

**FORM ADV Uniform Application for Investment Adviser Registration**

**Part 2A Appendix 1: Wrap Fee Brochure**

**Item 1: Cover Page**

**FSW Advisory Services, Inc.  
First Focus Wrap Fee Program**

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**SEC # 801- 69739**

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*This wrap fee brochure provides information about the qualifications and business practices of FSW Advisory Services, Inc. If you have any questions about the contents of this brochure, please contact us at the phone number listed above, or at the following email address [insert]*

*The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.*

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

## Item 2: Material Changes

FSW Advisory Services, Inc. has not made any material changes to this document.

Should you have any questions related to this Wrap Fee Brochure, please contact a firm representative at your convenience.

## Item 3: Table of Contents

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

### **Services**

**First Focus** is a program offered only through FSW Advisory Services, Inc. (“FSWA”) and its qualified investment advisory representatives (“IARs”) who provide investment management services to clients on a discretionary basis. Portfolios are individually customized and managed based on the client’s stated objectives and risk tolerance.

All accounts are continually monitored by the respective IARs and supervised by the Chief Investment Officer (“CIO”) to assure that each portfolio remains invested within the parameters of each client’s goals and objective and its Investment Policy Statement (“IPS”). Clients are provided with a copy of their IPS which outlines the agreed upon guidelines on managing their portfolio. Clients may place reasonable restrictions as to the management of their account which will become part of the IPS.

If an IAR feels that they are unable to effectively manage the portfolio given the new restrictions, the IAR may decline to manage the portfolio.

FSWA possesses the ability to invest in an array of different securities. These include, but are not limited to:

- Domestic and international equity securities
- Fixed Income Securities, both taxable and non-taxable.
- Mutual funds,
- Exchange Traded Funds (“ETFs”) and Unit Investment Trusts (“UITs”)
- Private investments in Private Equity and Hedge Funds

The use of various instruments depends on a wide variety of criteria. This can include the size of the portfolio, risk tolerances and liquidity requirements. FSWA manages portfolios using a variety of different methodologies and a mix of the securities highlighted above. After discussing and understanding the financial goals and objectives of the client, The IAR will outline in detail the investment strategy in which he/she feels is the most appropriate prior to opening an account.

### **Fees**

The investment management fee charged to investors in the First Focus program are considered “wrapped”, with all administrative, custodial and brokerage transaction charges included as part of the management fee.

The client will pay one fee for all of these services. This fee is based on a percentage of assets under management depending on the investment strategy and the client’s total assets under management. These fees apply to

## **Equity, Mutual Fund and ETF Portfolios.**

.80% - 2.75%

## **Fixed Income Portfolios**

.50% to 1.75%.

All management fees are subject to a \$500 annual minimum. Institutional accounts may be negotiated further based on the services requested and the size and scope of their requirements

Fees are assessed quarterly in advance, based on the market value of the account at inception (for new accounts) and on the last business day of the previous quarter. Fees are directly debited from the client's account by the custodian; there is no other fee payment option; permission to do so is granted in the agreement with FSWA.

All accounts assets are maintained at FSWA's affiliate First Southwest Company ("FSC"), a FINRA registered broker-dealer. While all trading and custodial fees are wrapped, FSWA may charge standard fees for non-advisory related services. This may include printing fees, fees for wire transfer, etc.

The program limits the number of transactions placed by the IAR and allows each portfolio to trade up to 72 trades per year (or 6 per month over 12 consecutive months). Accounts where trading exceeds 72 trades per year may incur additional trade execution fees at a rate up to \$25.00 per trade.

A potential conflict of interest may exist as an IAR can direct the re-allocation of the portfolio for any wrap program client. There is an incentive for the IAR to trade the account in a more aggressive manner to generate additional fees payable to FSWA and its affiliate (broker / custodian) FSC. The conflict exists where Clients pay an all-inclusive wrap fee up to 72 trades and then additional fees for trades over this limit. Although FSWA has the discretion to waive the additional charges, there is no incentive to do so; as a result, Clients may pay fees which are higher than anticipated and would result in a program that is "not all inclusive".

Neither FSWA nor and IAR will receive any commissions for the sale or redemption of money market funds, institutional mutual funds, mutual funds or exchange traded funds. Transaction costs or fees for trading and custody however, may apply, and the broker/dealer of record (FSC) may receive 12-b-1 fees from the funds in a client's portfolio. Transaction costs are not commissions; they are clearing costs charged by the designated clearing firm (FSC) on the account. A detailed description of these transaction costs is outlined in FSWAs Agreement with FSC.

