

**Item 1. Cover Page for Part 2A Appendix 1 of Form ADV:  
Wrap Fee Program Brochure**

**Dated February 2012**

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**This wrap fee program brochure provides information about the qualifications and business practices of Texas Legacy Wealth Management. If you have any questions about the contents of this brochure, please contact Enzo Pellegrino, Chief Compliance Officer, by telephone at (210) 541-8600 or by email at [enzo@texaslegacywealth.com](mailto:enzo@texaslegacywealth.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any State Securities Authority.**

**Additional information about Texas Legacy Wealth Management is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)**

**Please note use of the term “registered investment adviser” and description of Texas Legacy Wealth Management and/or our associates as “registered” does not imply a certain level of skill or training. You are encouraged to review this Brochure and Brochure Supplements for our firm's associates which advise you for more information on the qualifications of our firm and its employees.**

## **Item 2. Material Changes**

Texas Legacy Wealth Management is required to advise you of any material changes to our Wrap Fee Program Brochure (“Wrap Brochure”) from our last annual update, identify those changes on the cover page of our Wrap Brochure or on the page immediately following the cover page, or in a separate communication accompanying our Wrap Brochure. We must state clearly that we are discussing only material changes since the last annual update of our Wrap Brochure, and we must provide the date of the last annual update of our Wrap Brochure.

Please note we do not have to provide this information to a client or prospective client who has not received a previous version of our Wrap Brochure.

Initial SEC filing Date: 10/04/2011

At this time, we are in the process of switching from SEC registration to State registration.

### **Item 3. Table of Contents**

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

- A. Description of our services, including the types of portfolio management services, provided under each program. We must indicate the wrap fee charged for each program, or, if fees vary according to a schedule, provide such schedule. Further, we are required to indicate whether fees are negotiable and identify the portion of the total fee, or range of fees, paid to portfolio managers.

We offer wrap fee programs as described in this Wrap Fee Program Brochure. Our wrap fee accounts are managed on an individualized basis according to the client's investment objectives, financial goals, risk tolerance, etc.

(i) Asset Management:

We offer discretionary management of client assets. As a discretionary manager, we have the authority to make determinations regarding the purchase and sale of securities for clients. Clients grant us this discretionary authority in our advisory agreement. We work with each client to establish a mutually accepted asset allocation that is aligned with the client's unique investment objectives and risk tolerance. In constructing allocation for clients, we may select from a wide range of available investment options listed below including our own proprietary investment strategies described below.

We emphasize continuous and regular account supervision. As part of our asset management service, we generally create a portfolio, consisting of individual stocks or bonds, exchange traded funds ("ETFs"), mutual funds and other public and private securities or investments. The client's individual investment strategy may include some or all of the previously mentioned securities. Once the appropriate portfolio has been determined, we review the portfolio at least quarterly and if necessary, rebalance the portfolio based upon the client's individual needs, stated goals and objectives.

Our proprietary investment strategies generally include the following:

Founding Funds Strategy – The strategy seeks to effectively monitor the risk level in the market. When we believe the risk is too high, we have the capability to take action to limit exposure on your behalf, as opposed to a buy and hold strategy. The portfolio will primarily consist of exchange traded funds ("ETF"), as the growth component. Each client's investment portfolio in the growth component will be nearly identical to other clients' in the growth component, as to ETFs held- representing the asset categories and the percentage of the amount invested in each ETF. Within this strategy, we are very conscious of trying to protect your money during down market cycles. The aim of this is to protect your portfolio and have capital to invest when new opportunities arise. Therefore, we may also engage in various defensive strategies from time to time in the growth component in an effort to minimize losses, have capital to invest when new opportunities arise and/or to seek investment returns. Money market securities and/or short term fixed income securities are typically used upon implementation of the defensive strategies within the growth component. However, there are special risks

involved with those defensive strategies. Refer to Methods of Analysis, Investment Strategies and Risk of Loss.

