



## **F500 Advisory Services, Inc.**

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## **Form ADV, Part 2A Brochure**

May 10, 2012

This brochure provides information about the qualifications and business practices of F500 Advisory Services, Inc. If you have any questions about the contents of this brochure, please contact us at 949.253.4000 or [info@f500advisory.com](mailto:info@f500advisory.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.

Any reference to or use of the terms "registered investment adviser" or "registered," does not imply that F500 Advisory Services, Inc. or any person associated with F500 Advisory Services, Inc. has achieved a certain level of skill or training.

Additional information about F500 Advisory Services, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2 - MATERIAL CHANGES

Revised April 23, 2012

The purpose of this page is to inform you of material changes since the last annual update to this brochure. If you are receiving this brochure for the first time this section may not be relevant to you.

F500 Advisory Services, Inc. ("F500 Advisory") reviews and updates our brochure at least annually to confirm that it remains current. Below is a summary of material changes F500 Advisory made since the last annual update to the brochure. You can read more details about these changes in the text of the brochure below (see the Table of Contents to find each section).

Material changes from F500 Advisory's brochure dated March 31, 2011:

### ***Item 4 & Item 5 – MNJ Multi-Cap Strategy Fund, LP***

F500 Advisory has added a new fund to our product offerings. F500 Advisory acts as the General Partner and investment adviser to the MNJ Multi-Cap Strategy Fund, LP, a private investment fund. The fund's investment objective is to provide short and long-term capital appreciation by investing primarily in equity securities of high-growth U.S.-based companies regardless of industry. The fund is only offered to "Accredited Investors" who are "Qualified Clients," as those terms are defined in the federal securities laws. Additional information regarding the fund is provided in the private placement memorandum and subscription agreement (the "Offering Documents") for the fund. Prospective investors in the MNJ Multi-Cap Strategy Fund are provided with the Offering Documents. This brochure is not an offer to sell, or a solicitation of an offer to purchase, membership interests in the fund. Such an offer can only occur when the prospective investor receives the Offering Documents.

### ***Item 5 – Fees and Compensation***

The fee structure for the Perennial Protection Fund, LLC has changed. The fund now consists of four separate classes of interests: Class A, Class B, Class C, and Class D. Class A interests were available only to investors who invested in the fund prior to November 1, 2011. The classes have substantially the same rights and privileges, except with respect to fees. The fees charged to each class differ in their combination of asset-based management fees, incentive fees, and commissions or solicitation fees. Investors should review the Offering Documents for more details regarding these fees.

### ***Item 12 – Brokerage Practices***

F500 Advisory now recommends TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade") as custodian for client accounts, subject to our duty to seek best execution for client transactions. Beginning in January 2012, clients moved their brokerage accounts to TD Ameritrade. Clients still have the option to custody their assets at another custodian if they so desire, subject to F500 Advisory's consent. As an incentive for F500 Advisory to recommend that clients move their accounts to

TD Ameritrade, TD Ameritrade agreed to provide F500 Advisory approximately \$30,000 towards subscriptions for portfolio modeling and trading software. Any cost for the software over that amount is paid by F500 Advisory. We use this software exclusively to facilitate more efficient management of our clients' accounts and portfolios. This arrangement creates an incentive for F500 Advisory to recommend TD Ameritrade as custodian and broker for client accounts, as TD Ameritrade's payment reduces the cost F500 Advisory would otherwise have to pay for the software. TD Ameritrade considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, F500 Advisory's client accounts when determining whether to provide or continue providing these benefits to us.

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## ITEM 4 - ADVISORY BUSINESS

### Description of Advisory Firm

F500 Advisory Services, Inc. ("F500 Advisory," "we," "our," or "us") is a privately owned corporation headquartered in Irvine, California. F500 Advisory is registered as an investment adviser with the U.S. Securities and Exchange Commission. Robert L. Hicks, President and CEO of F500 Advisory and principal owner, founded the firm in 1984. Robert Hicks is also the President of Finance 500, Inc., a registered broker-dealer founded in 1982.

### Advisory Services Offered

F500 Advisory offers investment management services to clients through individual and/or pooled accounts. We also offer a range of financial planning services.

#### Investment Management Services

F500 Advisory makes investment decisions typically based first on overall asset allocation principles, and secondly, on an evaluation of a particular security or mutual fund. Our investment management services include the design, implementation, and continued monitoring of the client's account. Generally, F500 Advisory will invest the account on a fully discretionary basis, limited only by the client's individual needs and any restrictions imposed on the account.

F500 Advisory primarily manages clients' accounts on a discretionary basis through the following types of portfolio management:

1. Accounts invested in individual issues, including equity and fixed income securities;
2. Accounts invested in mutual funds;
3. Accounts invested in variable annuity and life contracts;
4. Accounts invested primarily in domestic investment instruments which offer issuer guarantees and various forms of collateral protection (see CD Plus Service, below).

F500 Advisory may offer investment advice on any investment held by the client at the start of the advisory relationship.

F500 Advisory may also provide advice regarding real estate or oil and gas partnerships, or other types of partnerships and private placements, such as equipment leases or the stock of non-public companies. Private placements are only available to clients who meet certain income or net worth requirements as set by securities regulation.

Other types of investments and securities we may give advice on include mortgages and mortgage pools, prime rate trusts, securitized-debt programs, CMO's (Collateralized Mortgage Obligations), subordinated finance notes, index-linked notes and certificates of deposit (CD's) and closed-end investment companies.

F500 Advisory may also occasionally offer advice regarding additional types of investments if they are appropriate to address the individual needs, goals, and objectives of the client or in response to client inquiry. We describe the material investment risks for many of the securities that we recommend under the heading ***Specific Security Risks*** in ***Item 8*** below.

We discuss our discretionary authority below under ***Item 16 - Investment Discretion***. For more information about the restrictions clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this Item below.

We describe the fees charged for investment management services below under ***Item 5 - Fees and Compensation***.

### *CD Plus Service*

F500 Advisory offers investment management services to clients in a separate account format through the CD Plus Service. CD Plus is a strategy focusing on principal protection by investing solely in CD's, index-linked CD's (ICDs), Treasury securities, or other securities with the implicit backing of the U.S. government, some of which may be "paired" with capital appreciation strategies seeking to enhance overall yield but not increase principal risk.

### *Proprietary Private Funds*

F500 Advisory provides discretionary investment advisory services to the following private investment funds:

#### *Perennial Protection Fund, LLC*

F500 Advisory acts as the investment adviser and Managing Member of the Perennial Protection Fund, LLC. The Perennial Protection Fund invests primarily in domestic investment instruments which offer issuer guarantees and various forms of collateral protection, such as subordinated corporate notes with a perfected security interest in the assets of the obligor, equity linked notes and equity linked certificates of deposit, among other things.

#### *MNJ Multi-Cap Strategy Fund, LP*

F500 Advisory acts as the General Partner and investment adviser to the MNJ Multi-Cap Strategy Fund, LP. The MNJ Multi-Cap Strategy Fund's investment objective is to provide short and long-term capital appreciation by investing primarily in equity securities of high-growth U.S.-based companies regardless of industry. The fund invests primarily in stocks that are publicly traded in the United States. There is no limit on the sizes of the issuers, which can range from small to large companies.

The funds are not publicly offered or traded. The funds are only available to "Accredited Investors" as the term is defined by Rule 501 of the Securities Act of 1933. The fund's investors must also be "Qualified Clients" under Rule 205-3 of the Investment Advisers Act of 1940 if the fund employs a performance-based compensation structure.



While this brochure may include information about the funds, it does not represent a complete discussion of the features, risks or conflicts associated with the funds. Additional information regarding each fund is provided in the private placement memorandum and subscription agreement (the “Offering Documents”) for the fund. Prospective investors in the funds are provided with the Offering Documents. This Form ADV Part 2A Brochure is not an offer to sell, or a solicitation of an offer to purchase, membership interests in any private fund. Such an offer can only occur when the prospective investor receives the Offering Documents.

### Financial Planning Services

F500 Advisory offers a range of financial planning services to clients. As part of the financial planning process, F500 Advisory collects information from the client about the client’s financial situation and needs in order to produce a written plan in one or more areas of focus, as requested by the client.

A Complete Plan encompasses various planning elements, such as:

1. Retirement Planning
2. Education Planning
3. Insurance Planning
4. Cash Flow/Savings Planning
5. Asset Allocation and Portfolio Analysis

Clients may also request that F500 Advisory produce a plan focusing on one or more of the elements above as individual Modules. In addition to the Modules above, Estate Planning may be offered as a separate analysis and module. Depending on complexity, the Estate Planning Module may be referred out to a legal firm or other qualified entity and/or require a higher fee than described below for the other Modules. Our financial planning services do not include preparation of any kind of income tax, gift, or estate tax returns nor preparation of any legal documents, including wills or trusts.

We describe fees charged for financial planning services below under ***Item 5 - Fees and Compensation***.

### Limitations on Investments

In some circumstances, F500 Advisory’s advice may be limited to certain types of securities.

If F500 Advisory is managing assets within a retirement plan such as 401(k), 403(b), or other employer plan, F500 Advisory may be limited to those investment providers and investment options chosen by the plan administrator. Similarly, when we provide services to participants in an employer-sponsored plan, the participant may be limited to investing in securities included in the plan’s investment options. Therefore, F500 Advisory can only make recommendations to the client from among the available options, and will not recommend or invest the client’s account in other securities, even if there may be better options elsewhere.

In the event F500 Advisory is managing assets within a variable annuity, F500 Advisory may only invest in the sub-accounts permitted by the issuer of the variable annuity contract.

F500 Advisory may also limit advice based on certain client-imposed restrictions. For more information about the restrictions clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this Item below.

## **Tailored Services and Client Imposed Restrictions**

F500 Advisory manages client accounts based on the investment strategy discussed below under ***Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss***. F500 Advisory applies the strategy for each client, based on the client's individual circumstances and financial situation. We make investment decisions for clients based on information the client supplies about their financial situation, goals, and risk tolerance. Our recommendations or investment selections may not be suitable if the client does not provide us with accurate and complete information. It is the client's responsibility to keep F500 Advisory informed of any changes to their investment objectives or restrictions.

Clients may also request other restrictions on the account, such as when a client needs to keep a minimum level of cash in the account or does not want F500 Advisory to buy or sell certain specific securities or security types in the account. F500 Advisory reserves the right to not accept and/or terminate management of a client's account if we feel that the client-imposed restrictions would limit or prevent us from meeting or maintaining the client's investment strategy.