### **Compensation**

The IAR's compensation is solely derived as a percentage of the management fee charged to client accounts. At no time do they receive other compensation such as

commissions; however, IARs are also registered as agents of a broker-dealer (Registered Representatives) with FSC, the broker custodian.

As of 12/31/2011, FSWA maintains discretionary assets under management of \$8,300,000.00 in this wrap fee program.

### **General Wrap Fee Disclosures:**

The total fee paid by a client may be higher or lower than the fees paid separately for the same service. Although there may be a conflict of interest in placing over 72 trades per year for a wrap Client, there is also another conflict (to not trade the account) as this lowers the overall cost of the program (expense) to FSC and FSWA, thus increasing profitability.

Ownership of securities may incur additional costs – including the distribution fees (even for no-load or load waived funds); however, mutual funds and Exchange Traded Funds both carry separate advisory and administrative fees that are paid by a fund or ETF shareholder (see the mutual fund or ETF prospectus for detail).

As a result, a wrap fee program client should evaluate the total cost of the fees, the trading limitations and other variables to ensure the wrap program described here is reasonable (based on the total, all inclusive expenses) when compared to purchasing the services separately.

In addition, our IARs who are authorized to provide the service have an incentive to recommend the service. The total compensation may be more than what the IAR would receive if a Client were in another advisory service program or paid separately for investment advice, brokerage, custody and other services. As a result, IARs have an *incentive* to have clients participate in the wrap program.

There are no “outside money managers” that provide portfolio management services under First Focus. All portfolio management services are provided by IARs under the supervision of the CIO.

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

Clients of First Focus are typically individuals. While there is no imposed minimum account size, there is an annual minimum asset management fee of \$500 per account. This implies that the minimum account size is approximately \$18,200 at 2.75% of assets to achieve the minimum annual fee.

Accounts closed within a year of their opening may be subject to a fee of \$500, or \$25.00 per transaction, whichever is greater to cover liquidation and administrative costs.

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

All IARs who participate as portfolio managers within First Focus must complete a qualification process conducted by the Investment Policy Committee at FSWA.

The qualification process includes a review of a prospective IAR's education background, business experience and investment philosophy and other "necessary criteria". After the Committee is satisfied that a candidate has met all requirements, an IAR is granted permission to be a portfolio manager with discretionary authority under First Focus. The IAR is permitted to develop and employ model portfolios containing their best ideas, subject to approval of the CIO.

Each model will have a stated objective and investor group in which the model is appropriate. IARs are compensated by sharing in a portion of the management fee charged to client accounts under First Focus.

### **Advisory Business**

Please see Item 4 above for a description of the First Focus Wrap Fee Program and the FSWA advisory business related to the First Focus Wrap Program

### **Performance Fees**

FSWA's wrap fee program does not incorporate performance fees or the offering of any additional investment services, side-by-side management does not apply to those services rendered by the firm.

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

Portfolios are individually customized and managed based on the client's stated objectives and risk tolerance, subject to each IAR's "approved model portfolios" as approved by the CIO. The use of various instruments depends on a wide variety of criteria. This can include the size of the portfolio, risk tolerances and liquidity requirements. FSWA manages portfolios using a variety of different methodologies and a mix of the securities highlighted above. After discussing and understanding the financial goals and objectives of the client, The IAR will outline in detail the investment strategy in which he/she feels is the most appropriate prior to opening an account.

All securities contain some amount of risk. FSWA tries to mitigate those risks by building portfolios with certain asset classes which do not correlate to the US stock and bond market performance. These asset allocations are based on a client's:

- stated risk profile,
- need for liquidity,
- tax considerations,

- time horizon, and
- long term objectives.

IARs will retain the discretion as to how to reallocate a portfolio should client contributions, withdrawals or market fluctuation cause an imbalance against the target asset allocation

**Risk of Loss:** Investing in securities involves a certain amount of risk of loss that clients should be prepared to bear. Where short term trading methods are employed, the cost of more frequent trades can often incur more expense than that of a long term purchase approach. Questions regarding these risks and/or increased costs may be directed to the firm and its representatives.

