transactions for Walson’s clients or to assist in effecting those transactions.

Pursuant to Section 28(e), Walson may use soft dollars to acquire a variety of research and brokerage services and products from Schwab or another broker-dealer so long as Walson determines, in good faith, that the commissions paid are reasonable in light of the value of the products or services provided by the broker-dealer. Additionally, research purchased with soft dollars may be used by Walson in servicing any or all of Walson’s clients, and may be used in connection with clients other than those who generated the brokerage, as permitted by Section 28(e). While Walson may not always obtain the lowest commission rate, Walson believes the rate is reasonable in relation to the value of the brokerage and research services provided.

The types of research Walson expects to acquire include, but are not limited to: reports or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; analytical and other software used in investment decision making; and other products or services that may enhance Walson’s investment decision making. Brokerage services and products (beyond typical execution services) that Walson may use include, but are not limited to: computer systems and facilities used for such things as communicating orders electronically to executing broker-dealers.

Walson’s recommendation that clients maintain their assets at Schwab may be based in part on the benefit to Walson of the availability of some of the foregoing products and services and not solely on the quality or cost of services provided by Schwab, which may create a potential conflict of interest that clients should be aware of.

### 3. Directed Brokerage

As noted above, in certain situations, clients may direct Walson to use a particular broker-dealer to execute some or all transactions for the client. In the event that a client directs Walson to use a particular broker or dealer, the client will negotiate terms and arrangements for the account with that broker-dealer, and Walson will not seek better execution services or prices from other broker-dealers or be able to “batch” client transactions for execution through other broker-dealers with orders for other accounts managed by Walson (as described below). Additionally, in directed brokerage situations, Walson will have limited ability to ensure the broker-dealer selected by the client will provide best possible execution. As a result, the 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. Subject to its duty of best execution, Walson may decline a client’s request to direct brokerage if, in Walson’s sole



discretion, such directed brokerage arrangements would result in additional operational difficulties or violate restrictions imposed by other broker-dealers.

### **C. Trade Aggregation and Allocation**

Since most, if not all client transactions involve mutual funds, ETFs, and closed end funds exclusively, Walson generally effects transactions for each client account individually. However, if appropriate and when able to, Walson may aggregate trades of accounts. Trade aggregation, or "bunching of orders," may result in better execution and/or better realized prices. Because of prevailing market conditions, or due to Walson's style of management utilizing mutual funds and ETFs, it may not be possible to execute all shares of an aggregated trade, in which case Walson will allocate the trade among participating accounts in an equitable manner determined prior to execution of the trade. Ordinarily, the executing broker-dealer will provide an average price, and where possible, average transaction costs that will be allocated to all accounts participating in the aggregated trade. In certain cases, Walson may not be able to purchase or sell the same security for all clients that could transact in the security, which is generally based on various factors such as the type of security, size of the account, cash availability and account restrictions. For clients requiring directed brokerage, typically Walson may not be able to effectively "bunch" orders on the client's behalf, which could impact the possible advantage clients derive from the aggregation of orders.

## **ITEM 13 REVIEW OF ACCOUNTS**

### **A. Periodic Reviews**

Walson reviews all client accounts on an ongoing basis. Mutual funds and all investment decisions are monitored daily and client portfolios are reviewed weekly. Walson investment professionals periodically review their designated client accounts on a regular basis and no less than quarterly. All reviews are performed by Dick Runyon or Forrest Walson.

### **B. Regular Reports**

Clients receive standard account statements directly from the mutual fund sponsors and/or their custodian. The custodial account statement will identify the amount of assets for each security in the portfolio as of the end of the period and show the type of transaction (buy/sell), including the amount of management fees deducted from each client account. Clients may receive transaction confirmation notices sent or delivered in electronic format for each transaction by the broker or custodian.

Additionally, Walson provides quarterly reports and portfolio performance reviews to clients. These reports include a description of the assets held, the quantity and market value of each position, the total market value of each account and the assessment of Walson's advisory fee. Clients are urged to compare the statements received from Walson to those received from the account custodian.

On a quarterly basis, each Walson IAR provides a written letter to its clientele asking them to provide updates related to the client's financial situation and/or investment objectives, which may require modification to or imposition of account restrictions. In addition, the IAR will generally review these matters with the client no less than annually. Clients are encouraged to call at any time during normal business hours to discuss their account and related matters with their IAR.

## **ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION**

### **A. Economic Benefits Received**

As discussed above in Item 12, Walson may use soft dollars to acquire a variety of research and brokerage services and products from Schwab or other broker-dealers. The receipt of such products or services may be deemed to be the receipt of an economic benefit by Walson, and although customary, these arrangements may create potential conflicts of interest, including the incentive to allocate securities transactional business to broker-dealers based on the receipt of such benefits rather than on a client's interest in receiving most favorable execution. Please refer to Item 12 above which more fully describes these benefits and how Walson addresses the conflicts of interest.