## **Wrap Fee Programs**

F500 Advisory does not manage accounts as part of a wrap or bundled fee program.

## **Assets Under Management**

F500 Advisory manages client assets in both discretionary and non-discretionary accounts on a continuous and regular basis. As of 12/31/2011, the total amount of assets under our management was:

Discretionary Assets	\$ 110,011,325
<u>Non-Discretionary Assets</u>	<u>\$ 1,188,621</u>
Total Assets	\$ 111,199,946

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

### ***Investment Management Services***

F500 Advisory charges advisory fees for investment management services based on a percentage of assets under management, per the following schedule:

<u>Managed Assets</u>	<u>Maximum Annual Fee*</u>
\$0 - \$249,000	2.00% of assets

	(minimum \$600 per quarter)
\$250,000 - \$500,000	1.70% of assets
\$500,000 - \$1,000,000	1.50% of assets
\$1,000,000 - \$3,000,000	1.30% of assets
\$3,000,000 +	1.00% of assets

\*Older accounts may be under historically different fee schedules; all fees are negotiable.

F500 Advisory has certain clients (family members, employees, and close acquaintances) who receive advisory services without paying fees or brokerage commissions. F500 Advisory has several non-fee paying clients who, under a special historical arrangement, have engaged F500 Advisory's services and only pay compensation through brokerage commissions to our affiliated broker-dealer. F500 Advisory does not receive brokerage commissions.

F500 Advisory may charge a flat-fee or a performance-based fee for clients under a special arrangement. All other clients have an assets under management fee-based arrangement.

F500 Advisory imposes a minimum quarterly fee of \$600, irrespective of account size, although this may be reduced or the minimum waived under certain circumstances. If the regular quarterly management fee calculated based on assets under management is less than our minimum advisory fee, we will charge the client our minimum fee.

### *Billing Method*

F500 Advisory's investment management fees are payable quarterly in arrears based on the account market value as of the last business day of the quarter.

The initial fee for a new account will be pro-rated for the number of days in the calendar quarter that the account is under F500 Advisory's management. At our discretion, F500 Advisory may elect to waive fees for cash balances and/or waive first quarter fees for new money deposited into client accounts.

It is up to the client whether they wish to have the advisory fees withdrawn directly from their custodian account or pay by check. With client authorization, F500 Advisory will instruct the custodian to automatically withdraw our advisory fee from the client's account. All clients will receive brokerage statements from the custodian no less frequently than quarterly. The custodian statement will show the deduction of the advisory fee for those clients who authorize the advisory fees to be withdrawn directly from their custodian account.

F500 Advisory will send an invoice to all clients who choose not to have advisory fees withdrawn directly from their custodian account. The invoice is payable upon receipt and will include the fee calculation and amount due.

### *Termination*

Either party may terminate the advisory agreement at any time by providing written notice to the other party. The client may terminate the agreement at any time by writing F500 Advisory at our office.

Upon notice of termination, F500 Advisory will calculate the final fees due for services provided through the date of termination based on the account's market value as of the date of written notification of termination and pro-rated for the number of days in the calendar quarter that the assets were under management. Any advisory fees that we have earned for the services provided will be due upon termination.

### *CD Plus Service*

Fees for the CD Plus Service are negotiable. The maximum fee charged is:

1.00% annual fee based on assets under management, plus  
15% performance-based incentive allocation

Performance-based fee structures are only available to clients meeting the financial requirements of Rule 205-3 of the Investment Advisers Act of 1940, including persons whose individual net worth (or joint net worth with their spouse) exceeds \$1,500,000 and persons who invest at least \$750,000 with F500 Advisory ("Qualified Clients").

The assets under management fee is charged quarterly in arrears as described under ***Investment Management Services – Billing Method*** above. The incentive allocation is charged on the last day of each calendar quarter, equal to 15% of the appreciation in each client's account during the quarter. The incentive allocation is payable only if, and to the extent that, the net capital appreciation of the client's account for the quarter exceeds any net capital depreciation in the account (reduced pro rata for any partial withdrawals ) for that investment. F500 Advisory may receive incentive allocations with regard to unrealized appreciation as well as realized gains in the client's account.

CD Plus clients may terminate this service in the same manner as described under ***Investment Management Services – Termination***, above.

### *Proprietary Private Funds*

F500 Advisory receives a management fee for our services to private funds, as follows:

#### *Perennial Protection Fund, LLC*

The management fee charged to each member will depend on the class of interests the member holds in the fund. The fund currently consists of four separate classes of interests: Class A, Class B, Class C, and Class D. Class A interests were available only to investors who invested in the fund prior to November 1, 2011. The fund is no longer offering Class A interests. Class B interests are available only to investors who purchase interests directly from the fund. Class C and Class D interests are available to investors who purchase interests through registered representatives of broker-dealers. The classes have substantially the same rights and privileges, except with respect to fees. The fees charged to each class

differ in their combination of asset-based management fees, incentive fees, withdrawal fees, and finders' fees/solicitation fees/commissions paid to broker-dealers who introduce investors.

The management fee is equal to a percentage of each member's total capital account balance in the fund, and is paid quarterly in advance, as of the first business day of each quarter. The management fee is normally paid by deduction from a member's capital account. The management fee is prorated for interests held for less than a full quarter.

The quarterly management fee charged for currently offered classes ranges from 0.25% to 0.4375% (1.00% to 1.75% on an annualized basis). The fee charged to members holding Class A interests may differ.

In addition, F500 Advisory is allocated with respect to each member a performance-based incentive allocation on the last day of each calendar quarter equal to 20% of the appreciation in each member's capital account balance during the quarter. The incentive allocation is payable only if, and to the extent that, the net capital appreciation of that member's capital account for the quarter exceeds any net capital depreciation in the capital account (reduced pro rata for any partial withdrawals) for that investment. F500 Advisory may receive the incentive allocation with regard to unrealized appreciation as well as realized gains in the member's capital accounts.

#### *MNJ Multi-Cap Strategy Fund, LP*

F500 Advisory receives a quarterly management fee of 0.50% (2.00% on an annualized basis) of each limited partner's total capital account balance in the fund. The fee is paid quarterly in advance, as of the first business day of each quarter. The management fee is normally paid by deduction from a limited partner's capital account. The management fee is prorated for interests held for less than a full quarter.

In addition, F500 Advisory is allocated with respect to each limited partner a performance-based allocation on the last day of the year equal to 20% of the appreciation in each limited partner's capital account during the year. The performance allocation is made only if, and to the extent that, the net capital appreciation of that limited partner's capital account for the year exceeds any net capital depreciation in the capital account (reduced pro rata for any partial withdrawals) accumulated in prior year. F500 Advisory may receive the performance allocation with regard to unrealized appreciation as well as realized gains in the limited partner's capital accounts.

F500 Advisory may adjust the management fee and performance allocation of any limited partner in our sole discretion, and may share portions of the management fee and performance allocation with persons who refer investors to the fund at our own expense.

The fund currently offers two classes of interests: Class A and Class B. Class A interests are available only to investors who purchase interests directly from the fund. Class B interests are available to investors who purchase interests through registered representatives of broker-dealers. The classes have substantially the same rights and privileges, except that investors in Class B interests are subject to a commission each time they contribute capital to the fund.

Each time a Class B partner subscribes for an interest in the fund, F500 Advisory (and not the fund) pays out of the Class B partner's capital contribution a commission to the broker-dealer through which the Class B Partner purchases its interests. The commission may be up to 2.5% of the Class B partner's capital contribution.

Withdrawal provisions for the funds are described in the fund offering documents.

See ***Related Fund Interests*** in ***Item 11*** for more information about our practices and related conflicts of interests when recommending interests in the funds to F500 Advisory's investment management clients.

### **Financial Planning Services**

Fees for financial planning services are charged on a fixed fee basis. The maximum fee for a Complete Plan is \$1,250. F500 Advisory discounts this fee for clients to whom we also provide investment management services, at a fixed fee ranging from \$750-\$950 for a Complete Plan. Modular planning is offered at a rate of \$150-\$250 per Module. The planning fees we charge to each client will depend on the nature and complexity of the client's circumstances. Planning fees will be due 50% at the beginning of the service engagement, with the balance due upon delivery of the plan.

Financial planning agreements will terminate upon delivery of the plan. In the event that either the client or F500 Advisory wishes to terminate the financial planning agreement before completion of the plan, either party may terminate the agreement at any time by providing written notice to the other party. The client may terminate the agreement at any time by writing F500 Advisory at our office. Upon notice of termination, F500 Advisory will provide the client with an invoice for services provided through the date of termination. If you paid fees in advance that were more than the amount due for services, F500 Advisory will refund any unearned fees to you.

### **Other Fees and Expenses**

F500 Advisory's fees do not include custodian fees. Clients pay all brokerage commissions, stock transfer fees, and/or other similar charges incurred in connection with transactions in accounts, from the assets in the account. These charges are in addition to the fees client pays to F500 Advisory. See ***Item 12 - Brokerage Practices*** below for more information about the brokers used for client accounts.

In addition, any mutual fund shares held in a client's account may be subject to deferred sales charges, 12b-1 fees, early redemption fees, and other fund-related expenses. The fund's prospectus fully describes the fees and expenses. All fees paid to F500 Advisory for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds. Mutual funds pay advisory fees to their managers, which are indirectly charged to all holders of the mutual fund shares. Consequently, clients with mutual funds in their portfolios are effectively paying both F500 Advisory and the mutual fund manager for the management of their assets.

When possible, F500 Advisory will attempt to obtain any applicable waivers of or reductions in mutual fund sales charges that may be available and for which the client qualifies. F500 Advisory may also arrange for a client to take advantage of discounts through the use of “letters of intent” or other cumulative purchase plans, but we are under no obligation to do this. Commissions that clients pay with respect to transactions in mutual fund shares currently are not negotiable and F500 Advisory has no responsibility to attempt to negotiate such commissions. F500 Advisory also has no obligation to seek to combine client orders with respect to the purchase or sale of mutual fund shares with those of other clients for the purpose of attempting to obtain discounts on sales commissions.

## Other Compensation

F500 Advisory does not receive compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds. However, F500 Advisory’s affiliated brokerage firm and certain personnel may receive a portion of these fees. Please see **Item 10 – Other Financial Industry Activities and Affiliations** for more information. This practice presents a conflict of interest and gives individuals an incentive to recommend investment products based on the compensation received, rather than on a client’s needs. Clients have the option to purchase investment products that F500 Advisory recommends through any broker or agent they desire.

