

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

November 5, 2012

### **Financial Advisory Corporation**

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Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of Financial Advisory Corporation (“FAC”). If you have any questions about the contents of this Brochure, please contact us at (858) 487-0964 and/or [mike@financialadvisorycorp.net](mailto:mike@financialadvisorycorp.net). 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 Financial Advisory Corporation also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2 MATERIAL CHANGES

This Brochure dated November 5, 2012 contains updated information under Item 14.B for Compensation of Client Referrals. This is an update of the Financial Advisory Corporation (“FAC”) Firm Brochure dated June 4, 2012. FAC encourages each client and prospective client to read this brochure in its entirety and to call us with any questions you may have.

Pursuant to rules adopted by the United States Securities and Exchange Commission (“SEC”), FAC will ensure that clients receive, within 120 days of the close of FAC’s fiscal year, either a free updated Brochure that includes a summary of material changes or a summary of material changes that includes an offer to provide a copy of the updated Brochure and information on how to obtain the Brochure. Additionally, as FAC experiences material changes in the future, we will send you a summary of our “Material Changes” under separate cover. FAC’s Brochure is available upon request and may be requested by contacting FAC’s President and Chief Compliance Officer, Michael A. Staffieri at (858) 487-0964 or [mike@financialadvisorycorp.net](mailto:mike@financialadvisorycorp.net).

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## **ITEM 4      ADVISORY BUSINESS**

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

Financial Advisory Corporation (“FAC” or the “Firm”) is a San Diego-based investment advisory firm founded in September 1978 and incorporated in 1984. FAC provides customized fee-based financial planning and investment advisory services to its clientele. FAC is currently registered as an investment adviser with the U.S. Securities and Exchange Commission. FAC offers personalized financial planning and investment advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities. As described more fully below, FAC furnishes investment advice on a wide variety of matters (including matters not involving securities), based upon each client’s particular investment objectives, risk tolerance, investment time horizon, tax considerations and other information provided by the client.

The principal owner of FAC is Michael A. Staffieri, who is also the Firm’s President and serves as an investment advisor representative.

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

Financial Advisory Corporation (“FAC”) provides ongoing investment advisory and financial planning services to clients on a non-discretionary basis. The advisory and financial planning services provided by FAC generally include, but are not limited to, providing advice regarding asset allocation; risk management; estate, tax, and business planning; retirement planning; assistance in selecting a third party investment adviser; and ongoing evaluation, monitoring and review of investment accounts managed by third parties, as described more fully below.

#### **1. Generally**

FAC’s advisory process involves the collection, organization, and assessment of all relevant client data as well as identification of the client’s financial concerns, goals, and objectives. Initially, FAC will meet with a client to obtain all necessary current information relative to the client’s financial situation and the scope of services to be provided by FAC. After the initial consultation, if the client decides to retain FAC’s services, FAC will enter into a written agreement with the client (“Client Agreement”), and will send the client a document request list in order to collect information concerning the client’s lifestyle, objectives, risk tolerance, cash flow, and any other relevant information necessary for FAC to provide the services for which it has been engaged. The information requested generally includes present and anticipated assets and liabilities, including insurance, savings, investments and anticipated retirement or other employee benefits. The primary objective of this process is to allow FAC to assist the client in developing a strategy for the successful management of income, assets, and liabilities in order to meet the client’s financial goals and objectives.

After analysis of the documents and other information provided by the client, FAC will then create a Financial Management Report (“FM Report”) designed to assist the client in achieving his/her expressed goals. The FM Report will include an analysis and recommendations on how the

client's assets should be allocated and managed over the next 12 month period, and may include a recommended investment portfolio, as appropriate. FM Reports also may include any or all of the following, depending on the needs and circumstances of the client:

- Actual and Performance Cash Flow Summaries;
- Capital Needs Analysis;
- Tax Planning;
- Retirement, Accumulation and Distribution Planning; and
- Estate Planning;
- Asset Allocation; and
- Non-discretionary Investment Supervisory Services

FAC will review and discuss the FM Report with each client, and make any revisions to the FM Report based on the client's input. Clients are free at all times to accept or reject any recommendations made by FAC and further retain the authority and discretion on whether or not to implement any of FAC's recommendations provided in the FM Report. If a client decides to implement the investment recommendations, the client may request that FAC implement the trades on behalf of the client. For these clients, FAC will recommend that the client's assets be held and traded at First Allied Securities, Inc., a registered broker-dealer with the Securities and Exchange Commission ("SEC") and member of the Financial Industry National Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC"). Certain representatives of FAC also serve as registered representatives of First Allied. *See* Item 5.C below for more information.

FAC monitors each client's account on an ongoing basis and may recommend changes to the investment and/or allocation strategy of the account, if deemed necessary in order to remain consistent with a client's overall financial plan.

## 2. Financial Planning Services

FAC provides its clients with a broad range of comprehensive financial planning services (which may include non-investment related matters). FAC's financial planning services generally include, but are not limited to, providing advice regarding asset allocation; risk management; tax planning; retirement and estate planning; portfolio analysis; and evaluation and review of investment accounts. Such advice will typically involve providing a variety of services and may include investment buy/sell recommendations, asset allocation, recommendation of third party investment advisers, and the recommendation of mutual funds, exchange traded funds, and/or individual debt and equity securities for the client's portfolio. Securities may include, but are not limited to, stocks, bonds, mutual funds, exchange traded funds, options, alternative investments, and other types of securities in accordance with the investment objectives of the client. In addition to advice regarding securities, FAC may provide advice regarding insurance products, including but not limited to, life insurance, annuities and long term care insurance.

