

**WRAP FEE PROGRAM BROCHURE  
FORM ADV, PART 2A, APPENDIX 1**

## COMMERCE WEALTH ADVISERS, LLC

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**March 30, 2012**

This wrap fee program brochure provides information about the qualifications and business practices of Commerce Wealth Advisers, LLC. If you have any questions about the contents of this brochure, please contact us at 866-875-7112. 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.

Commerce Wealth Advisers, Inc. is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. Additional information about Commerce Wealth Advisers, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by using a unique identifying number, known as a CRD number. The CRD number for Commerce Wealth Advisers is 144449.

## **Item 2: Material Changes**

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

We will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary. We will also provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting your personal investment adviser representative or our office at 866-875-7112.

Additional information about Commerce Wealth Advisers, LLC (hereinafter referred to as "CWA", "us", "we", "our" or the "Firm") is also available via the SEC's web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with CWA who are registered, or are required to be registered, as investment adviser representatives of CWA.

**Commerce Wealth Advisers, LLC.**  
**April 2012**

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This brochure provides prospective clients with information about CWA that should be considered before or at the time of receiving investment advisory services from CWA. Please be advised that CWA will not assign its duties to you to any other party without your consent. Please maintain this brochure for future reference.

#### **Item 4: Services, Fees and Compensation**

Commerce Wealth Advisers, LLC (referred to as “CWA” in this document) has developed and sponsors the CWA Wrap Program (referred to simply as the “Program” in this document). The Program is a wrap-fee program. Only investment advisor representatives of CWA may serve as portfolio managers in the Program. Therefore, participants in the Program must be advisory clients of CWA.

Our investment advisor representatives (IARs) are not employees of CWA, they are independent contractors. Our IARs are restricted to providing services and charging fees based in accordance with the descriptions detailed in this document. However, the exact services you will receive and the fees you will be charged are dependent upon your IAR. Fees may also vary depending on the geographic location of our clients and/or your IAR. CWA’s IARs are instructed to consider the individual needs of each client when recommending an advisory service.

Our Firm provides investment advisory services other than the Program described in this Wrap Fee Program Brochure. A description of the other fee based investment advisory services is available in our Form ADV Part 2A Disclosure Brochure. Some of our IARs are approved to also provide investment advice in their separate capacities as registered representatives of our Firm in its separate capacity as a broker/dealer member FINRA/SIPC. In those capacities, our IARs that are also broker/dealer registered representatives may charge commissions on a per-transaction basis when implementing their advice on behalf of clients.

When making the determination of whether one of the advisory programs available through CWA is appropriate for their needs, clients should bear in mind that fee based accounts through CWA, when compared with commission based accounts may result in lower costs during periods when trading activity is heavier, such as the year an account is established. However, during periods when trading activity is lower, such arrangements may result in a higher annual cost for transactions. The total cost for transactions under a fee account versus a commission account can vary significantly and depends upon a number of factors. Some such factors include account size, amount of turnover (number of transactions), type and quantities of securities purchased or sold, commission rates and the client’s tax situation. Clients should have a conversation with their IAR and read this brochure carefully as it explains our program in detail.

Under the Program, CWA provides investment supervisory services defined as giving continuous investment advice to a client and making investments for the client based on the individual needs of the client. Through this service, CWA offers a customized and individualized investment program for clients.

Various investment strategies are provided under the Program; however, a specific investment strategy and investment policy is crafted for each client to focus on the specific client’s goals and objectives.

CWA shall obtain information from clients to determine each individual client’s financial situation and investment objectives. Accounts are managed on the basis of each client’s financial situation and investment objectives. At least quarterly, clients are instructed to notify CWA whether the client’s financial situation or investment objectives have changed, or if the client wants to impose and/or modify any reasonable restrictions on the management of accounts managed under the Program. At least annually, CWA shall contact individual clients to determine whether their financial situation or investment objectives have changed, or if the client wants to impose and/or modify any reasonable restrictions on the management of accounts managed. CWA shall be reasonably available to consult with individual clients relative to the status of their accounts. Clients shall have the ability to impose reasonable restrictions on the management of their accounts, including the ability to instruct CWA not to purchase certain securities.

Client’s beneficial interest in a security does not represent an undivided interest in all the securities held by the custodian, but rather represents a direct and beneficial interest in the securities which comprise the account. A separate account is maintained for each client with the custodian and clients retain right of ownership of the

account (e. g. right to withdraw securities or cash, exercise or delegate proxy voting, and receive transaction confirmations).