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

The fees F500 Advisory charges to clients for investment advisory services are typically a percentage of the client’s account value under our management. For Proprietary Private Funds and CD Plus Service, and other investment management clients under special arrangement, F500 Advisory charges clients a performance-based incentive fee, in many cases in combination with an asset-based fee. We may only offer performance-fee arrangements to clients that meet certain internal and regulatory qualifications. The performance-based fee is generally a percentage of the appreciation in each client’s account during the quarter, payable if, and to the extent that, the net capital appreciation of the client’s account for the quarter exceeds any net capital depreciation in the account (reduced pro rata for any partial withdrawals) for that investment. Clients should review the fee agreement for more specifics about how this fee is charged.

Managing accounts under different fee arrangements may create a conflict of interest. Performance-based fee arrangements may create a conflict of interest for portfolio managers as they may have incentives to:

1. Allocate investment opportunities that they believe might be the most profitable to performance-based fee accounts; and/or
2. Make investments with more risk or that are more speculative than those that might be recommended under a different fee arrangement.

F500 Advisory has adopted policies and procedures reasonably designed to address these types of conflicts. Specifically, the policies and procedures are designed to allocate investment opportunities

between accounts on a fair and equitable basis over time and prevent non-suitable investments in client accounts.

## **ITEM 7 - TYPES OF CLIENTS**

F500 Advisory offers investment management and financial planning services to individuals, high net worth individuals, trusts and estates, and individual participants of retirement plans. In addition, we offer advisory services to pension and profit sharing plans, charitable organizations and businesses, and to private funds.

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

### **Methods of Analysis and Investment Strategies**

F500 Advisory's general investment strategy is to seek real capital growth proportionate with the level of risk the client is willing to take. We believe that proper asset allocation and portfolio management is critical to the success of any investment strategy. We work with clients to develop customized, diversified investment plans. We design each plan for the client's unique situation, taking into consideration the risk tolerance, liquidity needs, tax liabilities, life stages and short and long-term goals of our clients. F500 Advisory will then make recommendations that are consistent with the client's strategy, utilizing a portfolio of mutual funds, individual securities, annuity structures, and/or other securities as agreed to with the client.

F500 Advisory selects appropriate categories of investments based on clients' attitudes about risk and their need for capital appreciation or income. Different securities involve different levels of exposure to risk. Within each investment category, F500 Advisory selects individual securities with characteristics that are most consistent with the client's objectives. We deal with any client restrictions on an account-by-account basis.

Since F500 Advisory treats each client account uniquely, client portfolios with a similar investment objectives and asset allocation goals may own different securities. Timing and tax factors also influence F500 Advisory's investment decisions.

Depending on the client's investment objectives and financial situation, F500 Advisory may recommend third-party investment advisers for the management for all or a portion of the client's portfolio or private investment funds for clients that meet certain net worth or other accreditation requirements and/or for clients who have a sufficiently high tolerance for risk.

### **Methods of Analysis for Selecting Securities**

F500 Advisory may use fundamental, cyclical, charting, and/or technical analysis in the selection of individual equity securities. Fundamental analysis typically involves analysis of corporate financial statements, management presentations, specialized research publications, and general news sources. Cyclical analysis involves the analysis of business cycles to find favorable conditions for buying and/or



selling securities. Charting analysis involves the use of patterns in performance charts. Technical analysis depends upon the accurate forecasting of major price moves or trends in securities. F500 Advisory may use these techniques an effort to predict favorable conditions for buying and/or selling a security.

Additionally, F500 Advisory may use specific strategies or resources in the method of analysis and selection of securities for specific investment strategies. In the management of accounts invested in mutual funds, F500 Advisory provides asset allocation services, but does not time the market.

### *Index-linked Notes and CDs*

F500 Advisory may purchase initial public offerings of index-linked notes and CDs for client accounts, where F500 Advisory believes it is suitable. However, F500 Advisory will only purchase index-linked notes traded on secondary markets for pooled accounts, such as the Perennial Protection Fund or related private funds, and not for individual client accounts for the following reasons:

1. Limited liquidity may lead to orders being filled in lots that would be too small, leaving individual accounts with quantities that could not be liquidated cost-effectively, and
2. Execution cost are considered to be too high on an individual account basis to be cost effective for such clients, with the execution costs expected to significantly reduce the profit potential of these securities for individual accounts.

See also allocation policies under **Item 12 – Brokerage Practices** below.

### *Private Investment Funds*

F500 Advisory may recommend limited partnerships and/or private offerings to clients based on factors including the client's accreditation status, the level of interest clients express during meetings with F500 Advisory, and whether the program would offer diversification to the client. We consider these types of investments to carry a higher degree of risk, and will only recommend them to clients where we believe they are suitable to the client's financial situation and risk tolerance. These securities are only available to accredited investors. Investments in limited offerings will only occur after conducting additional consultation with the client and after the client has approved of the investment and strategy for his/her portfolio.

F500 Advisory, our personnel, and/or related firms own interests in and/or participate in the management of various private funds. F500 Advisory may recommend these funds to clients for which F500 Advisory believes the investment is suitable. A conflict exists because F500 Advisory, our personnel, or related firms stand to benefit from investment in funds that we own or manage. Our policies to address this conflict are described in **Related Fund Interests** under **Item 11**.

Prospective investors in a private fund are provided with the fund's offering documents. This Form ADV Part 2A Brochure is not an offer to sell, or a solicitation of an offer to purchase, membership interests in any private fund. Such an offer can only occur when the prospective investor receives the offering documents.

### *Third-Party Advisers*

F500 Advisory may recommend other investment advisers based on the client's investment objectives and financial situation, and the other investment adviser's management style, and may receive a percentage of the management fees they charge to the clients we refer (see **Item 14 – Client Referrals and Other Compensation**). However, we do not charge advisory fees to clients for assets managed by outside managers.

### *Investment Strategies for Managing Portfolios*

In designing portfolios for clients, F500 Advisory uses diversification in an effort to help optimize the risk and potential return of a portfolio. F500 Advisory primarily seeks to hold securities for the longer-term, especially in taxable accounts.

When implementing a client's portfolio, F500 Advisory may use dollar cost averaging, which involves investing the client's money in multiple installments over several months, to take advantage of price fluctuations in the attempt to get a lower average cost per share.

Option strategies may be used with the Perennial Protection Fund, CD Plus Service, and on a limited basis, where appropriate, for individual accounts. For individual accounts, the option strategies may include covered calls, uncovered calls or puts, straddles, or other strategies with defined downside risk.

We may use short-term trades, options, short sales, and margin leverage less frequently, when in F500 Advisory's judgment they are appropriate for a particular account or given market condition. These strategies may increase the risk in a client's portfolio. Options may involve certain costs and risk such as liquidity, interest rate, market, credit, and the risk that a position could not be closed when most favorable. Short-selling includes the risk of theoretically unlimited loss if the security sold short rises in value as opposed to falling in value and if the short sale is not covered by a similar security. While the use of margin borrowing can increase returns, it can also magnify losses. Clients may specifically request that F500 Advisory limit or avoid the use of these strategies in their accounts.

## **Investing Involves Risk**

Investing in securities always involves the risk that you will lose money. Before investing in the securities markets, clients should be prepared to bear that risk. Over time, a client's account value will fluctuate. At any time, your assets may be worth more or less than the amount you invested. As with any investment strategy, there is no guarantee that our strategies will be successful. F500 Advisory makes no guarantees or promises that our market analysis will be accurate or the investment strategies we use will be successful.

## **Specific Security Risks**

### *General Risks of Owning Securities*

The prices of securities held in client accounts and the income they generate may decline in response to certain events taking place around the world. These include events directly involving the issuers of

securities held as underlying assets of mutual funds in a client's account, conditions affecting the general economy, and overall market changes. Other contributing factors include local, regional, or global political, social, or economic instability and governmental or governmental agency responses to economic conditions. Finally, currency, interest rate, and commodity price fluctuations may also affect security prices and income.

### *Mutual Funds (Open-end Investment Company)*

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The portfolio of the fund consists of the combined holdings it owns. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. The price that investors pay for mutual fund shares is the fund's per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase (such as sales loads).

Mutual funds have benefits such as professional management, diversification, affordability, and liquidity. However, they also have features that some investors might view as disadvantages:

#### *Costs Despite Negative Returns*

Mutual funds charge investors sales charges, annual fees, and other expenses regardless of how the fund performs. Depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive. This includes instances where the fund went on to perform poorly after purchasing shares.

#### *Lack of Control*

Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.

#### *Price Uncertainty*

With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or your investment adviser. Investors can also monitor how a stock's price changes from hour to hour—or even second to second. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund's NAV, which the fund might not calculate until many hours after the investor placed the order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

### *Different Types of Funds*

When it comes to investing in mutual funds, investors have literally thousands of choices. Most mutual funds fall into one of three main categories; money market funds, bond funds (also called "fixed income" funds), and stock funds (also called "equity" funds). Each type has different features and different risks and rewards. Generally, the higher the potential return, the higher the risk of loss.

### *Money Market Funds*

Money market funds have relatively low risks, compared to other mutual funds (and most other investments). By law, they can invest in only certain high quality, short-term investments issued by the U.S. Government, U.S. corporations, and state and local governments. Money market funds try to keep their net asset value (NAV), which represents the value of one share in a fund, at a stable \$1.00 per share. However, the NAV may fall below \$1.00 if the fund's investments perform poorly. Investor losses have been rare, but they are possible. Money market funds pay dividends that generally reflect short-term interest rates, and historically the returns for money market funds have been lower than for either bond or stock funds. That is why "inflation risk," the risk that inflation will outpace and erode investment returns over time, can be a potential concern for investors in money market funds.

### *Bond Funds*

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields. Unlike money market funds, the SEC's rules do not restrict bond funds to high quality or short-term investments. Because there are many different types of bonds, bond funds can vary dramatically in their risks and rewards.

Some of the risks associated with bond funds include:

#### *Credit Risk*

There is a possibility that companies or other issuers may fail to pay their debts (including the debt owed to holders of their bonds). Consequently, this affects mutual funds that hold these bonds. Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury Bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.