FAC will assess the client's goals, objectives, time horizon, and risk tolerance to compare where clients are today in relation to the attainment of their stated goals. A comprehensive plan thereafter is prepared, along with various alternatives for clients to consider. Clients will receive

information from FAC about the available alternatives and will have the option of utilizing third party managers to implement those plan recommendations. Advice may be given on non-securities matters and any implementation of FAC's recommendations is entirely at the client's discretion.

In the course of providing financial planning services, FAC may offer the services of one or more of its investment advisor representatives in their individual capacities as registered representatives of a broker-dealer to implement recommended transactions on the client's behalf. To the extent that clients desire to implement securities transactions recommended in a financial plan through a FAC representative in his/her capacity as a registered representative of a broker-dealer, such representatives may receive usual and customary commissions or fees for effecting such transactions (*See* "Item 5 – Fees and Compensation—Compensation for Sales of Securities or Other Investment Products"). Clients are advised that a potential conflict of interest exists if a FAC representative recommends products or services offered in such representative's capacity as a registered representative of a broker-dealer.

There can be no assurance that FAC's financial planning services or any products recommended by a financial plan are at the lowest available cost. Clients are free at all times to accept or reject any of FAC's recommendations provided under a financial planning engagement and further retain the authority and discretion over all such implementation decisions. If a client decides to implement any recommendations, the client may, but is under no obligation to, utilize the services of one or more third party advisors to implement those plan recommendations, as described more fully below.

### 3. Recommendation of Third Party Advisers

Depending on the needs of a client, FAC may believe it is in the best interests of a client to recommend the services of a third party investment adviser to manage a portion of the client's investment assets. FAC representatives may recommend clients who wish to receive discretionary investment management services to utilize the services of First Allied Securities, Inc., an SEC registered investment adviser (SEC File No. 801-47805). FAC is not compensated by First Allied on a per referral basis nor does it receive a portion of the fees paid to First Allied. However, certain representatives of FAC also serve as investment adviser representatives of First Allied for which they may receive usual and customary commissions or fees from First Allied for acting in this capacity.

The recommendations are made based on the fact that FAC believes that First Allied's investment style, reputation, performance track record, and services would be consistent with the client's investment objectives and financial circumstances. If the client accepts the recommendation, the client will enter into a separate written agreement directly with First Allied. Clients who choose to use First Allied for discretionary investment management services will receive a copy of the First Allied Form ADV Part 2 disclosure brochure, which will provide information regarding the services provided and fees charged by the adviser.

Please see Items 10 and 12 below for important disclosure information.

## **C. General Information About FAC's Advisory Services**

### **1. Gathering Individual Client Information**

The investment advice provided by FAC is customizable based upon the individual needs, objectives, and other financial goals of the client. At the onset of the client relationship, FAC memorializes each client's investment objectives, risk tolerance, time horizons and other important and necessary information, including any investment guidelines and/or restrictions on investing in certain securities or types of securities. This information, together with any other information relating to the client's overall financial circumstances, will be used by FAC to determine the appropriate asset allocation and investment strategy necessary to formulate a customized financial plan or recommend the appropriate allocation of assets for each client.

Clients may impose reasonable guidelines and/or restrictions on investing in certain securities or types of securities. All such guidelines and restrictions must be communicated to FAC in writing. There may be times when certain restrictions are placed by a client, which prevents FAC from accepting or continuing to service the account. FAC reserves the right to not accept and/or terminate a client's account if it feels that the client imposed restrictions would limit or prevent it from meeting and/or maintaining its objectives.

FAC will not assume any responsibility for the accuracy of the information provided by the client. FAC is not obligated to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. Under all circumstances, clients are responsible for promptly notifying FAC in writing of any material changes to the client's financial situation, investment objectives, time horizon, or risk tolerance. In the event that a client notifies FAC of changes in the client's financial circumstances, FAC will review such changes and recommend any necessary revisions to the client's portfolio or financial plan. FAC representatives will generally meet with all clients no less than annually to review the client's investment goals and current advisory portfolios. Advisory representatives are also available during normal business hours to consult with clients.

Clients that have given FAC authority to implement investment recommendations will provide FAC with written instructions as to the liquidation or settlement of their account. FAC agrees to be bound by such instructions after receipt thereof.

### **2. Advisory Agreements**

As noted above, prior to engaging FAC to provide investment advisory services, the client will be required to enter into one or more written Client Agreements with FAC setting forth the terms and conditions under which FAC shall render its services. FAC will provide a brochure and one or more brochure supplements to each client or prospective prior to or contemporaneously with the execution of an investment advisory agreement. The terms and conditions under which the client shall engage a third party adviser may be set forth in a separate written agreement directly with the third party adviser selected. The advisory relationship will continue until terminated by the client, FAC, or the sponsor/advisor, in accordance with the provisions of these agreements.