### **Voting Client Securities**

FSWA does not vote, nor advise clients how to vote proxies for securities held in client accounts. Clients maintain all voting responsibility. Accordingly, each client is sent the applicable proxy statement(s) directly from the custodian of record

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

FSWA does not have to communicate wrap Client information to the portfolio manager, as the IAR is the portfolio manager. As a result, the IAR has the sole responsibility to meet with, document and implement security recommendations that are consistent with each Wrap Program Client's stated investment objectives, goals and risk tolerances.

Then, the asset allocation is derived from the Client's objectives, as documented in an investment policy statement (IPS).

This IPS drives the appropriate allocation and investment decisions, including any reasonable restrictions or in-kind transfers that were placed into the account.

Client accounts are reviewed continuously by the respective IAR. Formal reviews with each client are scheduled no less than annually, and may be more frequent as circumstances dictate. Any time a material piece of financial information changes, such as change in the client's investment objective, or other financial circumstance, a portfolio would become subject to review. Clients are encouraged to share any material changes to their financial situation with their IAR.

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

First Focus does not place any restrictions on the client's ability to contact or consult with their IAR / portfolio manager.

## **Item 9: Additional Information**

### **Disciplinary Information**

The firm is not the subject of any disciplinary, regulatory, criminal, civil or otherwise reportable history. The only member of the management personnel who is Kent Snodgrass. Mr. Snodgrass has a disciplinary history, the details of which can be found on FINRA's BrokerCheck system. Client's can access BrokerCheck by clicking on the following hyperlink [FINRA BrokerCheck](#).

### **Other Financial Industry Activities and Affiliations**

IARs (who act as the portfolio manager under this wrap program) are also licensed as RR's of FSC, the broker / custodian for the wrap program clients. As a result, they are licensed to purchase or sell securities for client accounts, including wrap program accounts.

In addition, FSC may receive additional compensation from Wrap Program Clients as FSC is the broker / custodian of the wrap assets in the form of 12b-1 fees on mutual funds.

Additional compensation received by an IAR / Portfolio Manager or by FSW is not used to off-set a Clients wrap fee or additional commissions if over 72 transactions are placed during a 12-month period.

FSWA is owned by First Southwest Holdings, LLC ("FSH") which in turn is owned by PlainsCapital Bank. FSW Advisory is affiliated with the following First Southwest entities.

- First Southwest Company ("FSC"), a FINRA registered broker-dealer.
- First Southwest Asset Management ("FSAM"), a SEC registered investment adviser

FSC and FSAM are both owned by FSH. FSWA maintains affiliations with other non-financial services companies of First Southwest which are also owned by FSH.



## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

FSWA's advisory representatives may purchase or sell products that they may recommend to clients. The firm has adopted a Code of Ethics which establishes basic policies of ethical conduct for all managers, officers, and employees of the adviser. The Code also governs personal trading by Access Persons. Access Person is defined under Rule 204(a) -1 of the Investment Adviser Act of 1940. It is intended to ensure that the securities transactions of Access Persons will not pose any actual or potential conflicts of interest with client trades.

The firm collects and maintains records of securities holdings and securities transactions effected by Access Persons. These records are reviewed to identify and resolve potential conflicts of interest. A copy of FSWA's Code of Ethics is available upon request by contacting the CCO at phone number on this brochure.

## **Review of Accounts**

Client accounts are reviewed continuously by the respective IAR and periodically by the CIO. Formal reviews with each client are scheduled no less than annually, and may be more frequent as circumstances dictate. Any time a material piece of financial information changes, such as change of investment objective, or other financial circumstance, a portfolio would become subject to review. Clients are encouraged to share any material changes to their financial situation with their IAR.

Clients receive monthly brokerage statements from the custodian, FSC which identifies securities holdings, cash balances, transaction history, dividend and interest postings and total assets of the account.

Clients also receive a quarterly report from FSW Advisory which shows similar information about holdings in the account, as well as a performance report which reflects portfolio returns on a quarterly, annual and since inception basis.

## **Client Referrals and Other Compensation**

FSWA does not compensate, either directly or indirectly, another person or an entity for client referrals. The firm is aware of the special considerations promulgated under Section 206(4)-3 of the Investment Advisers Act of 1940 and similar state regulations.

## **Financial Information**

Under Rule 206(4)-4 of the Investment Advisers Act of 1940, investment advisers are required to disclose certain information about their business practices that might serve as material to the client's decision in choosing an investment adviser.

At this time, FSWA does not maintain any financial hardships or other conditions that might impair its ability to meet its contractual obligations to clients. Where the firm does require the prepayment of certain fees, such fees are in the form of a retainer for financial planning services which are then rendered shortly thereafter.