#### *Interest Rate Risk*

There is a risk that the market value of the bonds will go down when interest rates go up. Because of this, investors can lose money in any bond fund, including those that invest only in insured bonds or U.S. Treasury Bonds. Funds that invest in longer-term bonds tend to have higher interest rate risk.

#### *Prepayment Risk*

Issuers may choose to pay off debt earlier than the stated maturity date on a bond. For example, if interest rates fall, a bond issuer may decide to "retire" its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

### *Stock Funds*

Although a stock fund's value can rise and fall quickly (and dramatically) over the short term, historically stocks have performed better over the long term than other types of investments. This is true for corporate bonds, government bonds, and treasury securities. Overall "market risk" poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons—such as the overall strength of the economy or demand for particular products or services. Not all stock funds are the same. For example:

### Growth Funds

Growth funds focus on stocks that may or may not pay a regular dividend but have the potential for large capital gains. These funds favor companies expected to grow earnings, which could result in stock prices rising faster than the economy, and may be smaller and less seasoned companies. The smaller and less seasoned companies that may be in a growth fund have a greater risk of price volatility. Growth stocks, which can be priced on future expectations rather than current results, may decline substantially when expectations are not met or general market conditions weaken.

### Equity Income Funds

Equity income funds stress current income over growth, and may invest in stocks that pay regular dividends. These funds are subject to dividend payout risk, which is the possibility that a number of the companies in which the fund invests will reduce or eliminate the dividend on the securities held by the fund.

### Small Cap Funds

Funds that invest in stocks of small companies involve additional risks. Smaller companies typically have higher risk of failure, and are not as established as larger blue-chip companies are. Historically, smaller-company stocks have experienced a greater degree of market volatility than the overall market average.

### Mid Cap Funds

Funds that invest in companies with mid-range market capitalizations involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies.

### International Funds

International investments are subject to additional risks, including currency fluctuation, political instability, and potential illiquid markets.

### Emerging Market Funds

Funds that invest in foreign securities of smaller, less-developed countries involve special additional risks. These risks include, but are not limited to currency risk, political risk and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

### Sector Funds

Sector funds may specialize in a particular industry segment, such as technology or consumer products stocks. Funds that invest exclusively in one sector or industry involve additional risks. The lack of industry diversification subjects the investor to increased industry-specific risk.

### Real Estate Funds

Investments in real estate funds are subject to the risks related to direct investment in real estate, such as real estate risk, regulatory risks, concentration risk, and diversification risk.

## Alternative Investment Funds

Alternative investments fall outside the three traditional asset types (stocks, bonds, and cash).

Alternative investments include hedge funds, managed futures, real estate, commodities and derivatives contracts. Each fund is subject to specific risks, depending on the nature of the fund. These types of investments may have additional or enhanced risks.

### *Tax Consequences of Mutual Funds*

When investors buy and hold an individual stock or bond, the investor must pay income tax each year on the dividends or interest the investor receives. However, the investor will not have to pay any capital gains tax until the investor actually sells and makes a profit. Mutual funds are different. When an investor buys and holds mutual fund shares, the investor will owe income tax on any ordinary dividends in the year the investor receives or reinvests them. Moreover, in addition to owing taxes on any personal capital gains when the investor sells shares, the investor may have to pay taxes each year on the fund's capital gains. That is because the law requires mutual funds to distribute capital gains to shareholders if they sell securities for a profit that cannot be offset by a loss.

### Exchange-Traded Funds (ETFs)

An ETF is a type of Investment Company (usually, an open-end fund or unit investment trust) containing a basket of stocks. Typically, the objective of an ETF is to achieve returns similar to a particular market index, including sector indexes. An ETF is similar to an index fund in that it will primarily invest in securities of companies that are included in a selected market. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETFs trade throughout the day on an exchange. Like stock mutual funds, the prices of the underlying securities and the overall market may affect ETF prices. Similarly, factors affecting a particular industry segment may affect ETF prices that track that particular sector.

### Exchange-Traded Notes (ETNs)

An ETN is a senior, unsecured, unsubordinated debt security by an underwriting bank whose primary objective is to achieve the same return as a particular market index. Similar to other debt securities, the credit of the issuer is the only backing for ETNs, which have a maturity date. Although performance is contractually tied to whatever index the ETN is intended to track, ETNs do not have any assets, other than a claim against their issuer for payment according to the terms of the contract. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETNs trade throughout the day on an exchange. ETNs, as debt instruments, are subject to risk of default by the issuing bank as counter party. This is the major design difference between ETFs and ETNs: ETFs are only subject to market risk whereas ETNs are subject to both market risk and the risk of default by the issuing financial institution.

### Closed-end Fund

Closed-end funds do not continually offer their shares for sale. Rather, they sell a fixed number of shares at one time, after which the shares typically trade on a secondary market, such as the New York Stock Exchange or the NASDAQ Stock Market. Risk factors pertaining to closed-end funds vary from fund to fund. The following list of risk factors provides a review of those associated with generalized closed-end

fund investing. Not every risk factor in this list will pertain to each closed-end fund. In addition to the risks described above in **Mutual Funds**, closed-end funds are subject to the following risks:

### *Valuation Risk*

Common shares may trade above (a premium) or below (a discount) the net asset value (NAV) of the trust/fund's portfolio. At times, discounts could widen or premiums could shrink, which could either dilute positive performance or compound negative performance. There is no assurance that discounted funds will appreciate to their NAV.

### *Fluctuating Dividends in Actively Managed Portfolios*

The composition of the trust/fund's portfolio could change, which, all else being equal, could cause a reduction in dividends paid to common shares. Certain closed-end funds invest in common stocks. There is no guarantee of dividends from these common stocks. Fluctuations in dividend levels over time, up and down, are to be expected.

### Equity Securities

Equity securities represent an ownership position in a company. Equity securities typically consist of common stocks. The prices of stocks and the income they generate (such as dividends) fluctuate based on, among other things, events specific to the company that issued the shares, conditions affecting the general economy and overall market changes, changes or weakness in the business sector the company does business in, and other factors.

### *Small Capitalization Equity Securities*

Investing in smaller companies may pose additional risks as it is often more difficult to value or dispose of small company stocks, more difficult to obtain information about smaller companies, and the prices of their stocks may be more volatile than stocks of larger, more established companies. Clients should have a long-term perspective and, for example, be able to tolerate potentially sharp declines in value.

### Options

An option is the right either to buy or sell a specified amount or value of a particular underlying interest at a fixed exercise price by exercising the option before its specified expiration date. An option which gives a right to buy is a call option. An option which gives a right to sell is a put option. Calls and puts are distinct types of options and the buying or selling of one type does not involve the other. Options may involve certain costs and risk such as liquidity, interest rate, market, credit, and the risk that a position could not be closed when most favorable.

### Debt Securities (Bonds)

Issuers use debt securities to borrow money. Generally, issuers pay investors periodic interest and repay the amount borrowed either periodically during the life of the security and/or at maturity. Alternatively, investors can purchase other debt securities, such as zero coupon bonds, which do not pay current interest, but rather are priced at a discount from their face values and their values accrete over time to face value at maturity. The market prices of debt securities fluctuate depending on such factors as interest rates, credit quality, and maturity. In general, market prices of debt securities decline when

interest rates rise and increase when interest rates fall. The longer the time to a bond's maturity, the greater its interest rate risk.

Certain additional risk factors relating to debt securities include:

#### Reinvestment Risk

When interest rates are declining, investors have to reinvest their interest income and any return of principal, whether scheduled or unscheduled, at lower prevailing rates.

#### Inflation Risk

Inflation causes tomorrow's dollar to be worth less than today's; in other words, it reduces the purchasing power of a bond investor's future interest payments and principal, collectively known as "cash flows." Inflation also leads to higher interest rates, which in turn leads to lower bond prices.

#### Interest Rate and Market Risk

Debt securities may be sensitive to economic changes, political and corporate developments, and interest rate changes. Investors can also expect periods of economic change and uncertainty, which can result in increased volatility of market prices and yields of certain debt securities. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

#### Call Risk

Debt securities may contain redemption or call provisions entitling their issuers to redeem them at a specified price on a date prior to maturity. If an issuer exercises these provisions in a lower interest rate market, the account would have to replace the security with a lower yielding security, resulting in decreased income to investors.

Usually, a bond is called at or close to par value. This subjects investors that paid a premium for their bond to a risk of lost principal. In reality, prices of callable bonds are unlikely to move much above the call price if lower interest rates make the bond likely to be called.

#### Credit Risk

If the issuer of a debt security defaults on its obligations to pay interest or principal or is the subject of bankruptcy proceedings, the account may incur losses or expenses in seeking recovery of amounts owed to it.

#### Liquidity and Valuation Risk

There may be little trading in the secondary market for particular debt securities, which may affect adversely the account's ability to value accurately or dispose of such debt securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of debt securities.

It may be possible to reduce the risks described above through diversification of the client's portfolio and by credit analysis of each issuer, as well as by monitoring broad economic trends and corporate and



legislative developments, but there can be no assurance that we will be successful in doing so. Credit ratings for debt securities provided by rating agencies reflect an evaluation of the safety of principal and interest payments, not market value risk. The rating of an issuer is a rating agency's view of past and future potential developments related to the issuer and may not necessarily reflect actual outcomes. There can be a lag between the time of developments relating to an issuer and the time a rating is assigned and updated.

Bond rating agencies may assign modifiers (such as +/-) to ratings categories to signify the relative position of a credit within the rating category. Unless we state otherwise, clients should include any security within that category without considering the modifier when reading their investment policies based on ratings categories.

### High-Yield Debt

Lower rated debt securities generally have higher rates of interest and involve greater risk of default or price changes due to changes in the issuer's creditworthiness than higher rated debt securities. The market prices of these securities may fluctuate more than higher quality securities and may decline significantly in periods of general economic difficulty.

There may be little trading in the secondary market for particular debt securities, which may make them more difficult to value or sell. The prices of, and the income generated by, most debt securities held by client accounts may be affected by changing interest rates and by changes in the effective maturities and credit ratings of these securities. For example, the prices of debt securities in client accounts generally will decline when interest rates rise and increase when interest rates fall. In addition, falling interest rates may cause an issuer to redeem, "call" or refinance a security before its stated maturity, which may result in having to reinvest the proceeds in lower yielding securities. Debt securities are also subject to credit risk, which is the possibility that the credit strength of an issuer will weaken and/or an issuer of a debt security will fail to make timely payments of principal or interest and the security will go into default. Longer maturity debt securities generally have higher rates of interest and may be subject to greater price fluctuations than shorter maturity debt securities.