FAC or the client may terminate the Client Agreement at any time by giving written notice of such termination to the other party. FAC's fee shall be prorated through the date of termination and any remaining balance shall be charged or refunded to the client, as appropriate, in a timely manner. Such termination shall not, however, affect liabilities or obligations incurred or arising from transactions initiated under the Client Agreement prior to the termination. Neither FAC nor the client may assign the Agreement without the consent of the other party. Transactions that do not result in a change of actual control or management of FAC shall not be considered an assignment.

#### **D. Wrap-Fee Programs**

FAC does not provide portfolio management services to any wrap fee programs, as that term is defined in the instructions to Form ADV. The third party advisers recommended by FAC may sponsor, organize, or administer such programs. The advisers sponsoring such programs will provide clients with a copy of the adviser's Wrap Fee Program Brochure (Appendix 1 to Part 2A), setting forth important information about the applicable program. The portfolio managers selected for the program will receive a portion of the wrap fee for their services and will disclose in their brochure the differences, if any, between their management practices with respect to wrap fee accounts and other accounts.

#### **E. Client Assets Under Management**

As of April 30, 2012, the following represents the amount of client assets managed by FAC on a discretionary and non-discretionary basis:

Type of Account	Assets Under Management ("AUM")
Discretionary	\$0.00
Non-Discretionary	\$94,171,734.00
Total:	<b>\$94,171,734.00</b>

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

#### **A. Description of Fees, Fee Schedule, and Fee Billing Practices**

Generally, FAC charges a fixed annual fee for its financial planning and advisory services. The amount of the fixed fee is determined on a case-by-case basis, depending upon various factors, including among other things, the scope of services to be performed, the relative complexity of the client situation, the degree of service selected by the client, the supporting documentation, if any, provided by the client, the value and complexity of the portfolio to be reviewed, the frequency of the review, and the anticipated use of FAC resources, among other factors.

Fees are billed to clients on a monthly basis and may range between \$150 and \$2,200 per month. Such fees represent access to analysis, recommendations, and advice relating to the clients' specific objectives, and may include periodic meetings with the client, ongoing monitoring and analysis, strategic planning, and consulting. As mentioned above, for clients who wish to receive



discretionary investment management services, FAC will generally recommend the services of First Allied. Certain FAC representatives, in their capacity as investment adviser representatives of First Allied, may receive a portion of the fees paid for discretionary investment management services, which are based on a percentage of assets under management and are set forth in a separate written agreement between the client and First Allied.

All fees are negotiable in the sole discretion of FAC. FAC may, from time to time, vary or waive such fees in its sole discretion. Each client's fee will be disclosed and agreed upon before FAC renders any financial planning or advisory services and will be detailed in the Client Agreement entered into between the client and FAC. Clients are advised that lower fees for comparable services may be available from other investment advisers. Following the end of each month, advisory fees are invoiced by FAC to the client for payment.

FAC and its clients may mutually agree upon a one-time assignment or project that is outside the scope of the Client Agreement. Such projects may include but are not limited to, buy/sell evaluations, executive compensation structure reviews, etc. Generally, FAC will charge an hourly fee for such assignment or project, which will be negotiated with the client at the beginning of the assignment or project and based on the services to be provided. The total fee for the assignment or project will be billed to the client by FAC upon completion of the work.

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

FAC reserves the right to charge clients for travel expenses, which will be billed to the client in accordance with actual expenses incurred. Clients should further understand that the advisory fees described above do not include certain charges imposed by third parties such as custodial fees, mutual fund fees and expenses, fees charged by third party managers or program sponsors, and private fund management fees. Client assets may also be subject to transaction costs, retirement plan administration fees (if applicable), deferred sales charges on mutual funds initially deposited in the account, 12b-1 fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

Client assets invested in mutual funds will be subject to certain fees and expenses imposed directly by mutual funds to their shareholders, which shall be described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the sponsor also imposes sales charges, a client may pay an initial or deferred sales or surrender charge. Clients may incur brokerage commissions and other execution costs charged by the custodian or executing broker-dealer in connection with transactions for a client's account. In addition, client assets invested with third party managers recommended by FAC will be subject to management fees charged by those third party managers, as described in each manager's disclosure brochure. Third-party fees are set according to the third party manager's advisory agreement and vary depending on the program selected, the size of the account and the services provided.

Certain programs may charge a "wrap fee" under which an inclusive fee covers investment advisory services (including portfolio management or advice concerning the selection of other investment advisers), as well as brokerage, clearance, custody and administrative services.

Selection of a “wrap fee” program may result in the payment of fees by clients in excess of the combined total of separate advisory fees and brokerage commissions for the execution of client transactions. In other programs, the account may be charged separately for such services. The amount of the fees, the services provided, the payment structure, termination provisions, and other aspects of each program are detailed and disclosed in the third party investment advisor's disclosure brochure, the wrap program brochure (if applicable), or other applicable disclosure documents, and in the account opening documents.