**Fixed Income Strategy** – The strategy seeks to construct bond ladders with different maturities and ratings that are suitable to each client based on discussing their goals, objectives, risk tolerance, liquidity needs and other items. Each client's investment portfolio in the fixed income component might be similar or the same as other clients' in the fixed income component. That is, clients may hold the same investments or different investments that are similar in objective, which might share nearly identical ratings for safety and payment of any interest and principal. Differences may occur because of limited availability of a specific investment, the clients commenced using the fixed income component on different dates, taxing preference of the client, and amount invested in the income component. Additionally, there may be some differences because of the client's state of residence, as some investments may not be available in all 50 states. Each client has the opportunity to place reasonable restrictions on the types of investments to be held in the fixed income component in the initial stage. Unless otherwise directed by the client, we might utilize bond mutual funds or exchange traded funds instead of individual bonds for smaller accounts having a fixed income allocation of less than \$100,000. Also, we typically utilize bond mutual funds, exchange traded funds or money market securities while constructing the client's bond ladder, or in lieu of an individual bond.

**Growth & Income Strategy** – Combination of the two listed strategies above.

**Wrap Fee Program Fees:**

Households with aggregate assets below \$500,000 will be billed at a flat fee of 2.75%

Households with aggregate assets above \$500,000 will be billed on the following tiered schedule:

First \$500,000	1.75%
\$500,000 - \$1million	1.45%
\$1million - \$3million	1.20%
\$3million - \$5million	1.05%
\$5million - \$10million	0.85%
Greater than \$10 million	0.65%

\*Our firm's fees are billed on a pro-rata annualized basis quarterly in advance based on the value of your account on the last day of the previous quarter. Our fee schedule for households with assets over \$500,000 with us is tiered based on the overall household assets utilizing our Asset Management services. All fees are subject to negotiation at our discretion.

- B. Explanation that a wrap fee program may cost you more or less than purchasing such services separately and description of the factors that bear upon the relative cost of the program, such as the cost of the services if provided separately and the trading activity in your account(s).

A wrap fee program allows our clients to pay a specified fee for investment advisory services and the execution of transactions. The advisory services may include portfolio management and the fee is not based directly upon transactions in your account. Your fee is bundled with our costs for executing transactions in your account(s). This results in a higher advisory fee to you. We do not charge our clients higher advisory fees based on their trading activity, but you should be aware that we may have an incentive to limit our trading activities in your account(s) because we are charged for executed trades. By participating in a wrap fee program, you may end up paying more or less than you would through a non-wrap fee program where a lower advisory fee is charged, but trade execution costs are passed directly through to you by the executing broker.

- C. Description of any fees that you may pay in addition to a wrap fee, and description of the circumstances under which you may pay these fees, including, if applicable, mutual fund expenses and mark-ups, mark-downs, or spreads paid to market makers.

You may pay custodial fees, charges imposed directly by a publically traded investment that issues a prospectus for example mutual fund, index fund, variable annuities, or exchange traded fund which shall be disclosed in the prospectus (i.e., management fees and other expenses), mark-ups and mark-downs, spreads paid to market makers, wire transfer fees and other fees and taxes on brokerage accounts and securities transactions. These fees are not included within the wrap-fee you are charged by our firm.

- D. If someone recommending a wrap fee program to you, receives compensation as a result of your participation in the program, we must disclose this fact. Further, we are required to explain, if applicable, that the amount of the compensation may be more than what the person would receive if you participated in our other wrap fee program or paid separately for investment advice, brokerage and other services. Finally, we must explain that someone recommending a wrap fee program may have a financial incentive to recommend the wrap fee program over other programs or services.

Our investment advisory representatives receive a portion of the advisory fee that you pay us, either directly as a percentage of your overall fee or as their salary from our firm. In cases where our investment advisory representatives are paid a percentage of your overall advisory fee, this may create an incentive to recommend that you participate in a wrap fee program rather than a non-wrap fee program (where you would pay for trade execution costs) or brokerage account where commissions are charged. This is because, in some cases, we may stand to earn more compensation from advisory fees paid to us through a wrap fee program arrangement if your account is not actively traded.