### Obligations Backed by the "Full Faith and Credit" of the U.S. Government

U.S. government obligations include the following types of securities:

#### U.S. Treasury Securities

U.S. Treasury securities include direct obligations of the U.S. Treasury, such as Treasury bills, notes, and bonds. For these securities, the U.S. government unconditionally guarantees the payment of principal and interest, resulting in the highest possible credit quality. Fluctuations in interest rates subject U.S. Treasury securities to variations in market value. However, they are paid in full when held to maturity.

#### Federal Agency Securities

Certain U.S. government agencies and government-sponsored entities guarantee the timely payment of principal and interest with the backing of the full faith and credit of the U.S. government. Such agencies and entities include The Federal Financing Bank (FFB), the Government National Mortgage Association

(Ginnie Mae), the Veterans Administration (VA), the Federal Housing Administration (FHA), the Export-Import Bank (Exim Bank), the Overseas Private Investment Corporation (OPIC), the Commodity Credit Corporation (CCC) and the Small Business Administration (SBA).

#### Other Federal Agency Obligations

Additional federal agency securities neither are direct obligations of, nor guaranteed by, the U.S. government. These obligations include securities issued by certain U.S. government agencies and government-sponsored entities. However, they generally involve some form of federal sponsorship: some operate under a government charter; specific types of collateral back some; the issuer's right to borrow from the Treasury supports some; and only the credit of the issuing government agency or entity supports others. These agencies and entities include, but are not limited to the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and the Tennessee Valley Authority and Federal Farm Credit Bank System.

#### Municipal Bonds

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Municipal bonds pay a lower rate of return than most other types of bonds. However, because of a municipal bond's tax-favored status, investors should compare the relative after-tax return to the after-tax return of other bonds, depending on the investor's tax bracket. Investing in municipal bonds carries the same general risks as investing in bonds in general. Those risks include interest rate risk, reinvestment risk, inflation risk, market risk, call or redemption risk, credit risk, and liquidity and valuation risk. Investing in municipal bonds carries risk unique to these types of bonds, which may include:

##### Legislative Risk

Legislative risk includes the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income.

##### Tax-Bracket Changes

Municipal bonds generate tax-free income, and therefore pay lower interest rates than taxable bonds. Investors who anticipate a significant drop in their marginal income-tax rate may benefit from the higher yield available from taxable bonds.

##### Liquidity Risk

The risk that investors may have difficulty finding a buyer when they want to sell and may be forced to sell at a significant discount to market value. Liquidity risk is greater for thinly traded securities such as lower-rated bonds, bonds that were part of a small issue, bonds that have recently had their credit rating downgraded or bonds sold by an infrequent issuer. Municipal bonds may be less liquid than other bonds.

##### Credit Risk

Credit risk includes the risk that a borrower will be unable to make interest or principal payments when they are due and therefore default. To reduce investor concern, insurance policies that guarantee repayment in the event of default back many municipal bonds.

### *Municipal Bonds of a Particular State*

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Securities issued by California municipalities are more susceptible to factors adversely affecting issuers of California securities. For example, in the past, California voters have passed amendments to the state's constitution and other measures that limit the taxing and spending authority of California governmental entities, and future voter initiatives may adversely affect California municipal bonds.

### *Pass-through Securities*

F500 Advisory may invest client's accounts in various debt obligations backed by pools of mortgages or other assets including, but not limited to, loans on single family residences, home equity loans, mortgages on commercial buildings, credit card receivables and leases on airplanes or other equipment. Principal and interest payments made on the underlying asset pools backing these obligations typically pass through to investors, net of any fees paid to any insurer or any guarantor of the securities. Pass-through securities may have either fixed or adjustable coupons. These securities include:

#### *Mortgage-Backed Securities*

U.S. government agencies and government-sponsored entities, such as Ginnie Mae, Fannie Mae, and Freddie Mac, and private entities issue mortgage-backed securities. The payment of interest and principal on mortgage-backed obligations issued by U.S. government agencies may be guaranteed by the full faith and credit of the U.S. government (in the case of Ginnie Mae), or may be guaranteed by the issuer (in the case of Fannie Mae and Freddie Mac). However, these guarantees do not apply to the market prices and yields of these securities, which vary with changes in interest rates.

Private entities that issue mortgage-backed securities structure them similarly to those issued by U.S. government agencies. However, government agencies do not guarantee the mortgage-backed securities or the underlying mortgages issued by private entities. The structure of these securities generally includes one or more types of credit enhancements such as insurance or letters of credit issued by private companies. Mortgage-backed securities generally permit borrowers to prepay their underlying mortgages. Prepayments can alter the effective maturity of these instruments.

#### *Collateralized Mortgage Obligations (CMOS)*

A pool of mortgages or mortgage loans backs a CMO, which are divided into two or more separate bond issues. Agency mortgages back CMOs issued by U.S. government agencies, while either government agency mortgages or private mortgages back privately issued CMOs. Payments of principal and interest pass through to each bond issue at varying schedules resulting in bonds with different coupons, effective maturities, and sensitivities to interest rates. Issuers may structure CMOs to magnify the impact of changing prepayment rates on the effective maturities of certain issues of these securities when interest rates change. CMOs may be less liquid or may exhibit greater price volatility than other types of mortgage or asset-backed securities.

### *Commercial Mortgage-Backed Securities*

Mortgages on commercial property, such as hotels, office buildings, retail stores, hospitals, and other commercial buildings back commercial mortgage-backed securities. These securities may have a lower prepayment uncertainty than other mortgage-related securities because commercial mortgage loans generally prohibit or impose penalties on prepayments of principal. In addition, issuers often structure commercial mortgage-related securities with some form of credit enhancement to protect against potential losses on the underlying mortgage loans. Many of the risks of investing in commercial mortgage-backed securities reflect the risks of investing in the real estate securing the underlying mortgage loans, including the effects of local and other economic conditions on real estate markets, the ability of tenants to make rental payments, and the ability of a property to attract and retain tenants. Commercial mortgage-backed securities may be less liquid or exhibit greater price volatility than other types of mortgage or asset-backed securities.

### *Asset-Backed Securities*

Assets such as credit card, automobile or consumer loan receivables, retail installment loans, or participations in pools of leases back asset-backed securities. The underlying assets and/or credit enhancements provided by a third party may provide the basis for credit support for these securities. The values of these securities are sensitive to changes in the credit quality of the underlying collateral, the credit strength of the credit enhancement, changes in interest rates and at times the financial condition of the issuer. Some asset-backed securities also may receive prepayments that can change their effective maturities.

### *Securities with Equity and Debt Characteristics*

Some securities have a combination of equity and debt characteristics. These securities may at times behave more like equity than debt or vice versa. Some types of convertible bonds, preferred stocks or other preferred securities automatically convert into common stocks or other securities at a stated conversion ratio and some may be subject to redemption at the option of the issuer at a predetermined price. These securities, prior to conversion, may pay a fixed rate of interest or a dividend. Because convertible securities have both debt and equity characteristics, their values vary in response to many factors, including the values of the securities into which they are convertible, general market and economic conditions, and convertible market valuations, as well as changes in interest rates, credit spreads and the credit quality of the issuer.

These securities may include hybrid securities, which also have equity and debt characteristics. Such securities are normally at the bottom of an issuer's debt capital structure. As such, they may be more sensitive to economic changes than more senior debt securities. Investors may also view these securities as more equity-like by the market when the issuer or its parent company experience financial problems.

The prices and yields of nonconvertible preferred securities or preferred stocks generally move with changes in interest rates and the issuer's credit quality, similar to the factors affecting debt securities. Nonconvertible preferred securities may be treated as debt for account investment limit purposes.

### Index-linked CD's (ICDs)

Index-linked certificates of deposit, also known as equity-linked certificates of deposit, provide the opportunity to generate investment returns that are similar to those provided by well-known major market indexes. Some offer to match 100% of the return generated by a given index. Others match a specific percentage, such as 90%. If the index declines, some index-linked certificates offer a guaranteed minimum investment return, while others guarantee only the return of the original investment.

While index-linked certificates of deposit guarantee no loss of principal when held to maturity, there are other factors that should be taken into consideration prior to investing. For example, access to principal and earnings is often limited. The specific terms of the investment vary by provider, with some providers issuing certificates for three years, five years or another set period of time. Some certificates do not permit access until the certificate has reached maturity. Others provide a window, such as once per year, when the assets can be withdrawn penalty free. If access to the money is required at any other time, a penalty may be imposed.

Also, if the chosen index declines in value, the return on investment may be as low as zero. This raises the issue of opportunity cost, because the money might have generated positive returns had it been invested elsewhere.

Tax implications are another item that should be taken into account, as earnings generated by index-linked certificates of deposit are taxed in the year generated. To delay tax liability, the certificate can be purchased in a tax-deferred account, such as an individual retirement account (IRA).

### Real Estate Investment Trusts

Securities issued by real estate investment trusts (REITs) primarily invest in real estate or real estate-related loans. Equity REITs own real estate properties, while mortgage REITs hold construction, development and/or long-term mortgage loans. Changes in the value of the underlying property of the trusts, the creditworthiness of the issuer, property taxes, interest rates, tax laws, and regulatory requirements, such as those relating to the environment all can affect the values of REITs. Both types of REITs are dependent upon management skill, the cash flows generated by their holdings, the real estate market in general, and the possibility of failing to qualify for any applicable pass-through tax treatment or failing to maintain any applicable exemptive status afforded under relevant laws.

### Master Limited Partnerships (MLPs)

MLPs are publicly traded partnerships that trade mainly on the New York Stock Exchange and/or the NASDAQ, the same as stocks. With a few exceptions, MLPs hold and operate assets related to the transportation and storage of energy (certain MLPs may have commodity risk). Most publicly traded companies are corporations. Corporate earnings are usually taxed twice. The business entity is taxed on any money it makes and then shareholders are taxed on the earnings the company distributes to them.

In the 1980s, Congress allowed public trading of certain types of companies as partnerships instead of as corporations. The main advantage a partnership has over a corporation is that partnerships are "pass

through” entities for tax purposes. This means that the company does not pay any tax on its earnings. Distributions are still taxed, but this avoids the problem of double taxation that most publicly traded companies face. Congress requires that any company designated as an MLP has to produce 90% of its earnings from “qualified resources” (natural resources and real estate). Most MLPs are involved in energy infrastructure, i.e. things like pipelines. MLPs are required to pay annual distributions to limited partners. A contract establishes the payments, so distributions are predictable. Otherwise, the shareholders could find the company in breach of contract.