Clients should further understand that these fees and expenses are separate from and in addition to the fees charged by FAC. Accordingly, the client should review the fees charged by any third party managers, program sponsors, mutual funds and hedge funds or other private funds in which the client's assets are invested, together with the fees charged by FAC, to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

FAC representatives may recommend clients who wish to receive discretionary investment management services to utilize the services of First Allied. The recommendations are made based on the fact that FAC believes that the services provided by First Allied would be consistent with the client's investment objectives and financial circumstances. Although FAC is not compensated by First Allied on a per referral basis or by receiving a portion of the fees paid to First Allied, FAC representatives may still have an incentive to recommend First Allied over other firms due to the fact that FAC representatives may have independent contractor relationships with First Allied and may receive usual and customary commissions or fees from First Allied for doing so. This produces a potential conflict of interest by reason of the fact that the receipt of compensation could act as an incentive to the individuals to recommend the discretionary investment management services of First Allied over other firms.

### **C. Compensation for Sales of Securities or Other Investment Products**

Certain FAC representatives, including FAC's President, Michael A. Staffieri, are in their individual capacities, also registered representatives of First Allied Securities, Inc. (“First Allied”), a securities broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority (“FINRA”). Additionally, representatives of FAC may serve as licensed insurance agents of Advanced Equities Insurance Services (“AEIS”) or other insurance agencies. In this capacity, and pursuant to client instruction, representatives of FAC may implement financial planning recommendations by placing clients in investment products sold through First Allied or by transacting in various types of insurance products through AEIS and such FAC representatives may receive usual and customary commissions for doing so.

Clients should be aware that the receipt of additional compensation itself creates an inherent conflict of interest, and may affect the judgment of these individuals when making recommendations. To the extent that an FAC representative recommends the purchase of securities or other investment products where the representative receives commissions for doing so, a conflict of interest exists because the representative may have an incentive to recommend securities or implement transactions through First Allied or AEIS based on the compensation received rather than on a client's needs.

FAC seeks to mitigate such potential conflicts in a number of ways. Primarily, FAC always strives to act in the best interests of its clients and consistent with the client's overall investment objectives and financial circumstances. As part of FAC's fiduciary duty to clients, FAC and its representatives will endeavor at all times to put the interests of the clients first, and recommendations will only be made to the extent that they are reasonably believed to be in the best interests of the client. Additionally, the conflicts presented by these practices are disclosed to clients at the time of entering into an advisory agreement. Moreover, FAC clients are not obligated to implement recommended transactions or to purchase such products or services through any particular insurance company or broker-dealer and are similarly under no obligation to enter into an investment management agreement with First Allied.

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

FAC does not charge performance-based fees (i.e. fees calculated based on a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client) and therefore does not engage in side-by-side management of accounts that are charged a performance-based fee and accounts that are charged another type of fee.

## **ITEM 7 TYPES OF CLIENTS**

FAC offers personalized financial planning and investment advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities. FAC does not impose a minimum portfolio size or a minimum initial investment to open an account, but does reserve the right to accept or decline a potential client for any reason in its sole discretion. Prior to engaging FAC to provide any of the investment advisory services described in this Brochure, the client will be required to enter into one or more written agreements with FAC setting forth the terms and conditions under which FAC shall render its services.

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

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

Generally, FAC uses a variety of analytical methods to assist with its security analysis. Such methods may include economic and industry analysis, fundamental research concerning specific companies and securities, technical analysis and other methods that one or more of FAC's representatives may deem appropriate from time to time.

FAC utilizes a fundamental approach to investment analysis which includes such factors as economic conditions, earnings, industry outlook, political conditions (as they relate to the investment), historical data, price/earnings ratios, dividends, general level of interest rates, company management and tax benefits may also be used. The primary sources of information used by FAC include market news reports, financial publications, corporate rating services, outside research reports, annual reports, prospectuses, SEC filings and company press releases.

## B. Investment Strategies

The investment strategies FAC may recommend to clients may include long- and short-term purchases, short sales, trading on margin, and option writing including covered options, uncovered options or spreading strategies. FAC may recommend, on occasion, redistributing investment allocations to diversify the portfolio in an effort to reduce risk and increase performance.

FAC generally does not provide investment advice on specific securities, but rather on types of securities (*e.g.*, equity or fixed income) and asset allocation strategies. FAC may recommend purchasing securities to increase sector weighting and/or dividend potential, or may recommend employing cash positions as a possible hedge against market movement which may adversely affect the portfolio. Additionally, as described in Item 4 above, FAC may recommend the services of First Allied to manage a portion of the client's portfolio.

## C. Risk of Loss

### 1. Generally

Investing in securities involves a significant risk of loss. FAC's investment recommendations are subject to various market, currency, economic, political and business risks, and such investment decisions may not always be profitable. Clients should be aware that there may be a loss or depreciation to the value of the client's account, which clients should be prepared to bear. There can be no assurance that the client's investment objectives will be obtained and no inference to the contrary should be made.

The market value of stocks will generally fluctuate with market conditions, and small-stock prices generally will fluctuate more than large-stock prices. Stocks of mid-capitalization companies often have greater price volatility, lower trading volume, and less liquidity than the stocks of larger, more established companies. Stocks tend to fluctuate over the short term as a result of factors affecting the individual companies, industries or the securities market as a whole. Past performance of investments is no guarantee of future results.