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

We have the following types of clients:

- Individuals and High Net Worth Individuals;
- Trusts, Estates or Charitable Organizations;
- Corporations, partnerships, limited liability companies and/or other business types

Our requirements for opening and maintaining accounts or otherwise engaging us:

- Our preferred minimum client household relationship size is \$250,000 for Asset management service. Generally, this minimum client household relationship requirement is not negotiable and would be required throughout the course of the client's relationship with our firm. We may choose to lower the initial asset minimum in certain instances. One such instance could be when the client and we anticipate additional assets, within a reasonable amount of time, be available in the future for management. Another instance could be for new clients who are related to or acquaintances of an existing client.

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

- A. Description of how our firm selects and reviews portfolio managers, our basis for recommending or selecting portfolio managers for particular clients, and our criteria for replacing or recommending the replacement of portfolio managers for the program and for particular clients.

Our firm may select outside portfolio managers based on the following factors:

- past performance;
- investment philosophy;
- market outlook;
- experience of portfolio managers and executive team;
- disciplinary, legal and regulatory histories of the firm and its associates;
- whether established compliance procedures are in place to address at a minimum, insider trading, conflicts of interest, anti-money laundering.

- 1) Standards we use to calculate portfolio manager performance, such as industry standards or standards used solely by our firm.

This item is not applicable at this time.

- 2) Indication of whether we review, or whether any third-party reviews, performance information to determine or verify its accuracy or its compliance with presentation standards. If so, we must briefly describe the nature of the review and the name of any third party conducting the review.

This item is not applicable at this time.

- 3) If applicable, an explanation that neither our firm nor a third-party reviews portfolio manager performance information, and/or that performance information may not be calculated on a uniform and consistent basis.

This item is not applicable.

- B. Disclosure of whether our firm or any related persons act as a portfolio manager for a wrap fee program described in the wrap fee program brochure. We must explain the conflicts of interest that we face because of this arrangement and describe how we address these conflicts of interest. Further, we must disclose whether related person portfolio managers are subject to the same selection and review as the other portfolio managers that participate in the wrap fee program. If they are not, we must describe how we select and review related person portfolio managers.

Our firm and its related persons act as portfolio managers for the wrap fee programs previously described in this Wrap Fee Program Brochure as well as the use of outside portfolio managers. This may create a conflict of interest in that other investment advisory firms may charge the same or lower fees than our firm for similar services. Clients are encouraged to compare our proprietary strategy with those utilized by other firms. We make ourselves available to clients to explain our investments and returns.

Our related person portfolio managers are not subject to the same selection and review as outside portfolio managers. Selection of outside portfolio managers would only occur for investment needs that are unique to a certain style box and completely outside of our proprietary strategies. Returns, fees and risks compared to our benchmark would also be considered in our selection process.

- C. If our firm, or any of our supervised persons covered under our investment adviser registration, act as a portfolio manager for a wrap fee program described in the wrap fee program brochure, we must respond to Items 4.B, 4.C, 4.D (Advisory Business), 6 (Performance-Based Fees and Side- By-Side Management), 8.A (Methods of Analysis, Investment Strategies and Risk of Loss) and 17 (Voting Client Securities) of Part 2A of Form ADV (Firm Brochure).

Our firm and supervised persons do act as portfolio manager(s) for a wrap fee program described in this Wrap Fee Program Brochure.

- (i) Advisory Business:

See Item 4 of this Wrap Fee Program Brochure for information about our wrap fee advisory programs.

- (ii) Individual Tailoring of Advice to Clients:

We offer individualized investment advice to clients utilizing our Asset Management services. Additionally, we offer general investment advice to clients utilizing the

following services offered by our firm: Financial Planning and Consulting, Pension Consulting and Referrals to Third Party Money Managers.