### ***Equity and Debt Portfolio Management***

CWA actively engages in the separate management of diversified portfolios consisting of equities, fixed income and cash equivalent securities on behalf of its clients. CWA shall make recommendations with respect to these securities (equities, fixed income and cash equivalent securities); participants may pay the applicable transaction costs in addition to the management fee.

In addition to the management fees, from time to time during the management of its various portfolios CWA may pass on transactional and operational costs to its clients. Transactional and operational costs may include but are not limited to transaction fees such ticket charges, reorganization fees, regulatory fees, etc.

### ***Client Investment Process***

Upon establishment of a Program account, CWA will be granted trading authorization on the client's account in order to execute trades in the account and change investment selections . CWA provides discretionary and non-discretionary portfolio management on a continuous basis. The investment advice provided by CWA is variable depending upon the desires, objectives, and other preferences of the client. Each individual investment portfolio will be developed within the context of, but not limited to, the client's total net worth, acceptable degree of risk tolerance, and particular investment needs, goals, objectives, and time horizon. Such advice will typically involve providing a variety of services and may include investment buy/sell recommendations, asset allocation, and the selection of mutual funds for the client's account.

All clients have the ability to place reasonable restrictions on the types of investments that may be purchased in an account.

CWA or a related person does not act as a principal (buys securities for itself or sells securities it owns to any client) in the Program. CWA or a related person does not affect transactions in which client securities are sold to or bought from a brokerage (commission-only) client.

### ***Suitability***

CWA will assist clients in determining their objective(s), investment strategy, and investment suitability, prior and subsequent to opening a Program account. Clients must advise CWA of any changes in their investment objective(s) and/or financial situation. An IAR of CWA will assist a prospective client in a review of their investment objectives, investing time horizon, financial situation and investment risk tolerance. The IAR will also assist the prospective client in completing an investor questionnaire. Based on the answers provided in the investor questionnaire, the IAR will recommend one of a number of asset allocation models.

Our services are always provided based on the individual needs of each client. This means, for example, that you are given the ability to impose restrictions on the accounts we manage for you, including specific investment selections and sectors. After choosing an asset allocation model, the prospective client with the assistance of their IAR will choose the investments the client wishes to purchase or transfer in kind to the client's Program account. Unless requested otherwise by the prospective client, the IAR will recommend investments that correspond to the Asset Class Mix of the asset allocation model chosen by the client. All decisions to purchase, sell, or transfer investments to or from the Program account shall be made solely by the client. The IAR is available to the client at any time to provide consultation on buying, selling and reinvesting investments in the Program account consistent with the client's investment objectives.

CWA and its IARs may provide different investment or asset allocation modeling recommendations to one client in the Program from that given to another client. The Program does not give investment advice as to assets that the client has chosen not to hold in a Program account.

We may manage a client's account in accordance with one or more investment models. When client accounts are managed using models, investment selections are based on the underlying model and we do not develop customized (or individualized) portfolio holdings for each client. However, the determination to use a particular model or models is always based on each client's individual investment goals, objectives and mandates.

### ***Account Reporting***

Client accounts are monitored on a continuous basis. The portfolio manager assigned to the account, or another qualified representative of CWA ("Portfolio Manager") will conduct all reviews. Advisory accounts are reviewed periodically, with no specific number of accounts assigned to each reviewer. Additional reviews may be provided based on a significant change in the market, the client's financial situation, significant additions to or withdrawals from the account, transactions and significant changes in asset allocations, or at CWA's or the client's request.

The custodian/broker typically sends clients a confirmation of every securities transaction and a monthly or quarterly brokerage statement reflecting all transactions in the client's account held by the custodian/broker. CWA may provide additional written reports to clients on a quarterly basis. Such reports may include a detailed holdings report, transaction reports, and performance reviews.

### ***Brokerage, Clearing and Custody***

Accounts managed through the Program must be established through the brokerage platform detailed in this section.