In addition to general business risks, MLPs bear these risks:

#### Risk of Regulation or Change

The government could step in and change the rules of the game. That can always happen. Since one of the main advantages of these securities is their tax advantages, this poses a considerable risk for an investor.

#### Interest Rate Risk

It is commonly thought that these types of investments do better when interest rates are low, making their yield higher in relation to the safest investments, such as Treasury bills and securities that are guaranteed by the U.S. government. Consequently, MLPs may perform better during periods of declining or relative low interest rates and more poorly during periods of rising or high interest rates.

#### Tax Risk

MLPs are pass-through entities, passing earnings through to the limited partners. Investors must be aware that there are potentially significant tax implications of investing in MLPs and they should consult with their tax advisor before investing in these securities.

### Private Funds

A private fund is an investment vehicle that pools capital from a number of investors and invests in securities and other instruments. In almost all cases, a private fund is a private investment vehicle that is typically not registered under federal or state securities laws. So that private funds do not have to register under these laws, issuers make the funds available only to certain sophisticated or accredited investors and the funds cannot be offered or sold to the general public. Private funds are generally smaller than mutual funds because they are often limited to a small number of investors and have a more limited number of eligible investors. Many but not all private funds use leverage as part of their investment strategies. Private funds management fees typically include a base management fee along with a performance component. In many cases, the fund’s managers may become “partners” with their clients by making personal investments of their own assets in the fund. Most private funds offer their securities by providing an offering memorandum or private placement memorandum, known as “PPM” for short. The PPM covers important information for investors and investors should review this document carefully and should consider conducting additional due diligence before investing in the private fund. The primary risks of private funds include the following:

1. Private funds do not sell publicly and are therefore illiquid. An investor may not be able to exit a private fund or sell its interests in the fund before the fund closes.
2. Private funds are subject to various other risks depending upon the types of securities that the private fund invests in or the type of business issuing the private placement.

### *Investing Outside the U.S.*

Investing outside the United States may involve additional risks of foreign investing. These risks may include currency controls and fluctuating currency values, and different accounting, auditing, financial reporting, disclosure, and regulatory and legal standards and practices. Additional factors may include changing local, regional, and global economic, political, and social conditions. Further, expropriation, changes in tax policy, greater market volatility, different securities market structures, and higher transaction costs can be contributors. Finally, various administrative difficulties, such as delays in clearing and settling portfolio transactions or in receiving payment of dividends can also lead to additional risk.

Investments in developing countries can further heighten the risks described above. A developing country may be in the earlier stages of its industrialization cycle with a low per capita gross domestic product ("GDP") and a low market capitalization to GDP ratio relative to those in the United States and the European Union. Historically, the markets of developing countries have been more volatile than the markets of developed countries.

### *Cash and Cash Equivalents*

Cash and cash equivalents are the most liquid of investments. Cash and cash equivalents are considered very low-risk investments meaning, there is little risk of losing the principal investment. Typically, low risk also means low return and the interest an investor can earn on this type of investment is low relative to other types of investing vehicles.

## **Financial Planning**

The financial planning tools F500 Advisory uses to create financial plans for clients rely on various assumptions, such as estimates of inflation, risk, economic conditions, and rates of return on security asset classes. All return assumptions use asset class returns, not returns of actual investments, and do not include fees or expenses that clients would pay if they invested in specific products.

Financial planning software is only a tool used to help guide F500 Advisory and the client in developing an appropriate plan, and we cannot guarantee that clients will achieve the results shown in the plan. Results will vary based on the information provided by the client regarding the client's assets, risk tolerance, and personal information. Changes to the program's underlying assumptions or differences in actual personal, economic, or market outcomes may result in materially different results for the client. Clients should carefully consider the assumptions and limitations of the financial planning software as disclosed on the financial planning reports and should discuss the results of the plan with a qualified investment professional before making any changes in their investment or financial planning program.



## ITEM 9 - DISCIPLINARY INFORMATION

F500 Advisory seeks to maintain the highest level of business professionalism, integrity, and ethics. F500 Advisory does not have any disciplinary information to disclose.

## ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

### Related Broker/Dealer and Insurance Agency

Robert L. Hicks is President and sole owner of Finance 500, Inc. ("Finance 500"), a broker-dealer registered with the U.S. Securities and Exchange Commission and a Financial Industry Regulatory Authority ("FINRA") member. Approximately 60% of Lance's time is devoted to managing F500 Advisory client accounts, and 25% of his time is spent on the management of Finance 500. F500 Advisory and Finance 500 share the same principal place of business.

Finance 500 is also licensed as an insurance agency in California doing business as Finance 500 Insurance Services (license# 0699831). F500 Advisory personnel are also insurance agents/brokers of Finance 500 Insurance Services.

Certain personnel of F500 Advisory are brokerage representatives and/or insurance agents/brokers of Finance 500. In their individual capacities as licensed representatives of Finance 500, these individuals may recommend securities or insurance products or services to clients and receive normal and customary commissions if a client makes a purchase. Brokerage representatives may receive additional compensation in the form of 12b-1 fees on mutual funds held in a client's account. This presents a conflict of interest because these individuals have incentive to recommend products that result in a commission. However, clients are under no obligation to act upon any recommendations of these individuals or effect any transactions through them if the client decides to follow their recommendations.

### Related Investment Adviser and Private Fund

Robert Hicks and Scott Parent are the Managing Members of Innovative Capital Management, LLC ("ICM"), an investment adviser registered with the State of California. ICM acts as portfolio manager to the iVelocity Fund, LLC a private investment fund. The fund is not publicly offered or traded and is available to appropriate accredited investors only. As described under **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**, above, F500 Advisory may recommend private funds managed by ICM to certain clients for whom we believe the fund would be suitable. This creates a conflict of interest, as F500 Advisory, our personnel, or related firms benefit by our recommendation of related private funds. Our policies to address this conflict are described in **Related Fund Interests** under **Item 11**.

Scott Parent, a Portfolio Manager at F500 Advisory, is also a portfolio manager, investment adviser representative for ICM. He devotes approximately 30% of his time to F500 Advisory and 70% to ICM. Robert Hicks devotes approximately 10% of his time to ICM.



## Proprietary Private Funds

F500 Advisory provides investment advisory services to private investment funds, the Perennial Protection Fund, LLC and MNJ Multi-Cap Strategy Fund, LP. F500 Advisory is also the Managing Member and General Partner, respectively, to the funds. The funds are not publicly offered or traded and are available to appropriate accredited investors only, as described in more detail in ***Proprietary Private Funds*** under ***Item 4***, above.

As described under ***Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss***, above, F500 Advisory may recommend private funds to certain clients for whom we believe the fund would be suitable. This creates a conflict of interest, as F500 Advisory, our personnel, and/or related firms benefit by our recommendation of related private funds. Our policies to address this conflict are described in ***Related Fund Interests*** under ***Item 11***.

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

### Code of Ethics

F500 Advisory believes that we owe clients the highest level of trust and fair dealing. As part of our fiduciary duty, we place the interests of our clients ahead of the interests of the firm and our personnel. We have adopted a Code of Ethics that emphasizes the high standards of conduct that F500 Advisory seeks to observe. F500 Advisory personnel are required to conduct themselves with integrity at all times and follow the principles and policies detailed in our Code of Ethics.

F500 Advisory's Code of Ethics attempts to address specific conflicts of interest that either we have identified or that could likely arise. F500 Advisory personnel are required to follow clear guidelines from the Code of Ethics in areas such as gifts and entertainment, other business activities, prohibitions of insider trading, and adherence to applicable securities laws.

F500 Advisory will provide a complete copy of the Code of Ethics to any client or prospective client upon request.

### Personal Trading Practices

Individuals who make securities recommendations to clients, or who have access to nonpublic information regarding any clients' purchase or sale of securities, are subject to personal trading policies governed by our Code of Ethics. F500 Advisory or our personnel may trade in securities for our own accounts. The securities we trade in may be the same securities we recommend to clients, or they may be different securities that we do not feel are appropriate for clients. This includes related securities (e.g., warrants, options, or futures). A conflict of interest could potentially arise when F500 Advisory or our personnel trade in the same securities as clients. It could be interpreted that we have an incentive to take investment opportunities from clients for our own benefit, favor our personal trades over client transactions when allocating trades, or to use the information about the transactions we intend to make for clients to our personal benefit by trading ahead of clients.

Our policies to address these conflicts include the following:

1. The client receives the opportunity to act on investment recommendations prior to and in preference to accounts of F500 Advisory and our personnel.
2. F500 Advisory prohibits trading in a manner that takes personal advantage of our knowledge of client transactions or price movements caused by client transactions
3. If we wish to purchase or sell the same security as we recommend or take action to purchase or sell for a client, we will not do so until after client trades in that security have been completed for the day. Trades in mutual funds are not included in this policy. Because the price of securities fluctuates during the day (other than mutual funds), we could trade in a security on the same day as a client and receive a better or worse price than the client does. Any difference in the prices we receive is never the result of our intentionally trading ahead of clients.
4. F500 Advisory requires our personnel to report personal securities transactions on a quarterly basis.
5. Conflicts of interest also may arise when F500 Advisory personnel have access to Limited Offerings or IPOs, including private placements or public or private offerings of interests in limited partnerships or any thinly traded securities, as a result of their position with F500 Advisory. Given the inherent potential for conflict, Limited Offerings and IPOs demand extreme care. F500 Advisory's personnel are required to obtain pre-approval from our Chief Compliance Officer before trading in these types of securities.
6. Because these policies are intended to protect the interests of clients, we may make exceptions where we feel clients would not be harmed.

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

The following items represent situations where a conflict of interest may exist between the client and F500 Advisory and our personnel.

### **Principal Transactions**

F500 Advisory or our principal of the firm may in rare circumstances buy securities from client accounts or sell securities to client accounts. F500 Advisory will generally only act as principal in the purchase of subordinated finance notes and equity linked notes and CDs or other illiquid assets in an effort to provide liquidity to a client with an unexpected need for liquidity. One advantage of principal transactions is the ability to narrow spreads on thinly traded positions, potentially receiving more favorable pricing on both sides than the market currently offers. In addition, an opportunity exists to reduce transaction costs associated with the trade; custodians will sometimes provide discounted fees when facilitating principal transactions. Finally, principal transactions can provide greater liquidity for

clients than may have existed otherwise. We only consider principal transactions when a clear benefit exists to the client and never for the sole benefit of F500 Advisory or our personnel.