Prior to managing a client's assets, each new client is provided individualized investment advice, which is aligned with the client's level(s) of tolerance for risk, the client's investment objectives and the client's investment time horizon. This individualized investment advice is created for the client after we receive and review the client's completed confidential profile or similar document and other information provided by client, which may include information obtained by notes from or conversations with client. This information is documented in the client's file, which is created and maintained by us. Each client's investment portfolio is created to meet the specific investment needs and objectives expressed by the client. Clients with similar investment needs and objectives may have investment portfolios where the investments and asset categories utilized are similar, or identical, to investment portfolios for clients with similar, or identical needs and objectives. The allocations will primarily consist of our proprietary investment strategies as referenced in Item 4.B(i) under Founding Funds Strategy, Fixed Income Strategy, Growth and Income Strategy. Furthermore, while two clients with distinctly different risk level and objectives may have some of the same investments in their respective portfolios, the percentage holdings of those investments will likely differ as will the asset class categories. If some or all of the same asset classes are used for both clients, the percentages invested in shared asset classes will likely differ.

(iii) Ability of Clients to Impose Restrictions on Investing in Certain Securities or Types of Securities:

We typically do not allow clients to impose restrictions on investing in certain securities or types of securities who are enrolled in Founding Funds Strategy. In the rare instance that we would allow restrictions, it would be limited to our Fixed Income Strategy, Growth & Income Strategy and Asset Management.

(iv) Participation in wrap fee programs.

Our wrap fee and non-wrap fee accounts are managed on an individualized basis according to the client's investment objectives, financial goals, risk tolerance, etc. We do not manage wrap fee accounts in a different fashion than non-wrap fee accounts.

(v) Performance-based fees and side-by-side management.

We do not charge performance fees to our clients.

## **Methods of analysis, investment strategies and risk of loss.**

Description of the methods of analysis and investment strategies we use in formulating investment advice or managing assets.

### Methods of Analysis:

- Charting;
- Fundamental;
- Technical;
- Cyclical.

### Investment Strategies we use:

- Long term purchases (securities held at least a year);
- Short term purchases (securities sold within a year);
- Trading (securities sold within 30 days);
- Founding Funds Strategy – The strategy seeks to effectively monitor the risk level in the market. When we believe the risk is too high, we have the capability to take action to limit exposure on your behalf, as opposed to a buy and hold strategy. The portfolio will primarily consist of ETFs, as the growth component. Each client's investment portfolio in the growth component will be nearly identical to other clients' in the growth component, as to ETFs held- representing the asset categories and the percentage of the amount invested in each exchange traded funds ETFs. Within this strategy, we are very conscious of trying to protect your money during down market cycles. The aim of this is to protect your portfolio and have capital to invest when new opportunities arise. Therefore, we also may engage in various defensive strategies from time to time in the growth component in an effort to minimize losses, have capital to invest when new opportunities arise and/or to seek investment returns. Money market securities and/or short term fixed income securities are typically used upon implementation of the defensive strategies within the growth component. However, there are special risks involved with those defensive strategies. Refer to Methods of Analysis, Investment Strategies and Risk of Loss.
- Fixed Income – The strategy seeks to construct bond ladders with different maturities and ratings that are suitable to each client based on discussing their goals, objectives, risk tolerance, liquidity needs and other items. Each client's investment portfolio in the fixed income component might be similar or the same as other clients' in the fixed income component. That is, clients may hold the same investments or different investments that are similar in objective, which might share nearly identical ratings for safety and payment of any interest and principal. Differences may occur because of limited availability of a specific investment, the clients commenced using the fixed income component on different dates, taxing preference of the client, and amount invested in the income component. Additionally, there may be some differences because of the client's state of residence, as some investments may not be available in all 50 states. Each client has the opportunity to place reasonable restrictions on the types of investments to be held in the fixed income component. Unless otherwise directed by the client, we might utilize bond mutual funds or exchange traded funds instead of individual bonds for smaller accounts having a fixed income allocation of less than \$100,000. Also, we typically utilize bond

mutual funds, exchange traded funds or money market securities while constructing the client's bond ladder, or in lieu of an individual bond.

- Growth & Income Strategy – Combination of the two listed strategies above.