There are some investment advisors that permit the use of multiple broker/dealers and permit clients to select the broker/dealer. CWA has considered the positive factors to this approach which include the ability to better negotiate brokerage costs such as transaction fees, the ability to better analyze speed of execution, and the ability to compare and negotiate services. However, CWA has determined that the use of the brokerage platform (CWA/Pershing & TD Ameritrade) allows CWA to provide more streamlined operational and trading services. CWA considers the fact that allowing multiple brokerage arrangements and client-directed brokerage arrangements would increase the need for additional internal staff and technology which may increase the overall fees charged to clients. By permitting only CWA-directed brokerage platforms, we are able to avoid additional compliance, recordkeeping, staffing, and technological costs that may be associated with implementing procedures designed to work with multiple brokerage platforms. Considering all factors in relation to CWA's structure and capacities, CWA has concluded that requiring our pre-approved brokerage platform (CWA/Pershing & TD Ameritrade) is a better policy than permitting multiple brokerage arrangements including client directed brokerage arrangements. However, the current policy may change in the future and if CWA decides to permit other brokerage arrangements all clients will be made aware of the change in policy.

### ***Pershing, LLC as Broker/Dealer***

The option to use Pershing LLC ("Pershing") (which is not affiliated with CWA) is based on the fact that we have established a clearing agreement with Pershing as clearing broker/dealer and qualified custodian. The decision to use Pershing is based on past experiences, minimizing brokerage expenses and other costs as well as offerings or services Pershing provides that we and/or our clients may require or find valuable.

Commission and fee structures of various broker/dealers, along with services, research and tools are

periodically reviewed by CWA in order to evaluate the overall execution services provided by Pershing. Accordingly, while we consider competitive rates, we may not necessarily obtain the lowest possible commission and brokerage rates for client account transactions. Therefore, the overall services provided by both CWA and Pershing are evaluated to determine the level of best execution provided to clients.

While clients may be able to attain brokerage services with lower costs and expenses, clients should be aware of some of the qualitative factors CWA considers for selecting Pershing as its required Program brokerage platform. These factors include, but are not necessarily limited to, being able to rely on the internal staff of CWA to provide operations, trading, and other services.

Pershing is able to provide numerous specialized service groups and a Client Service Manager who is dedicated to servicing CWA and Program accounts. Their back-office system generates exception reports designed to monitor all aspects of brokerage accounts, including trading, money movement, transfers, and client account data. Client paperwork is processed through a secure electronic workflow and storage system.

Pershing's electronic trading platform provides a real-time order matching system, ability to "block" client trades, program investment models, automated rebalancing, account balance and position information, and access to mutual fund families. Clients may access their account information over the internet, including balances, transactions, positions, statements, confirmations, and tax documents. Advisory fees can be calculated on aggregated account balances and are debited directly from client accounts.

#### ***TD Ameritrade as Broker/Dealer***

You and your IAR also have the option to open or move Program accounts to TD Ameritrade through the TD Ameritrade Institutional platform. TD Ameritrade, Inc. serves as the broker/dealer and qualified custodian for all accounts through TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. a SEC-registered broker/dealer, member FINRA/SIPC/NFA.

For accounts at TD Ameritrade, you must designate CWA, solely in its capacity as a registered investment advisor, as your investment advisor on the accounts you'd like your IAR to manage. CWA will be granted limited power-of-attorney on the account to implement trades within the account and (when agreed to by the client) deduct CWA advisory fees from the account.

TD Ameritrade offers to independent investment advisors (such as CWA) services which include custody of securities, trade execution, clearance and settlement of transactions. CWA is independent and unaffiliated with TD Ameritrade.

We do not receive client referrals from TD Ameritrade; however, we do receive certain benefits from them. Costs associated with TD Ameritrade may be higher than other broker/dealers in return for those products and services. Commission and fee structures of various broker/dealers are periodically reviewed to analyze quality of overall execution services. Accordingly, while CWA will consider competitive rates, it may not necessarily obtain the lowest possible commission rates or most favorably execution services for client account transactions. Therefore, the overall services provided by broker/dealers are evaluated to determine best execution.

While there is not a direct link between the investment advice provided to clients and CWA's recommendation to use TD Ameritrade, economic benefits are received by CWA which would not be received if the Firm did not give investment advice to clients and are not typically available to TD Ameritrade retail clients. These benefits include the following products and services (provided without cost or at a discount): duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving advisor 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 us by third party vendors.

TD Ameritrade may also pay for business consulting and professional services received by our related persons and may also pay or reimburse expenses (including travel, lodging, meals and entertainment expenses) for our personnel to attend conferences or meetings relating to the program or to their advisory custody and brokerage services generally. Some of the products and services made available by TD Ameritrade benefit us but may not benefit our client accounts. These products or services may assist us in managing and administering your accounts, including accounts not maintained at the broker/dealer offering the service. Other services are intended to help us manage and further develop our business enterprise. The benefits received by us or our personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. You should be aware, however, that the receipt of economic benefits by us or our related persons in and of itself creates a potential conflict of interest and may indirectly influence our recommendation of TD Ameritrade for custody and brokerage services.