Potential conflicts that can exist when conducting principal transactions include the incentive to favor proprietary accounts when establishing pricing or to unload underperforming assets from proprietary portfolios, and other abuses in the absence of full market disclosure. In advance of each principal transaction, F500 Advisory provides participating clients with important details of the proposed trade and obtains the client's written consent.

### Cross Transactions

At times, a client may need to sell a security that we think is a good fit for another client's account. In this case, we may internally cross the security from the account of the selling client to the buying client's account. We will only do this when the proposed transaction is in the best interests of both clients. We do not "dump" a security into a client's portfolio just because another client needs to sell, nor do we decide to sell a security from one client's account just because another client needs a similar security. Usually, this situation comes up with fixed income securities or structured notes where we can get a better deal for both clients by crossing the security instead of going into the open market to complete separate transactions.

F500 Advisory's duty to be unbiased and fair to clients on both sides of a cross transaction may pose an inherent conflict of interest. To ensure that we fulfill our duty to each client that is party to a cross transaction, F500 Advisory seeks to ensure the appropriateness of the transaction for each client and that it is fair to both sides of the transaction. We do so by (i) confirming that the security is underrepresented in the purchasing client's portfolio based on F500 Advisory's model/recommended portfolio weightings at the time, (ii) confirming that the security is over-represented in the selling client's portfolio based on model/recommended portfolio weighting or that sale of the security represents the best option for generating needed cash or reallocating assets as desired, (iii) determining current market prices based on current market quotes, and (iv) for less liquid securities, contacting market participants to determine if the security could be purchased or sold at a better price notwithstanding market quotes. Cross trades between clients are normally priced at the mid-point between the best bid and offer prices known to be available at the relevant size order. We will also take into account any additional fees charged to cross the security to ensure that the transaction is still appropriate for both clients.

F500 Advisory does not act as broker for any cross transactions effected for clients, and will never receive any commissions or other compensation for these trades (other than our normal advisory fees for managing the accounts). F500 Advisory will provide details pertaining to all cross trades to participating clients prior to or promptly following each crossed transaction.

### Related Fund Interests

F500 Advisory, our personnel, and/or related firms own interests in and/or participate in the management of various private funds. F500 Advisory may recommend these funds to clients for which

F500 Advisory believes the investment is suitable. F500 Advisory only recommends such securities to clients who meet the requisite income and/or net worth requirements and where F500 Advisory believes that the investment is appropriate for the client based on the client's ability to accept the risk. When recommending related private funds to advisory clients, clients will not be charged F500 Advisory's investment management asset-based fees on the portion of the client's assets invested in the fund.

A conflict exists when F500 Advisory, our personnel, and/or related firms stand to benefit from additional investment in funds that we own or manage. Further, the potential for conflict exists where F500 Advisory could seek to dispose of (or share the burden of) underperforming assets from proprietary portfolios. Clients will receive the offering memorandum and full disclosure of known risks before investing. In addition, F500 Advisory will disclose any proprietary or related interest in the fund to the client.

Prospective investors in a related private fund are provided with the fund's offering documents. This Form ADV Part 2A Brochure is not an offer to sell, or a solicitation of an offer to purchase, membership interests in any private fund. Such an offer can only occur when the prospective investor receives the offering documents.

## **ITEM 12 - BROKERAGE PRACTICES**

### **The Custodian and Brokers We Use**

Clients open one or more accounts in their own name at an independent qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution). While F500 Advisory will work with any acceptable custodian that the client chooses, F500 Advisory generally recommends that clients use TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"), an independent SEC-registered broker-dealer, Member FINRA/SIPC/NFA, as the qualified custodian. We are independently owned and operated, and unaffiliated with TD Ameritrade. TD Ameritrade will hold client assets in a brokerage account, and buy and sell securities when we instruct them to.

#### *How We Select Brokers/Custodians*

We seek to recommend a custodian/broker who will hold client assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

1. Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
2. Capability to execute, clear, and settle trades (buy and sell securities for client accounts)
3. Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
4. Breadth of available investment products (stocks, bonds, mutual funds, etc.)
5. Availability of investment research and tools that assist us in making investment decisions

6. Quality of services
7. Competitiveness of the price of those services (commission rates, other fees, etc.) and willingness to negotiate the prices
8. Reputation, financial strength, and stability
9. Prior service to F500 Advisory and our other clients
10. Availability of other products and services that benefit us, as discussed below (see ***Products and Services Available to Us From the Custodian***)

### *Client Brokerage and Custody Costs*

For our clients' accounts that TD Ameritrade maintains, TD Ameritrade generally does not charge separately for custody services. However, TD Ameritrade receives compensation by charging commissions or other fees on trades that it executes or that settle into clients' TD Ameritrade accounts.

We have determined that having TD Ameritrade execute all trades is consistent with our duty to seek "best execution" of client trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see ***How We Select Brokers/Custodians***).

### *Products and Services Available to Us from the Custodian*

F500 Advisory participates in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. F500 Advisory receives some benefits from TD Ameritrade through our participation in the Program.

As disclosed above, F500 Advisory participates in TD Ameritrade's institutional customer program and F500 Advisory may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between F500 Advisory's participation in the program and the investment advice we give to our clients, although F500 Advisory receives economic benefits through our participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving F500 Advisory participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to F500 Advisory by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by F500 Advisory's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit F500 Advisory but may not benefit our client accounts. These products or services may assist F500 Advisory in managing and administering client accounts,

including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help F500 Advisory manage and further develop our business enterprise. The benefits received by F500 Advisory or our personnel through participation in the Program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of our fiduciary duties to clients, F500 Advisory endeavors at all times to put the interests of our clients first. Clients should be aware, however, that the receipt of economic benefits by F500 Advisory or our related persons in and of itself creates a potential conflict of interest and may indirectly influence F500 Advisory's choice of TD Ameritrade for custody and brokerage services.

F500 Advisory also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment advisors participating in the program. Specifically, the Additional Services include Morningstar and Blaze Portfolio.

TD Ameritrade provides the Additional Services to F500 Advisory in its sole discretion and at its own expense, and F500 Advisory does not pay any fees to TD Ameritrade for the Additional Services. F500 Advisory and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

F500 Advisory's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to F500 Advisory, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, F500 Advisory's client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with F500 Advisory, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, F500 Advisory may have an incentive to recommend to our clients that the assets under management by F500 Advisory be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. F500 Advisory's receipt of Additional Services does not diminish our duty to act in the best interests of our clients, including to seek best execution of trades for client accounts.

Following is a more detailed description of TD Ameritrade's support services:

#### *Services That Benefit Our Clients*

TD Ameritrade's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through TD Ameritrade include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. TD Ameritrade's services described in this paragraph generally benefit our clients and their accounts.

#### *Services That May Not Directly Benefit Our Clients*

TD Ameritrade also makes available to us other products and services that benefit us but may not directly benefit our clients or their accounts. These products and services assist us in managing and administering our clients' accounts. They include investment research, both TD Ameritrade's own and

that of third parties. In addition to investment research, TD Ameritrade also makes available software and other technology that:

1. Provide access to client account data (such as duplicate trade confirmations and account statements)
2. Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
3. Provide pricing and other market data
4. Facilitate payment of our fees from our clients' accounts
5. Assist with back-office functions, recordkeeping, and client reporting

In addition, as an incentive for F500 Advisory to recommend that clients move their accounts to TD Ameritrade, TD Ameritrade agreed to provide F500 Advisory certain additional economic benefits ("Additional Services") that may or may not be offered to any other investment advisers participating in the program. Under the Additional Services agreement, TD Ameritrade agreed to provide F500 Advisory approximately \$30,000 towards subscriptions for Morningstar Office and Blaze Portfolios, portfolio modeling and trading software. Any cost for the software over that amount is paid by F500 Advisory. We use this software exclusively to facilitate more efficient management of our clients' accounts and portfolios. To the extent that this software facilitates our overall management of client portfolios, it will enhance any internal reporting and recordkeeping we do with respect to each fund or asset in which a client's account is invested, including any portion of a client's assets managed by our related firms. The software will not be used for the direct or unique benefit of F500 Advisory's affiliates. The Additional Services arrangement creates an incentive for F500 Advisory to recommend TD Ameritrade as custodian and broker for client accounts, as TD Ameritrade's payment reduces the cost F500 Advisory would otherwise have to pay for the software. TD Ameritrade considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, F500 Advisory's client accounts when determining whether to provide or continue providing Additional Services to us. F500 Advisory's receipt of Additional Services does not diminish our duty to act in the best interests of clients, including to seek best execution of trades for client accounts.

### *Services That Generally Benefit Only Us*

TD Ameritrade also offers other services intended to help us manage and further develop our business enterprise. These services include:

1. Educational conferences and events
2. Consulting on technology, compliance, legal, marketing, and business needs
3. Publications and conferences on practice management and business succession
4. Access to employee benefits providers, human capital consultants, and insurance providers

TD Ameritrade may provide some of these services themselves. In other cases, they will arrange for third-party vendors to provide the services to us. TD Ameritrade may also discount or waive their fees for some of these services or pay all or a part of a third party's fees.



### *Our Interest in TD Ameritrade's Services*

The availability of these services from TD Ameritrade benefits us because we do not have to produce or purchase them. These services are not contingent upon us committing any specific amount of business to TD Ameritrade in trading commissions.

F500 Advisory primarily supports our selection of TD Ameritrade by the scope, quality, and price of TD Ameritrade's services (see ***How We Select Brokers/Custodians***, above) and not TD Ameritrade's services that benefit only us.

### *Directed Brokerage*

While F500 Advisory generally recommends that clients use TD Ameritrade as the account custodian and broker, clients may trade with any broker-dealer of their choice. Clients who direct F500 Advisory to use a particular broker-dealer for some or all trading may pay higher commission charges. Under these circumstances, F500 Advisory may not have authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved. Clients should further understand that when they direct F500 Advisory to use a specific broker disparity in transaction charges might exist between the transaction costs charged to other clients. F500 Advisory may not be able to aggregate orders to reduce transaction costs and clients who direct F500 Advisory to use a particular broker-dealer may receive less favorable prices.