**Please note:**

Investing in securities involves risk of loss that clients should be prepared to bear. While the stock market may increase and your account(s) could enjoy a gain, it is also possible that the stock market may decrease and your account(s) could suffer a loss. It is important that you understand the risks associated with investing in the stock market, are appropriately diversified in your investments, and ask us any questions you may have.

Our firm will utilize several disciplines of analysis. On occasion we will use a technical analysis for forecasting the direction of prices through the study of past market data, primarily price and volume by examining what investors fear or think about those developments and whether or not investors have the wherewithal to back up their opinions as opposed to a fundamental analysis which examines earnings, dividends, new products, research and the like. Technical analysis is frequently contrasted with fundamental analysis and each have limitations because of assumptions about the market. We enlist a more rational approach by utilizing both types of analyses. In addition to these we may employ charting which plot the span between the high and low prices of a trading period. Some widen and fill the interval between the open and close prices to emphasize the open/close relationship. The risk of relying on charting would be similar to the weaknesses of the technical approach, where the price reflects the trend as opposed to fundamental which holds that economic factors influence the price. Studying recurring, preferably periodic, movements in prices or other time series or cyclical analysis may also be incorporated in our methods of analysis. Cyclical may too narrowly predict price without integrating relevant factors. We strive to avoid risks of any one method by incorporating several methods.

Investing in securities involves risk of loss that clients should be prepared to bear. While the stock market may increase and your account(s) could enjoy a gain, it is also possible that the stock market may decrease and your account(s) could suffer a loss. It is important that you understand the risks associated with investing in the stock market, are appropriately diversified in your investments, and ask us any questions you may have.

Our firm will make long term purchases (securities held at least a year), short term purchases (securities sold within a year), trading (securities sold within 30 days). Generally there is more risk involved with shorter trading.

Other Key risk(s):

#### *Capital Risk*

Capital risk is one of the most basic, fundamental risks of investing; it is the risk that you may lose 100 percent of your money. All investments carry some form of risk and the loss of capital is generally a risk for any investment instrument.

#### *Credit Risk*

Credit risk can be a factor in situations where an investment's performance relies on a borrower's repayment of borrowed funds. With credit risk, an investor can experience a loss or unfavorable performance if a borrower does not repay the borrowed funds as expected or required. Investment holdings that involve forms of indebtedness (i.e. borrowed funds) are subject to credit risk.

#### *Currency Risk*

Fluctuations in the value of the currency in which your investment is denominated may affect the value of your investment and thus, your investment may be worth more or less in the future. All currency is subject to swings in valuation and thus, regardless of the currency denomination of any particular investment you own, currency risk is a realistic risk measure. That said, currency risk is generally a much larger factor for investment instruments denominated in currencies other than the most widely used currencies (U.S. dollar, British pound, German mark, Euro, Japanese yen, French franc, etc.).

#### *Defensive Strategy Risk*

Defensive strategies are primarily used in periods of high volatility or economic uncertainty and aimed at reducing exposure to the equity market. Our goal is simply to help our clients achieve their financial goals, regardless of market conditions. If we forecasts a prolonged and substantial downturn for the equity markets, it may adopt a defensive strategy for clients' growth allocation by investing substantially in money market securities and/or short term fixed income securities. There can be no guarantee that we will accurately forecast any prolonged and substantial downturn in the equity markets, or that the use defensive techniques would be successful in avoiding losses. The use of defensive strategies could result in a negative outcome for a client. A few negative consequences could be high turnover, re-entry in the same security at a higher price, loss of growth if the equity markets move up, high tax liability within taxable accounts and higher trading cost.

#### *Economic Risk*

The prevailing economic environment is important to the health of all businesses. Some companies, however, are more sensitive to changes in the domestic or global economy than others. These types of companies are often referred to as cyclical businesses. Countries in which a large portion of businesses are in cyclical industries are thus also very economically sensitive and carry a higher amount of economic risk. If an investment is issued by a party located in a country that experiences wide swings from an economic standpoint or in situations where certain elements of an investment instrument are hinged

on dealings in such countries, the investment instrument will generally be subject to a higher level of economic risk.