The market value of bonds will generally fluctuate inversely with interest rates and other market conditions prior to maturity and will equal par value at maturity. Interest rates for bonds may be fixed at the time of issuance, and payment of principal and interest may be guaranteed by the issuer and, in the case of U.S. Treasury obligations, backed by the full faith and credit of the U.S. Treasury. The market value of Treasury bonds will generally fluctuate more than Treasury bills, since Treasury bonds have longer maturities.

### 2. Risks Involved in Particular Types of Securities Recommended by FAC

The primary risks involved in the securities recommended by FAC may include, among others:

- *Stock market risk*, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Equity securities generally have greater price volatility than fixed income securities.

- *Issuer risk*, which is the risk that the value of a security may decline for reasons directly related to the issuer, such as management performance, financial leverage, and reduced demand for the issuer's goods or services.
- *Non-diversification risk*, which is the risk of focusing investments in a small number of issuers, industries or foreign currencies, including being more susceptible to risks associated with a single economic, political or regulatory occurrence than a more diversified portfolio might be.
- *Interest rate risk*, which is the chance that bond prices overall will decline because of rising interest rates. Similarly, the income from bonds or other debt instruments may decline because of falling interest rates.
- *Credit risk*, which is the chance that a bond issuer will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline.
- *Smaller company risk*, which is the risk that the value of securities issued by a smaller company may go up or down, sometimes rapidly and unpredictably as compared to more widely held securities. Investments in smaller companies are subject to greater levels of credit, market and issuer risk.
- *Real estate risk*, which is the risk that investments in real estate and real estate-linked securities will subject the portfolio to risks similar to those associated with direct ownership of real estate, including losses from casualty or condemnation, and changes in local and general economic conditions, supply and demand, interest rates, zoning laws, regulatory limitations on rents, property taxes and operating expenses.
- *Options risk*, which is the risk that options may be subject to greater fluctuations in value than an investment in the underlying securities. Options and other derivatives may be subject to counterparty risk and may also be illiquid and more difficult to value. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks.
- *Management risk*, which is the risk that the investment techniques and risk analyses applied by an investment manager will produce the desired results and that legislative, regulatory, or tax developments may affect the investment techniques available to the investment manager. There is no guarantee that a client's investment objectives will be achieved.

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

## **ITEM 9      DISCIPLINARY INFORMATION**

Registered investment advisers such as FAC are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or a prospective client's evaluation of FAC or the integrity of its management. FAC does not have any information to disclose with respect to this Item.

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

As noted above, certain officers and employees of FAC may participate in other financial industry activities, for which they may be compensated. In particular, FAC's President, Michael A. Staffieri, as well as other associated persons of FAC are investment adviser representatives and registered representatives of First Allied Securities, Inc., an SEC-registered investment adviser and broker-dealer and member FINRA/SIPC. Additionally, representatives of FAC may serve as licensed insurance agents of Advanced Equities Insurance Services ("AEIS") or other insurance agencies. In these capacities, such IARs may receive separate and typical compensation for conducting securities brokerage, investment advisory, or insurance business through First Allied or AEIS.

In situations where FAC recommends the discretionary investment management services of First Allied, FAC is not compensated by First Allied on a per referral basis or by receiving a portion of the fees paid to First Allied. However, FAC representatives may still have an incentive to recommend First Allied over other firms due to the fact that FAC representatives may have independent contractor relationships with First Allied and may receive usual and customary commissions or fees from First Allied for doing so. This produces a potential conflict of interest by reason of the fact that the receipt of compensation could act as an incentive to the individuals to recommend the discretionary investment management services of First Allied over other firms. Please refer to "Item 5 – Fees and Compensation" for additional information.

Although the officers and employees of FAC will devote as much time to the business and affairs of FAC as they believe is necessary to deliver the advisory and financial planning services described herein, they may devote a portion of their time to the affairs and activities of these other financial industry activities and affiliations.

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

The Investment Advisers Act of 1940 imposes a fiduciary duty on investment advisers. Pursuant to this fiduciary responsibility, FAC has a duty of utmost good faith to act in the best interests of our clients. Our clients' trust in us places a high standard on FAC's conduct and integrity. This fiduciary duty is the core principle underlying our Code of Ethics and Personal Trading Policy, and represents the expected basis for all dealings with our clients.

### **A. Description of Code of Ethics**

FAC has adopted a Code of Ethics ("Code") which establishes standards of conduct for FAC's supervised persons and includes general requirements that such supervised persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information.

The Code consists of the following core principles and applies to all personnel within our firm:

- 1) The interests of clients will be placed ahead of the firm's or any employee's own investment interests.
- 2) Employees are expected to conduct their personal securities transactions in accordance with the firm's Personal Trading Policy and will strive to avoid any conflicts of interest with the client.
- 3) Employees are expected to act in the best interest of each of our clients.
- 4) Employees are expected at all times to comply with federal securities laws.

As part of the required standards of conduct, FAC personnel are not permitted, in connection with any client transaction, to engage in any fraudulent or misleading conduct. The Code contains written policies reasonably designed to prevent the unlawful use of material non-public information by FAC or any of its associated persons. The Code also requires that certain of FAC's personnel (called "Access Persons") report their personal securities holdings and transactions and obtain pre-approval of certain investments. All supervised persons are required to report any violations of the Code promptly to the Firm's Chief Compliance Officer ("CCO"). Each supervised person receives a copy of the Code and any amendments to it and must acknowledge in writing having received the materials. Annually, each supervised person must certify that he or she complied with the Code during that year. A complete copy of our Code is available upon request either by sending a written request to our main address or calling us at (858) 487-0964.