### ***Aggregation of Client Orders***

Transactions implemented by CWA for client accounts are generally affected independently, unless the firm decides to purchase or sell the same securities for several clients at approximately the same time. This process is referred to as aggregating orders, batch trading or block trading and is used by the firm when CWA believes such action may prove advantageous to clients. When CWA aggregates client orders, the allocation of securities among client accounts will be done on a fair and equitable basis. Typically, the process of aggregating client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or their transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among the firm's clients in proportion to the purchase and sale orders placed for each client account on any given day. When CWA determines to aggregate client orders for the purchase or sale of securities, including securities in which CWA may invest, the firm will do so in accordance with the parameters set forth in the SEC No-Action Letter, SMC Capital, Inc. It should be noted, CWA does not receive any additional compensation or remuneration as a result of aggregation.

### ***Trading Error Policy***

CWA has implemented procedures designed to prevent trade errors; however, trade errors in client accounts cannot always be avoided. Consistent with its fiduciary duty, it is the policy of CWA to correct trade errors in a manner that is in the best interest of the client. In cases where the client causes the trade error, the client will be responsible for any loss resulting from the correction but will not receive any gains generated as a result of the error correction. In situations where the client does not cause the trade error, the client will be made whole and any loss resulting from the trade error will be absorbed by CWA or the CWA IAR if the error was caused by CWA or the CWA IAR.

For trade errors occurring in TD Ameritrade accounts, TD Ameritrade may maintain gains resulting from correcting a trade error that are not retained by the client and in some instances may use such gains to offset overall losses CWA incurs from trading errors.



## ***Custody***

Custody, as it applies to investment advisers, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding client funds and securities. If an investment adviser has the ability to access or control client funds or securities, the investment adviser is deemed to have custody and must ensure proper procedures are implemented.

Our firm is deemed to have custody of client funds and securities whenever CWA is given the authority to have fees deducted directly from client accounts. However, this is the only form of custody we maintain. It should be noted that authorization to trade in client accounts is not deemed by regulators to be custody.

For accounts in which CWA is deemed to have custody, the firm has established procedures to ensure all client funds and securities are held at a qualified custodian (i.e. TD Ameritrade) in a separate account for each client under that client's name. Clients or a duly authorized independent representative of the client will direct, in writing, the establishment of all accounts and therefore become aware of the qualified custodian's name, address and the manner in which the funds or securities are maintained. Finally, account statements are delivered directly from the qualified custodian to each client, or the client's independent representative, at least quarterly.

Clients should carefully review those statements and are urged to compare the statements against reports received from CWA or any other source. When clients have questions about their account statements, they should contact their IAR, CWA or the qualified custodian preparing the statement.

## ***Fees and Expenses of Programs***

On an annualized basis, CWA's fee for portfolio management generally ranges from 1.00% to 2.00% of assets under management, payable quarterly in advance. However, in certain cases, other fees may be negotiated. Typically, fixed income and annuity portfolios will be charged 0.50% on an annualized basis. The first payment is due upon execution of the Investment Advisory Agreement ("Agreement") and will be assessed pro-rata in the event the client agreement is executed at any time other than the first day of the calendar quarter. Subsequent payments are due and will be assessed on the first day of each calendar quarter based on the value of the Account assets under management as of the close of business on the last business day of the preceding quarter. The exact management fee charged to the account is set forth in the Agreement. Upon entering into the Agreement, the Client opens a brokerage account with an independent and unaffiliated brokerage firm, such as TD AMERITRADE Institutional Services, a division of TD AMERITRADE Investor Services, Inc., member FINRA/SIPC ("TD AMERITRADE"), among others. The brokerage firm provides advisory clients with securities custody and execution services.

The program fee covers CWA's advisory services and all trade execution fees charged by CWA/ TD Ameritrade. Therefore, clients are not charged transaction fees separately from the program fee. This creates an incentive to make fewer trades when managing accounts because TD Ameritrade charges CWA on a transaction-by-transaction basis. During periods when trading activity is lower, CWA nets higher revenue because there are lower trading costs imposed by TD Ameritrade. When trading activity is higher, CWA revenue is reduced in order to cover the added Pershing Advisory Solutions or TD Ameritrade trading expenses.