#### *Financial Risk*

Financial risk is represented by internal disruptions within an investment or the issuer of an investment that can lead to unfavorable performance of the investment. Examples of financial risk can be found in cases like Enron or many of the dot com companies that were caught up in a period of extraordinary market valuations that were not based on solid financial footings of the companies.

#### *Fixed Income Securities Risk*

Typically, the values of fixed-income securities change inversely with prevailing interest rates. Therefore, a fundamental risk of fixed-income securities is interest rate risk, which is the risk that their value will generally decline as prevailing interest rates rise, which may cause your account value to likewise decrease, and vice versa. How specific fixed income securities may react to changes in interest rates will depend on the specific characteristics of each security. Fixed-income securities are also subject to credit risk, prepayment risk, valuation risk, and liquidity risk. Credit risk 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 a bond to decline.

#### *Foreign Exposure Risk*

We may have exposure to foreign markets, including emerging markets, which can be more volatile than the U.S. markets. As a result, returns and net asset value may be affected to a large degree by fluctuations in currency exchange rates or political or economic conditions in a particular country. Any investments in emerging market countries may involve risks greater than, or in addition to, the risks of investing in more developed countries.

#### *Growth Securities Risk*

Securities of companies perceived to be "growth" companies may be more volatile than other stocks and may involve special risks. The price of a "growth" security may be impacted if the company does not realize its anticipated potential or if there is a shift in the market to favor other types of securities.

#### *Higher Trading Costs*

For any investment instrument or strategy that involves active or frequent trading, you may experience larger than usual transaction-related costs. Higher transaction-related costs can negatively affect overall investment performance.

#### *Inflation Risk*

Inflation risk involves the concern that in the future, your investment or proceeds from your investment will not be worth what they are today. Throughout time, the prices of resources and end-user products generally increase and thus, the same general goods and products today will likely be more expensive in the future. The longer an investment is

held, the greater the chance that the proceeds from that investment will be worth less in the future than what they are today. Said another way, a dollar tomorrow will likely get you less than what it can today.

#### *Interest Rate Risk*

Certain investments involve the payment of a fixed or variable rate of interest to the investment holder. Once an investor has acquired or has acquired the rights to an investment that pays a particular rate (fixed or variable) of interest, changes in overall interest rates in the market will affect the value of the interest-paying investment(s) they hold. In general, changes in prevailing interest rates in the market will have an inverse relationship to the value of existing, interest paying investments. In other words, as interest rates move up, the value of an instrument paying a particular rate (fixed or variable) of interest will go down. The reverse is generally true as well.

#### *Legal/Regulatory Risk*

Certain investments or the issuers of investments may be affected by changes in state or federal laws or in the prevailing regulatory framework under which the investment instrument or its issuer is regulated. Changes in the regulatory environment or tax laws can affect the performance of certain investments or issuers of those investments and thus, can have a negative impact on the overall performance of such investments.

#### *Liquidity Risk*

Certain assets may not be readily converted into cash or may have a very limited market in which they trade. Thus, you may experience the risk that your investment or assets within your investment may not be able to be liquidated quickly, thus, extending the period of time by which you may receive the proceeds from your investment. Liquidity risk can also result in unfavorable pricing when exiting (i.e. not being able to quickly get out of an investment before the price drops significantly) a particular investment and therefore, can have a negative impact on investment returns.

#### *Manager Risk*

There is always the possibility that poor security selection will cause your investments to underperform relative to benchmarks or other funds with a similar investment objective.

#### *Market Risk*

The value of your portfolio may decrease if the value of an individual company or multiple companies in the portfolio decreases or if our belief about a company's intrinsic worth is incorrect. Further, regardless of how well individual companies perform, the value of your portfolio could also decrease if there are deteriorating economic or market conditions. It is important to understand that the value of your investment may fall, sometimes sharply, in response to changes in the market, and you could lose money. Investment risks include price risk as may be observed by a drop in a security's price due to company specific events (e.g. earnings disappointment or downgrade in the rating of a bond) or general market risk (e.g. such as a "bear" market when stock values fall in general). For fixed-income securities, a period of rising interest rates could erode the

value of a bond since bond values generally fall as bond yields go up. Past performance is not a guarantee of future returns.