Schwab also makes available other non-research products and services that benefit Walson but may not benefit its clients' accounts. Some of these other products and services assist Walson in managing and administering client's accounts. These include software and other technology that provide access to client account data, facilitate trade execution, pricing information and market data, assist with back-office support, recordkeeping, and client reporting. Many of these services generally may be used to service all or a substantial number of Walson's accounts, including accounts not maintained at Schwab. Schwab may also provide other services intended to help Walson manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. Schwab may make these available through independent third-parties. Schwab may discount or waive fees it would otherwise charge for these services, or pay all or a part of the fees of a third party providing these services to Walson.

### **B. Compensation for Client Referrals**

Neither Walson nor any of its related persons directly or indirectly compensate any third party for client referrals.

## **ITEM 15 CUSTODY**

Walson is deemed to have custody of client funds because the Firm has the authority and ability to debit its fees directly from clients' accounts. To mitigate any potential conflicts of interests, all Walson client account assets will be maintained with an independent qualified custodian. Generally, Walson recommends Schwab for custodial services, but from time to time, other custodians may be used by Walson to custody assets.

Walson may only implement its investment management recommendations after the client has arranged for and furnished Walson with all information and authorization regarding its accounts held at the designated qualified custodian. Notably, in most cases a client's broker-dealer also may act as the custodian of the client's assets for little or no extra cost. Clients should be aware, however, of the differences between having their assets custodied at a broker-dealer versus at a bank or trust company. Some of these differences include, but are not limited to, custodian costs, trading issues, security of assets, client reporting and technology.

Clients will receive statements on at least a quarterly basis directly from the qualified custodian that holds and maintains their assets. Clients are urged to carefully review all custodial statements and compare them to the statements provided by Walson. Walson's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Please refer to Item 12 for additional important disclosure information relating to Walson's practices and relationships with custodians.

## **ITEM 16 INVESTMENT DISCRETION**

### **A. Discretionary Authority; Limitations**

Unless otherwise noted in the Client Questionnaire or the terms of the Agreement, Walson has full discretionary authority over the Client's portfolio, which includes the selection and amount of securities to be bought or sold for client accounts. Walson makes investment decisions without consultation with the client on which securities and quantities are to be bought and sold for the account. However, Walson strives to manage all client accounts in accordance with their investment objectives and individual risk tolerance as set forth in each client's Client Questionnaire. In some instances, Walson's discretionary authority in making these determinations may be limited by conditions imposed by clients in their investment guidelines or objectives provided to Walson. All such limitations, restrictions, and guidelines must be provided to Walson in writing.

### **B. Limited Power of Attorney**

Unless clients specifically request in writing that Walson manage all or part of their account on a non-discretionary basis, by signing Walson's advisory agreement, clients authorize Walson to exercise full discretionary authority with respect to all investment transactions involving the client's account. Pursuant to such agreement, Walson is granted full discretionary authority to effect investment transactions in the client's account in accordance with the client's stated investment guidelines and objectives and in accordance with Walson's investment strategy utilized for the account. Walson is authorized to enter into agreements and execute any documents required to effect transactions in the client's account and is further authorized to give instructions to third parties in furtherance of such authority.

## **ITEM 17 VOTING CLIENT SECURITIES**

Walson has adopted a policy not to accept proxy voting authority with respect to client securities. It is the client's responsibility to vote proxies. Consequently, all proxy solicitations related to

securities held by clients will be sent directly to clients for voting. In the event a proxy solicitation is sent to Walson on a client's behalf, it is Walson's practice to forward the solicitation to the client's address of record immediately so that they may cast the proxy vote.

Walson typically does not advise or act for clients with respect to any legal matters, including bankruptcies and class actions, for the securities held in clients' accounts.

## **ITEM 18 FINANCIAL INFORMATION**

Walson does not require or solicit prepayment of more than \$500 in fees per client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. Walson does not have any financial commitments that impair its ability to meet contractual and fiduciary obligations to clients, and has not been the subject of a bankruptcy proceeding.

## **ITEM 19 REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

### **A. Principal Executive Officers and Management Persons**

The Firm's principal executive officers are Forrest Walson, who serves as President and Chief Compliance Officer, and L. Richard Runyon, who serves as Vice President. Detailed information regarding their formal education and business background is outlined in their respective Form ADV Part 2B, copies of which are provided to all clients and are available upon request.

### **B. Other Business Activities**

Walson is not involved in any other business activities (other than giving investment advice).

### **C. Performance-Based Fees**

As noted in response to Item 6 above, Walson does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). As described under Item 5, Walson provides investment management services for fees based on a percentage of assets under management.

### **D. Disclosure Information**

In addition to the events listed in Item 9 of Part 2A, state-registered investment advisers such as Walson are required to disclose all material facts regarding arbitration awards in excess of \$2,500 involving certain investment-related activities involving the Firm or any of its management persons. Neither Walson nor any of its management persons have any arbitration disclosures required to be disclosed with respect to this Item.

### **E. Relationships or Arrangements with Issuers**

Neither Walson nor any of its management persons have any relationships or arrangements with any issuer of securities.