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

It is FAC's policy not to enter into any principal transactions or agency cross transactions on behalf of client accounts. Principal transactions occur where an adviser, acting as principal for its own account, buys securities from or sells securities to any advisory client. Agency cross transactions occur where a person acts as an investment adviser in relation to a transaction in which the adviser, or an affiliate of the adviser, acts as broker for both the advisory client and for another person on the other side of the transaction.

Neither FAC nor any of FAC's related persons act as general partner in a partnership in which clients are solicited to invest or as an investment adviser to a mutual fund or other investment company that is recommended to clients. Based upon a client's stated objectives, FAC may, under certain circumstances, recommend the purchase or sale of securities in which FAC or its affiliates have an interest. Such recommendations will only be made to the extent that they are reasonably believed to be in the best interests of the client. Additionally, as part of FAC's fiduciary duty to clients, FAC and its associated persons will endeavor at all times to put the interests of the clients first, and at all times are required to adhere to the Firm's Code of Ethics.

## **C. Personal Trading**

FAC strives to place its clients' interests first and foremost. Although FAC generally does not recommend the buying or selling of specific securities to clients, potentially there may be a time when FAC or its officers, directors, agents, or employees ("Associated Persons") buy or sell a

security for their own personal account that is held (or purchased or sold by the third party adviser) in a client's account. FAC and its Associated Persons may also buy or sell specific securities for their own accounts based on personal investment considerations, which FAC does not deem appropriate to buy or sell for clients. FAC understands that this could create a potential conflict of interest, where the employee's interest may be at odds with the interest of FAC's clients.

FAC's Code of Ethics contains certain requirements designed to address the conflicts that arise with regard to personal trading by FAC or its Associated Persons. For example, when FAC is recommending or considering for purchase any security on behalf of a client, no Associated Person may knowingly effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when FAC is selling or considering the sale of any security on behalf of a client, no Associated Person may knowingly effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. In addition, Associated Persons' personal investment accounts are periodically reviewed to prevent front-running or other trade related conflicts with clients.

## **ITEM 12 BROKERAGE PRACTICES**

As described in more detail under Item 16 below, FAC does not have discretion relative to specific securities to be bought or sold for client accounts and does not exercise investment or trading discretionary authority over any client assets. FAC will review and discuss the FM Report with each client and will make recommendations to the client regarding the purchase or sale of securities or other assets that they consider to be in the best interests of the client. Clients are free at all times to accept or reject any recommendations made by FAC and further retain the authority and discretion on whether or not to implement any of FAC's recommendations provided in the FM Report. In situations where FAC assists clients in selecting third party adviser, FAC has no control over the selection of the broker used or the commissions paid by the third party adviser to affect trades for the client's account. FAC typically recommends the discretionary investment management services of First Allied, based on the fact that FAC believes that First Allied's investment style, reputation, performance track record, and services would be consistent with the client's investment objectives and financial circumstances.

### **A. Selection Criteria**

Clients wishing to implement FAC's recommendations are free to select any broker they wish and are so informed. If a client decides to implement the investment recommendations, the client has the option to request that FAC implement the trades on behalf of the client. For these clients, FAC will typically recommend that the client's assets be held and traded at First Allied. If the client agrees, then FAC will effect all transactions for the client accounts through First Allied, subject to the firm's duty to seek best execution for client transactions. Factors considered by FAC in recommending First Allied as the custodian and broker-dealer for client accounts are based upon, but not limited to, the reasonableness of fees and/or commissions charged, product availability, research and other services available to both the client and FAC.



Although FAC does not have discretion to determine the broker-dealer to be used to execute client transactions, FAC may recommend brokers to clients. FAC will use its best judgment to recommend those broker-dealers most capable of providing best overall qualitative execution. When providing such recommendations, the determinative factor is not the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's services. FAC representatives who serve as registered representatives of First Allied are required to use the services of First Allied and First Allied's approved clearing broker-dealers when acting in their capacity as registered representatives. First Allied has a wide range of approved securities products for which First Allied performs due diligence prior to selection. First Allied's registered representatives are required to adhere to these products when implementing securities transactions through First Allied. Commissions charged for these products may be higher or lower than commissions clients may be able to obtain if transactions were implemented through another broker-dealer.

Where FAC recommends the discretionary investment management services of third party advisers, FAC may have limited selection of account custodian. Factors considered in recommending custodians for client accounts typically include their respective financial strength, reputation, execution, pricing, research, and other services provided. Please refer to the third party adviser's brochure for information on the brokerage practices of such advisors.

## **B. Research and Other Soft Dollar Benefits**

FAC does not actively engage in "soft dollar" arrangements as that term is defined by Section 28(e) of the Securities Exchange Act of 1934. Nevertheless, FAC may receive unsolicited research information and services from First Allied which FAC may or may not use. However, FAC may utilize some of First Allied's research from time to time which it believes to be beneficial to its clients. This could be construed as receipt of a soft dollar benefit by FAC, and although customary, these arrangements present potential conflicts of interest, including an incentive to recommend a broker-dealer based on FAC's interest in receiving the research or other products or services, rather than on clients' interest in receiving most favorable execution. A potential conflict also exists in that research and services acquired with soft dollars may or may not be utilized across FAC's entire client base and client accounts may not benefit equally from research derived from soft dollars.