The Program may cost the client more or less than purchasing such advisory and execution services separately. As disclosed in this section, CWA receives compensation as a result of a client's participation in Program. CWA therefore has a financial incentive to recommend the Program over other programs or services. The amount of CWA's compensation may be more than what a client would receive if the client participated in programs sponsored by other financial firms or paid separately for investment advice, brokerage, and other services.

Either CWA will invoice the client directly for the advisory fees or the qualified custodian holding the client's funds and securities will debit the client account directly for the advisory fees. The fees deducted from a client's account are transactions that display on the client's brokerage statement. Fees will be payable by liquidating a portion of the account assets if money market funds or a free credit balance are not available. Liquidation may subsequently affect the relative balance of an account.

Clients may make additions to the account at any time. Additionally, clients may withdraw account assets, subject to the usual and customary securities settlement procedures. No fee adjustments are made for partial withdrawals or deposits within a billing period.

### ***Mutual Fund Charges***

All fees paid to CWA for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds to their shareholders. These fees and expenses are described in each fund's prospectus. Fees charged by mutual funds will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, the client may pay an initial or deferred sales charge. Where CWA recommends mutual funds that have associated transaction costs, CWA will pay the transaction cost.

### ***Exchange Traded Funds Charges***

Where CWA recommends exchange traded funds that have associated transaction costs, CWA will not pay the applicable transaction costs. Participants in this program (the "Program") pay a single "wrap fee" ("Program Fee") that includes the management fee and applicable transaction costs.

### ***Structured Product Charges***

Advisory representatives of CWA may offer advice to clients regarding structured products. In addition to the annual fee prescribed in the Investment Advisory Agreement, investments in structured products may also be subject to an additional one-time custodial transaction fee of approximately \$25.00 which will be charged to the client.

### ***Additional Fees and Expenses***

In addition to the aforementioned, there may be other costs assessed which are not included in the Program Fee, such as national securities exchange fees; charges for transactions with respect to assets not executed through the custodian; costs associated with exchanging currencies; wire transfer fees; or other fees required by law. The Program may cost the client more or less than purchasing such services separately.

The client should consider that, depending upon the level of the Program Fee charged, the amount of portfolio activity in the client's account, the value of services that are provided under the Program, and other factors, the Program Fee may or may not exceed the aggregate cost of such services if they were to be provided separately.

In addition to the management fees described herein, from time to time during the management of its various portfolios, CWA may pass on transactional and operational costs to its clients. Transactional and operational costs may include but are not limited to transaction fees such ticket charges, reorganization fees, regulatory fees, etc.

### ***Termination of Services***

Program services may be canceled at any time, by any of the parties, for any reason upon receipt of written notice to the other party. For TD Ameritrade accounts, services will be terminated without penalty and the client will receive a prorated refund of any fees paid in advance but not fully earned by CWA. The refund will

be based on the number of days remaining in the quarter after notice of termination is received.

CWA will cooperate fully in any requests to deliver funds and securities held in the Account to another custodian. TD Ameritrade charges an Account Transfer fee when the client transfers the account(s) to a different custodian. Please refer to the TD Ameritrade fee schedules for details. Termination of services will not affect the liabilities or obligations of the parties arising out of transactions initiated prior to termination.

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

CWA does not currently impose a minimum account size in order to open or maintain a wrap fee account.

CWA generally provides investment advice to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

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

The Program does not allow IARs or clients to utilize portfolio managers that are not associated with CWA. In other words, the only portfolio managers selected for managing client assets in the Program are investment advisor representatives of CWA. Therefore, conflicts of interest present in other wrap-fee programs that make available both affiliated and unaffiliated portfolio managers are not present in this Program. Because the Program does not provide for a multitude of outside portfolio managers, CWA does not have procedures designed to select outside portfolio managers. Most of the items required by this item of the Wrap Fee Program Brochure instructions do not apply to CWA. Items that do apply are answered below.

##### **Description of Other Advisory Services**

Because IARs serve as portfolio managers of the Program, the following is provided as brief descriptions of CWA's primary services. Detailed descriptions of CWA's services other than the Program are provided in our Form ADV Part 2A Disclosure Brochure.

#### ***Financial Planning***

We provide advisory services in the form of financial planning services. Financial planning services do not involve the active management of client accounts, but instead focuses on a client's overall financial situation. Financial planning can be described as helping individuals determine and set their long-term financial goals, through investments, asset allocation, risk management, retirement planning, and other areas. The role of a Financial Advisor in providing financial planning services is to find ways to help the client understand his/her overall financial situation and help the client set financial objectives.