#### *Market Timing Risk*

Market timing can include high risk of loss since it looks at an aggregate market versus a specific security. Timing risk explains the potential for missing out on beneficial movements in price due to an error in timing. This could cause harm to the value of an investor's portfolio because of purchasing too high or selling too low.

#### *Mid-Sized Companies Risk*

Investments in securities issued by mid-sized companies may involve greater risks than are customarily associated with larger, more established companies. Securities issued by mid-sized companies tend to be more volatile than securities issued by larger or more established companies and may underperform as compared to the securities of larger companies.

#### *Money Market Risk*

An investment in a money market fund is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in a money market fund.

#### *Operational Risk*

Operational risk can be experienced when an issuer of an investment product is unable to carry out the business it has planned to execute. Operational risk can be experienced as a result of human failure, operational inefficiencies, system failures, or the failure of other processes critical to the business operations of the issuer or counter party to the investment.

#### *Past Performance*

Charting and technical analysis are often used interchangeably. Technical analysis generally attempts to forecast an investment's future potential by analyzing its past performance and other related statistics. In particular, technical analysis often times involves an evaluation of historical pricing and volume of a particular security for the purpose of forecasting where future price and volume figures may go. As with any investment analysis method, technical analysis runs the risk of not knowing the future and thus, investors should realize that even the most diligent and thorough technical analysis cannot predict or guarantee the future performance of any particular investment instrument or issuer thereof.

#### *Small-Sized Companies Risk*

Investments in securities issued by small-sized companies, which tend to be smaller, start-up companies offering emerging products or services, may involve greater risks than are customarily associated with larger, more established companies. Securities issued by small-sized companies tend to be more volatile and somewhat more speculative than

securities issued by larger or more established companies and may underperform as compared to the securities of larger companies.

*Strategy Risk*

There is no guarantee that the investment strategies discussed herein will work under all market conditions and each investor should evaluate his/her ability to maintain any investment he/she is considering in light of his/her own investment time horizon. Investments are subject to risk, including possible loss of principal.

**Voting Client Securities.**

If we have, or will accept, proxy authority to vote client securities, we must briefly describe our voting policies and procedures, including those adopted pursuant to SEC Rule 206(4)-6.

We do not and will not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. In the event that proxies are sent to our firm, we will forward them on to you and ask the party who sent them to mail them directly to you in the future. Clients may call, write or email us to discuss questions they may have about particular proxy votes or other solicitations.

**Item 7. Client Information Provided to Portfolio Manager(s)**

We are required to describe the information about you that we communicate to your portfolio manager(s), and how often or under what circumstances we provide updated information. Our firm communicates with your portfolio manager(s) on a regular basis as needed (daily, weekly, monthly, etc) to ensure your most current investment goals and objectives are understood by your portfolio manager(s). In most cases, we will communicate such information as part of our regular investment management duties. Nevertheless, we will also communicate information to your portfolio manager(s) when you ask us to, when market or economic conditions make it prudent to do so, etc.

**Item 8. Client Contact with Portfolio Manager(s)**

Clients are always free to directly contact their portfolio manager(s) with any questions or concerns they have about their portfolios or other matters.

**Item 9. Additional Information**

A. We are required to respond to: 1. Item 9 (Disciplinary Information); and 2. Item 10 (Other Financial Industry Activities and Affiliations) of Part 2A of Form ADV.