## **C. Directed Brokerage**

As noted above, for clients receiving financial planning services, FAC will make recommendations regarding the purchase or sale of securities or other assets that they consider to be in the best interests of the client. Clients wishing to implement FAC's recommendations are free to select any broker they wish and are so informed. If a client decides to implement the investment recommendations, the client has the option to request that an FAC advisory representative implement the trades on behalf of the client, in which case transactions will typically be implemented through First Allied, in the FAC representative's individual capacity as a registered representative of First Allied.

As noted above, FAC representatives who serve as registered representatives of First Allied may be required to use the services of First Allied when acting in their capacity as registered representatives. Not all advisers require brokerage transactions to be executed through a particular broker or dealer. In situations where clients direct the use of a particular broker-dealer to execute some or all transactions for the client's account, the client will negotiate terms and arrangements for the account with that broker-dealer, and neither FAC nor any third party adviser will seek better execution services or prices from other broker-dealers. As a result, the client may pay higher commissions or other transaction costs or receive less favorable net prices on account transactions than would otherwise be the case, and may cost clients more money. Please refer to the applicable brochure of each third party advisor and/or program sponsor for important information on the directed brokerage practices of such advisors.

#### **D. Order Aggregation**

FAC does not have discretionary trading authority over client accounts and therefore does not aggregate client transactions for trading purposes. While a third party adviser may utilize aggregation and block trading, FAC has no input as to the trading practices of such third party advisers. The allocation and aggregation practices of third party advisers will be disclosed in the third party adviser's disclosure brochure.

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

#### **A. Periodic Reviews**

Due to the individualized nature of the investment advisory and financial planning services provided by FAC, the nature and frequency of reviews will be determined by the Client Agreement and each client's individual needs. Client accounts are monitored on an ongoing basis and are typically reviewed periodically as required by the client's particular situation (at least quarterly), or more frequently if considered appropriate as a result of market or economic conditions or at any time if FAC is alerted to a material change in a client's financial goals and objectives. Accounts utilizing the services of a third party investment adviser will be reviewed in accordance with the practices of the third party adviser as set forth in the adviser's brochure.

Accounts are reviewed for investment performance, appropriate levels of risk, and to determine if the client's goals are being met. Each review is based on a variety of factors, which include but are not limited to: the economic environment, the outlook for the securities markets, the client's tax and cash flow considerations, and the client's retirement objectives and financial status. All reviews are conducted by FAC's President, Michael A. Staffieri. In addition, clients are advised that it remains their responsibility to advise FAC of any changes in their investment objectives and/or financial situation.

#### **B. Other Reviews and Triggering Factors**

In addition to the periodic reviews described above, a special review may be triggered by one or more of the following: (1) a change in the client's investment objectives and/or financial situation (i.e., the purchase or sale of significant assets by the client); (2) a change in the client's

health or marital status; (3) changes in the tax laws or other applicable laws or regulations; (4) material changes in market conditions or other major economic changes; (5) a major change in the securities markets that may affect the particular client; and/or (6) if requested by the client. If necessary, accounts will be revised to reflect economic and market conditions, as well as changes to the client's investment goals and financial circumstances.

Clients are encouraged to promptly notify FAC and its advisory representatives of any changes in his/her personal financial situation or other relevant information that might affect his/her investment needs, objectives, or time horizon.

### **C. Regular Reports**

Updates to client's FM Reports are individualized, and as such, the nature and frequency of reports to clients will be determined by client need. Updates to FM Reports generally are made annually unless otherwise requested. The President meets periodically with each client to discuss and review the account's performance and objectives and review the information provided by the client. All clients are encouraged to comprehensively review investment objectives and account performance with FAC on an annual basis. Account reviews, which occur at intervals explained above may serve as the basis for additional reports or revisions to the client's FM Report.

FAC does not provide any written account statements; however clients who have requested that FAC implement recommended transactions will receive monthly or quarterly account statements directly from the custodian, which will reflect the total value of the account as of a certain date, all transactions that took place during the time period covered by the statement, including additions and withdrawals of assets and any advisory fees paid from the account, and other related information.

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

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

As noted above, with the exception of the inadvertent receipt of soft dollar research services, FAC does not receive any monetary compensation or indirect compensation in the form of goods or services from non-clients in connection with providing advice to clients. As discussed in Item 12 above, FAC generally recommends to certain clients that they use First Allied as their custodian and broker for their accounts. FAC may also recommend products to advisory clients that are available through First Allied. While there is no direct link between the advice given to an FAC client and FAC's recommendations to use First Allied as their custodian and broker, economic benefits are received by FAC for such recommendations. For example, FAC representatives, in their separate capacity as registered representatives of First Allied, may receive commissions from the execution of securities transactions through First Allied. Additionally, FAC's associated persons that are licensed as insurance agents may receive commissions and other incentive awards for the recommendation/sale of annuities and other insurance products through insurance companies affiliated with First Allied.