#### ***Asset Management***

We provide advisory services in the form of Asset Management Services outside of this Program. Asset Management Services involve providing clients with continuous and on-going supervision over client accounts. This means that we will continuously monitor a client's account and make trades in client accounts when necessary.

#### ***Outside Money Manager***

We also provide advisory services by referring clients to outside, or unaffiliated, money managers that are registered or exempt from registration as investment advisers. Under this service the third-party money managers will be responsible for continuously monitoring client accounts and making trades in client accounts when necessary.

## ***Specialization***

The firm specializes in providing individualized investment advice through its asset management services.

### Advice on Certain Types of Investments

Our Firm provides investment advice on the following types of investments:

- No-Load (i.e. no trading fee) and Load-Waived (i.e. trading fee waived) Mutual Fund Shares
- Exchange-listed securities (i.e. stocks)
- Securities traded over-the-counter (i.e. stocks)
- Fixed income securities (i.e. bonds)
- Closed-End Funds and Exchange Traded Funds (ETFs)
- Foreign Issues
- Warrants
- Corporate debt securities (other than commercial paper)
- Commodities (i.e. precious metals)
- Futures contracts on tangibles or intangibles,
- Commercial paper
- Certificates of deposit
- Municipal securities
- Variable life insurance
- Variable annuities
- United States government securities
- Options contracts on securities
- Interests in partnerships investing in real estate, oil and gas interests. These types of investments are often illiquid, which means that the investments can be difficult to trade and consequently limits a client's ability to dispose of such investments in a timely manner and at an advantageous price. Additionally, limited partnership investments may not have been registered pursuant to the Securities Act of 1933, and therefore the client will need to complete a subscription agreement showing the client is an "accredited" investor (as defined by applicable law and rules and regulations) and acknowledge that he or she has read and understands the private placement memorandum and is aware of the various risk factors associated with such an investment.

CWA does not provide advice on options contracts on commodities or hedge funds.

When providing Asset Management Services, the firm will typically construct each client's account holdings using mutual funds and equities to build diversified portfolios. It is not the firm's typical investment strategy to attempt to time the market but we may increase cash holdings as deemed appropriate, based on your risk tolerance and our expectations of market behavior.

We may modify our investment strategy to take in to consideration situations like: low basis stock, stock options, legacy holdings, inheritances, closely held businesses, collectibles, or special tax situations.

### ***Participation in Wrap Fee Programs***

As outlined in this brochure, we offer services through wrap-fee programs and non-wrap fee programs.

A wrap fee program is defined as any advisory program under which a specified fee or fees not based directly upon transactions in a client's account is charged for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and the execution of client transactions.

A non-wrap fee program traditionally includes individual transaction charges and other service charges in addition to any investment advisory fee that is charged.

Whenever a fee charged to a client for services described in this brochure (whether wrap fee or non-wrap fee), CWA will receive all or a portion of the fee charged.

### ***Performance-Based Fees and Side-By-Side Management***

"Qualified" clients, as the term is defined by Rule 205-3 of the Investment Advisers Act of 1940 ("Qualified Clients"), may enter into arrangements where performance-based fees are assessed for advisory services offered by CWA. All clients must have at least \$750,000 in assets under management with CWA or must certify that such client has a net worth of at least \$1,500,000 at the time of entering into the performance-based fee agreement.

CWA does not currently charge or accept performance-based fees. Regulators have defined performance based fees as charging fees based on a share of capital gains on or capital appreciation of the assets held within a client's account.

### ***Methods of Analysis, Investment Strategies and Risk of Loss***

#### ***A. Method of Analysis***

CWA investment adviser representatives use various methods of analysis and investment strategies. Methods and strategies will vary based on the CWA IAR providing advice. Models and strategies used by one IAR may be different than strategies used by other IARs. Some CWA IARs may use just one method or strategy while other IARs may rely on multiple methods or strategies. CWA does not require or mandate a particular investment strategy be implemented by its IARs. Further, CWA has no requirements for using a particular analysis method and our IARs are provided flexibility (subject to CWA's supervision and compliance requirements) when developing their investment strategies. The following sections provide brief descriptions of some of the more common methods of analysis and investment strategies that are used by our IARs.