## **Aggregation and Allocation of Transactions**

### *Aggregation of Orders*

In some cases, F500 Advisory will recommend the purchase or sale of the same security for multiple clients at the same time. F500 Advisory may aggregate (combine) orders for multiple clients and trade them as one block if we believe that aggregation is in the best interests of our clients.

This could present a potential conflict of interest among the accounts for whom the security purchase or sale is appropriate, and among the subset of those accounts actually participating in a block trade, especially if the block trade order results in a partial fill. In order to address these conflicts, F500 Advisory has adopted certain policies and procedures that we follow when aggregating trades, in an effort to provide an objective and equitable method of trade allocation so that all clients are treated fairly. The basic objectives of our policies and procedures are as follows:

1. F500 Advisory will not aggregate trades unless we believe that aggregation is consistent with our duty to seek best execution for clients.
2. F500 Advisory does not aggregate trades of our personnel with those of client accounts.
3. No client account will be favored over any other client account.
4. Each account that participates in an aggregated transaction will participate at the average of the executed share price for that transaction.

F500 Advisory believes that by combining orders in this way it will be advantageous to all participants. However, the average price could be less advantageous to a particular client than if that client had been



the only account effecting the transaction or had completed its transaction before the other participants.

### *Allocation of Structured Notes and Subordinated Debt*

F500 Advisory may purchase or recommend structured notes, including index-linked notes and CDs, and subordinated debt notes for client accounts. Potential conflicts of interest exist to the extent that F500 Advisory purchases or recommends these securities for accounts in which F500 Advisory or our personnel have a beneficial interest or receive an incentive allocation (e.g. pooled investments such as Perennial Protection Fund or other related private funds, and the CD Plus Service).

Structured notes may be purchased as initial public offerings in both pooled and individual accounts. These securities are less liquid and therefore will only be purchased in accounts for which F500 Advisory believes these securities are suitable. Allocation will follow the above allocation policy. F500 Advisory will generally purchase structured notes traded on secondary markets for pooled accounts and not for individual client accounts for the following reasons:

1. Limited liquidity may lead to orders being filled in lots that would be too small, leaving individual accounts with quantities that could not be liquidated cost-effectively, and
2. Execution cost may be too high on an individual account basis to be cost effective for these clients, with the execution costs expected to significantly reduce the profit potential of these securities for individual accounts.

Subordinated debt notes are available to accredited investors only. F500 Advisory may purchase subordinated debt for pooled investments and may recommend these securities to clients with individually managed accounts, subject to the issuers' willingness to issue the securities to individuals. Some issuers are only willing to issue these securities to institutions. F500 Advisory makes every effort to obtain such securities for individual clients where we believe the security would be of particular benefit for the client's portfolio. These types of securities are generally appropriate for accredited clients with a need for regular and high amounts of income.

In our past experience and in our estimation of future subordinated debt issues, F500 Advisory believes that future subordinated debt investment opportunities will be of sufficient size that all pooled and individual accounts for which the investment is suitable will be able to participate in the investment and that no client for which the investment is both suitable and timely will be excluded from the offer. The recommendation to invest in subordinated debt will be made to all clients around the same time and all eligible clients may participate around the same time.

Subordinated debt will be recommended to clients for which F500 Advisory believes the investment is both suitable and prudent, taking into account the following criteria: (a) the client is an accredited investor, (b) the liquidity of the investment relative to the anticipated liquidity needs of the client, (c) the holding period of the investment relative to the holding period of the client, (d) the risk of the investment and the risk tolerance of the client, (e) the minimum investment required for a single

investor relative to the size of the client's account and current allocation to similar securities, and (f) the distributor's willingness to issue securities to individual investors.

## **ITEM 13 - REVIEW OF ACCOUNTS**

### **Managed Account Reviews and Reporting**

F500 Advisory's investment advisory representatives perform regular reviews of all managed accounts on a quarterly basis. More frequent reviews may be performed due to changes in a client's investment objectives, financial situation or needs, market conditions, and/or other events. In addition, daily transaction reports, required action reports, and assorted other reports pertaining to client accounts are regularly reviewed.

Each client receives a written statement from the custodian that includes an accounting of all holdings and transactions in the account for the reporting period. In addition, F500 Advisory provides quarterly written reports detailing performance in client accounts. Clients with variable annuity accounts may only receive statements prepared by the custodian and not portfolio reports from F500 Advisory.

### **Financial Plans**

F500 Advisory's financial planner is responsible for creating clients' written financial plans. Financial plans are prepared on a project basis. We will work with clients to review the plan as requested by the client.

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

### **Brokerage Support Products and Services**

We receive an economic benefit from custodians in the form of the support products and services they make available to us and other independent investment advisors whose clients maintain their accounts at the custodian. These products and services, how they benefit us, and the related conflicts of interest are described above (see **Item 12 – Brokerage Practices**). We do not base particular investment advice, such as buying particular securities for our clients, on the brokerage products and services available to us.

### **Referrals to Third Party Advisors**

F500 Advisory may solicit the services of other outside investment advisors for a fee. Assets being managed by F500 Advisory will not be included with any assets managed by an outside investment advisor for whom we may act as a solicitor. No client is obligated to use the services of any outside investment advisor for which F500 Advisory may act as a solicitor. Fees charged through solicitation agreements may differ from those charged by F500 Advisory for accounts we manage directly. (For example, certain outside advisors may charge deferred fees which decline and vanish over a period of years, typically somewhere between a minimum of 3 years and a maximum of 10 years.)

## Solicitor Arrangements

If a solicitor introduces a client to F500 Advisory, we 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. Compensation that solicitors receive for referring a client to F500 Advisory will normally not exceed 50% of the advisory fees we receive from that referred client. F500 Advisory's referral payment arrangements with solicitors do not increase the total fees paid by the client. Solicitors are paid by F500 Advisory and not by the referred client. The client pays the same amount of fees to F500 Advisory as they would if they had dealt with F500 Advisory directly.

There may or may not be an affiliation or relationship between the solicitor and F500 Advisory. If any affiliation exists, it will be disclosed to the referred client in writing. F500 Advisory may pay referral fees to registered representatives or other persons associated with our affiliated broker-dealer firm Finance 500, Inc. In these cases, the compensation arrangement with the solicitor may be structured a number of ways. The solicitor may receive fees based upon either:

1. A percentage of the advisory fees paid by a referred client to F500 Advisory;
2. A one-time referral payment;
3. A portion of the transaction fees charged by the broker-dealer for trades in the referred client's account; or
4. A portion of any mutual fund-related fees received by the broker-dealer for trades in the referred client's account.

If an unaffiliated solicitor introduces a client to F500 Advisory, that solicitor will disclose the nature of the solicitor relationship with F500 Advisory at the time of the solicitation. In addition, the solicitor will provide each prospective client with a copy of this brochure, and a copy of the written disclosure statement from the solicitor to the client disclosing the terms and conditions of the arrangement between F500 Advisory and the solicitor, including the compensation the solicitor will receive from F500 Advisory. Any affiliated solicitor of F500 Advisory will disclose the nature of the relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of this brochure.

## ITEM 15 - CUSTODY

F500 Advisory has limited custody of some of our clients' funds or securities when the clients authorize us to deduct our management fees directly from the client's account. A qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution) holds clients' funds and securities. Clients will receive statements directly from their qualified custodian at least quarterly. The statements will reflect the client's funds and securities held with the qualified custodian as well as any transactions that occurred in the account, including the deduction of our fee.

Clients should carefully review the account statements they receive from the qualified custodian. When clients receive statements from F500 Advisory as well as from the qualified custodian, they should

compare these two reports carefully. Clients with any questions about their statements should contact us at the address or phone number on the cover of this brochure. Clients who do not receive a statement from their qualified custodian at least quarterly should also notify us.

F500 Advisory also has custody of the assets of the Perennial Protection Fund, LLC and the MNJ Multi-Cap Strategy Fund, LP, as the Managing Member and General Partner, respectively, of the funds. F500 Advisory has the ability to request funds from the custodian out of the funds' accounts. F500 Advisory has put controls in place, in compliance with federal rules, to protect the assets of the funds. A qualified custodian holds the funds' assets. In addition, an independent accountant audits the funds each year, and we send copies of the audited financial statements to all investors in the funds. An independent accountant will also audit the funds upon liquidation.

## **ITEM 16 - INVESTMENT DISCRETION**

F500 Advisory generally has full discretion to decide the specific security to trade, the quantity, and the timing of transactions for client accounts. F500 Advisory will not contact clients before placing trades in their account, but clients will receive confirmations directly from the broker for any trades placed. Clients grant us discretionary authority in the contracts they sign with us. Clients also give us trading authority within their accounts when they sign the custodian paperwork.

F500 Advisory may on occasion agree to manage client accounts on a non-discretionary basis.

Certain client-imposed conditions may limit our discretionary authority, such as where the client prohibits transactions in specific security types or directs F500 Advisory to execute transactions through specific broker-dealers. See also ***Tailored Services and Client Imposed Restrictions*** under ***Item 4*** and ***Item 12 – Brokerage Practices***, above.

## **ITEM 17 - VOTING CLIENT SECURITIES**

### **Proxy Voting**

F500 Advisory does not assume proxy voting authority on non-ERISA accounts. Clients will receive their proxies or other solicitations directly from their custodian or a transfer agent.

If the account is subject to ERISA (i.e., a Pension Plan), F500 Advisory will assume proxy voting responsibilities unless the client specifically reserves the right and informs F500 Advisory in writing.

In order to avoid any potential or perceived conflict of interest with ERISA clients, F500 Advisory has retained a third-party service to analyze and vote proxies. Clients may obtain a complete copy of F500 Advisory's and/or the third-party provider's written proxy policies and information on how your proxies were voted by contacting F500 Advisory at the address indicated on the cover page of this brochure. Clients should include in their request their name, and the account and security for which they are making the request.

## **Class Actions**

F500 Advisory does not instruct or give advice to clients on whether or not to participate as a member of class action lawsuits and will not automatically file claims on the client's behalf. However, if a client notifies us that they wish to participate in a class action, we will provide the client with any transaction information pertaining to the client's account needed for the client to file a proof of claim in a class action.

## **ITEM 18 - FINANCIAL INFORMATION**

Registered investment advisers are required in this item to provide clients with certain financial information or disclosures about the firm's financial condition. F500 Advisory does not require the prepayment of more than \$1,200 in fees per client, six months or more in advance, and does not foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.