As stated in Item 4 above, FAC may recommend a third party investment adviser to clients, which is typically First Allied. The recommendations are made based on the fact that FAC believes that the services provided by First Allied would be consistent with the client's investment objectives and financial circumstances. Although FAC is not compensated by First Allied on a per referral basis or by receiving a portion of the fees paid to First Allied, FAC representatives may have independent contractor relationships with First Allied and may receive usual and customary commissions or fees from First Allied for doing so. This may be deemed the receipt of an economic benefit by FAC from a non-client.

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

FAC may, from time to time, enter into agreements with individuals and organizations, some of whom may be affiliated or unaffiliated with FAC, that refer clients to FAC. All such agreements will be in writing and comply with the requirements of Rule 206(4)-3 of the Advisers Act. If a client is introduced to FAC by a solicitor, FAC may pay that solicitor a fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. While the specific terms of each agreement may differ, generally, the compensation will be based upon FAC's engagement of new clients and the retention of those clients and is calculated using a varying percentage of the fees paid to FAC by such clients. Any such fee shall be paid solely from FAC's investment management fee, and shall not result in any additional charge to the client.

Each prospective client who is referred to FAC under such an arrangement will receive a copy of FAC's firm brochure and a separate written disclosure document disclosing the nature of the relationship between the third party solicitor and FAC and the amount of compensation that will be paid by FAC to the third party. The solicitor is required to obtain the client's signature acknowledging receipt of FAC's disclosure brochure and the solicitor's written disclosure statement.

## **C. Other Compensation**

As described above, certain individual advisory representatives of FAC may also serve as registered representatives and investment advisory representatives of First Allied, for which they may be compensated. As part of FAC's fiduciary duty to its clients, FAC and its advisory representatives will endeavor at all times to put the interest of the clients first and will only make recommendations when they are reasonably believed to be in the best interests of the client. Nevertheless, clients should be aware that the receipt of additional compensation itself creates an inherent conflict of interest, and may affect the judgment of these individuals when making recommendations. Please refer to Item 5 above for additional information regarding potential conflicts of interest posed by the receipt of additional compensation by FAC representatives.

## **ITEM 15 CUSTODY**

FAC will not maintain physical custody of client fund's or securities. Custody of account assets invested with a third party adviser will be maintained with an independent qualified custodian. In

addition, in most cases, a client's broker-dealer also may act as the custodian of the client's assets for little or no extra cost. Clients should thoroughly consider, however, the differences between having their assets custodied at a broker-dealer versus at a bank or trust company. Some of these differences include, but are not limited to, custodian costs, trading issues, security of assets, client reporting and technology. Clients will receive statements on at least a quarterly basis directly from the qualified custodian that holds and maintains client's assets. Clients are urged to carefully review all custodial statements. To the extent clients utilize the services of a third party adviser, clients are urged to compare the statements received from the account custodian to the statements, if any, received from the third party adviser managing the client's assets. Statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **ITEM 16 INVESTMENT DISCRETION**

FAC does not have any investment or trading discretionary authority over any client assets and does not accept discretion relative to specific securities to be bought or sold for a client's account. For clients that are receiving financial planning services, FAC will make recommendations to the client regarding the purchase or sale of securities or other assets that they consider to be in the best interests of the client. The client has full discretion to accept or reject FAC's recommendations and is responsible for implementing any accepted recommendations with any broker-dealer the client's chooses. Clients wishing to implement FAC's recommendations are free to select any broker they wish and are so informed. If a client requests that FAC implement the trades on behalf of the client, FAC will typically effect all transactions for the client accounts through First Allied.

Third party advisers recommended by FAC will typically have investment and trading discretion over client accounts as authorized by the client in the advisory agreement entered into with the third party adviser. In such situations, the third party adviser managing the client's account may have the authority to determine, without obtaining specific client consent, the securities to be bought or sold, the amount of securities to be bought or sold, and/or the commission rates and transaction costs paid to effect the transactions. Subject to the terms of the agreement with the third party adviser, clients may be permitted to change the discretion with the third party adviser and/or may be permitted to impose reasonable limitations on such authority, including restrictions on investing in certain securities or types of securities. FAC looks to the client as to whether the client wishes to continue to have their account managed with the third party adviser on a discretionary basis.

## **ITEM 17 VOTING CLIENT SECURITIES**

FAC does not accept proxy voting authority with respect to client securities holdings. FAC's policy is to not vote proxies on behalf of its clients and therefore, shall have no obligation or authority to take any action or render any advice with respect to the voting of proxies solicited by or with respect to issuers of any specific securities held in a client's account. Consequently, all proxies or other solicitations related to securities held in client accounts will be sent directly to clients by the custodian. In the event a proxy solicitation is sent to FAC on behalf of a client, FAC will forward the solicitation to the client's address of record immediately so that the client may cast the proxy

vote. For any mutual funds held in a client's account, the mutual fund is responsible for voting proxies on securities held in the mutual fund portfolio and not FAC. FAC typically does not advise or act for clients with respect to any legal matters, including bankruptcies and class actions, with regard to any securities held in client accounts.

## **ITEM 18 FINANCIAL INFORMATION**

FAC does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. FAC does not have any financial commitments that impair its ability to meet contractual and fiduciary obligations to clients, and has not been the subject of a bankruptcy proceeding.