Fundamental - A method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall

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

The risk associated with fundamental analysis is that it is somewhat subjective. While a quantitative approach is possible, fundamental analysis usually entails a qualitative assessment of how market forces interact with one another in their impact on the investment in question. It is possible for those market forces to point in different directions, thus necessitating an interpretation of which forces will be dominant. This interpretation may be wrong, and could therefore lead to an unfavorable investment decision.

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

Technical analysis is even more subjective than fundamental analysis in that it relies on proper interpretation of a given security's price and trading volume data. A decision might be made based on a historical move in a certain direction that was accompanied by heavy volume; however, that heavy volume may only be heavy relative to past volume for the security in question, but not compared to the future trading volume. Therefore, there is the risk of a trading decision being made incorrectly, since future trading volume is an unknown. Technical analysis is also done through observation of various market sentiment readings, many of which are quantitative. Market sentiment gauges the relative degree of bullishness and bearishness in a given security, and a contrarian investor utilizes such sentiment advantageously. When most traders are bullish, then there are very few traders left in a position to buy the security in question, so it becomes advantageous to sell it ahead of the crowd. When most traders are bearish, then there are very few traders left in a position to sell the security in question, so it becomes advantageous to buy it ahead of the crowd. The risk in utilization of such sentiment technical measures is that a very bullish reading can always become more bullish, resulting in lost opportunity if the money manager chooses to act upon the bullish signal by selling out of a position. The reverse is also true in that a bearish reading of sentiment can always become more bearish, which may result in a premature purchase of a security.

## ***B. Investment Strategies***

CWA utilizes several strategies when managing client accounts. Included are:

Long term purchases: Investments held at least a year.

Short term purchases: Investments sold within a year.

Tactical asset allocation: Allows for a range of percentages in each asset class (such as Stocks = 40-50%). These are minimum and maximum acceptable percentages that permit the investor to take advantage of market conditions within these parameters. Thus, a minor form of market timing is possible, since the investor can move to the higher end of the range when stocks are expected to do better and to the lower end when the economic outlook is bleak.

Strategic asset allocation: Calls for setting target allocations and then periodically rebalancing the portfolio back to those targets as investment returns skew the original asset allocation percentages. The concept is akin to a "buy and hold" strategy, rather than an active trading approach. Of course, the strategic asset allocation

targets may change over time as the client's goals and needs change and as the time horizon for major events such as retirement and college funding grow shorter.

### ***C. Risk of Loss***

Clients must understand that past performance is not indicative of future results. Therefore, current and prospective clients (including you) should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities (including stocks, mutual funds, and bonds) involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk. Clients and prospective clients should be prepared to bear investment loss including loss of original principal.

Because of the inherent risk of loss associated with investing, our firm is unable to represent, guarantee, or even imply that our services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines. There are certain additional risks associated when investing in securities through our investment management program.

**Market Risk** – Either the stock market as a whole, or the value of an individual company, goes down resulting in a decrease in the value of client investments. This is also referred to as systemic risk.

**Equity (stock) market risk** – Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.

**Company Risk**- When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives unfavorable media attention for its actions, the value of the company may be reduced.

**Fixed Income Risk**- When investing in bonds, there is the risk that issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.

**Options Risk**- Options on securities may be subject to greater fluctuations in value than an investment in the underlying securities. The purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks.

**ETF and Mutual Fund Risk** – When our firm invests in an ETF or mutual fund, it will bear additional expenses based on its pro rata share of the ETFs or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. Clients will also incur brokerage costs when purchasing ETFs.

**Management Risk** – Your investment with our firm varies with the success and failure of our investment strategies, research, analysis and determination of portfolio securities.



## ***Voting Client Securities***

CWA will not vote proxies on behalf of your account. While there are some investment advisors that will vote proxies and other corporate decisions on behalf of their clients, we have determined that taking on the responsibility for voting client securities does not add enough value to the services provided to clients to justify the additional compliance and regulatory costs associated with voting client securities. Therefore, it is your responsibility to vote all proxies for securities held in your accounts managed by our firm.

You will receive proxies directly from your account custodian or investment transfer agent and these documents will not be delivered by our firm. Although we do not vote client proxies, if you have a question about a particular proxy feel free to contact us.

## **Item 7: Client Information Provided to Portfolio Managers**

CWA provides discretionary and non-discretionary portfolio management on a continuous basis. The investment advice provided by CWA depends upon the desires, objectives, risk tolerance, and other preferences of the client. Each Portfolio Manager will provide investment advice within the context of, but not limited to, the client's total net worth, acceptable degree of risk tolerance, and particular investment needs, goals, objectives, and time horizon. Such advice will typically involve providing a variety of services and may include investment buy/sell recommendations, asset allocation, and the selection of mutual funds for the client's account.

Certain strategies employed by the Firm may incur more risk than others may incur. The risk involved with these specific strategies are generally evaluated by the client and the Portfolio Manager prior to any investment being made in order to ensure that the client's goals, objectives, and financial situation is such that he or she is able to bear the risks inherent to these investments.

## **Item 8: Client Contact with Portfolio Managers**

Because only IARs of CWA serve as portfolio managers, there are no restrictions placed on clients' ability to contact and consult with their portfolio managers. It is the policy of CWA to provide an "open channel" of communication between IAR and their clients. Clients are encouraged to contact their IAR whenever they have questions about the management of their account. The frequency of client contact with Portfolio Managers will vary among clients.

## **Item 9: Additional Information**

### ***Potential Conflicts of Interest***

Certain associated persons of CWA are licensed to sell securities through DeWaay Financial Network ("DFN"), an affiliated securities broker/dealer registered with the Securities and Exchange Commission and the Financial Regulatory Authority (FINRA). CWA and DFN are affiliated through common control and ownership. Such associated persons are involved in the sale of securities of various types, including, but not limited to, stocks, bonds, and mutual funds. In addition, certain associated persons are licensed to sell various insurance products. Because of such sales activities, associated persons will receive additional compensation in the form of commissions, including 12(b)-1 fees for the sale of investment company products.

All clients are always advised that they shall have total freedom to effect any and all securities transactions with any broker/dealer of their choosing. Because of such sales activity, there is a potential conflict of interest.

Through common control and ownership, CWA is affiliated with DeWaay Benefit Administrators, LLC, a third-



party administrative firm servicing pension and profit sharing plans. Clients of CWA may become clients of DeWaay Benefit Administrators, LLC, but are under no obligation to utilize the services of DeWaay Benefit Administrators, LLC.

### ***Code of Ethics***

As these situations may represent a conflict of interest, CWA has established the following restrictions in order to ensure its fiduciary responsibilities:

- CWA emphasizes the unrestricted right of the client to specify investment objectives, guidelines, and/or conditions on the overall management of their account.
- Associated persons or their immediate family members shall not buy or sell securities for their personal portfolio(s) where their decision is derived, in whole or in part, by reason of the associated person's employment, unless the information is also available to the investing public on reasonable inquiry. No associated person of the firm shall prefer his or her own interest to that of the advisory client.
- CWA and its associated persons generally may not purchase and sell securities being considered for, or held by client accounts without pre-clearance of CWA's Compliance Officer. Moreover, investment personnel are subject to a 10-day blackout period from trading in such securities.
- CWA and its employees may not participate in private placements or initial public offerings (IPOs) without preclearance from the firm's Compliance Officer.
- CWA requires that all individuals must act in accordance with all applicable federal and state regulations governing registered investment advisory practices.
- Records will be maintained of all securities bought or sold by CWA, associated persons of CWA, and related entities. A qualified representative of CWA will review these records on a regular basis.
- Any individual not in observance of the above may be subject to termination.

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

CWA or individuals associated with the firm may buy or sell – for their personal account(s) - investment products identical to those recommended to clients. It is the expressed policy of CWA that no person employed by the firm may purchase or sell any security prior to transactions being implemented for an advisory account, therefore preventing such employees from benefiting from transactions placed on behalf of advisory accounts.

SEC regulations and CWA policies require that the client receive the best price and most favorable execution reasonably possible. In a situation where orders are entered for both the IAR/ associated person and client accounts for substantially the same security, CWA will execute the IAR's / associated person's order only after the client's order has been executed. Entering an order for the Representative's benefit before soliciting orders from clients potentially violates "front-running" and/or "Trading Ahead" standards. Therefore, CWA reserves the right to prohibit solicited client orders from which an IAR might directly or indirectly benefit for up to 48 hours after an IAR's trade is entered.

CWA' IARs/associated persons have an obligation to submit orders so that the resulting price to the customer is as favorable as possible under prevailing market conditions.

### ***Financial Information***

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

### **Item 10: Requirements for State-Registered Advisers**

Commerce Wealth Advisers is registered with the Securities and Exchange Commission rather than a state securities authority. Therefore, this item is not applicable.