1. We have determined that our firm and management have no disciplinary information to disclose.

2. Our supervised persons are registered representatives of LPL Financial, LLC (“LPL”), member FINRA/SIPC. Pellegrino and Associates Financial Services, LLC dba Texas Legacy Wealth Management is additionally licensed as an insurance agency. In the individual capacity of our advisory representatives we may offer fixed insurance products and receive normal and customary commissions as a result of any purchases made by the clients. Clients are under no obligation to purchase these products. To mitigate this conflict of interest, disclosure is made to the client at time of purchase identifying the nature of the transaction and relationship, the role to be played by and any compensation paid to our advisory representatives. In every case the interests of the clients are placed before that of our advisory representatives.
- B. We are required to respond to: 1. Items 11 (Code of Ethics or Interest in Client Transactions and Personal Trading); 2. Item 13 (review of Accounts); 3. Item 14 (Client Referrals and Other Compensation); and 4. Item 18 (Financial Information) of Part 2A of Form ADV, as applicable to our wrap fee clients.

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

Brief description of our Code of Ethics adopted pursuant to SEC rule 204A-1 and offer to provide a copy of our Code of Ethics to any client or prospective client upon request.

We recognize that the personal investment transactions of members and employees of our firm demand the application of a high Code of Ethics and require that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, we believe that if investment goals are similar for clients and for members and employees of our firm, it is logical and even desirable that there be common ownership of some securities.

Therefore, in order to prevent conflicts of interest, we have in place a set of procedures (including a pre-clearing procedure) with respect to transactions effected by our members, officers and employees for their personal accounts<sup>1</sup>. In order to monitor compliance with our personal trading policy, we have a quarterly securities transaction reporting system for all of our associates.

Furthermore, our firm has established a Code of Ethics which applies to all of our associated persons. An investment adviser is considered a fiduciary. As a fiduciary, it is an investment adviser’s responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. We have a fiduciary duty to all clients. Our fiduciary duty is considered the core underlying principle for our Code of Ethics which also includes Insider Trading and Personal Securities Transactions Policies and Procedures. We require all of our supervised persons to conduct business with the highest level of ethical

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<sup>1</sup> For purposes of the policy, our associate’s personal account generally includes any account (a) in the name of our associate, his/her spouse, his/her minor children or other dependents residing in the same household, (b) for which our associate is a trustee or executor, or (c) which our associate controls, including our client accounts which our associate controls and/or a member of his/her household has a direct or indirect beneficial interest in.

standards and to comply with all federal and state securities laws at all times. Upon employment or affiliation and at least annually thereafter, all supervised persons will sign an acknowledgement that they have read, understand, and agree to comply with our Code of Ethics. Our firm and supervised persons must conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients. This disclosure is provided to give all clients a summary of our Code of Ethics. However, if a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.

- a) If our firm or a related person recommends to clients, or buys or sells for client accounts, securities in which our firm or a related person has a material financial interest (excluding an interest as a shareholder of an SEC-registered, open-end investment company), we must describe our practice and discuss the conflicts of interest it presents.

Our advisory representative may in whole or in part replicate any of our proprietary strategies for their own personal accounts. To mitigate any conflict of interest the interests of the clients are put before those of our representatives. Please refer to Item 9B.1.

- b) If our firm or a related person invests in the same securities (or related securities, e.g., warrants, options or futures) that our firm or a related person recommends to clients, we are required to describe our practice and discuss the conflicts of interest this presents and generally how we address the conflicts that arise in connection with personal trading.

See Item 9B.1 of this Brochure. Related persons of our firm may buy or sell securities and other investments that are also recommended to clients. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request.

- c) If our firm or a related person recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that you or a related person buys or sells the same securities for our firm's (or the related person's own) account, we are required to describe our practice and discuss the conflicts of interest it presents. We are also required to describe generally how we address conflicts that arise.

See Item 9B.1 of this brochure. Related persons of our firm may buy or sell securities for themselves at or about the same time they buy or sell the same securities for client accounts. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request. Further, our related persons will refrain from buying or selling the same securities during the same day of buying or selling for our clients. If related persons' accounts are included in a block trade, our related persons will always trade personal accounts last.

## **2. Review of Accounts.**

- a) Review of client accounts, along with a description of the frequency and nature of our review, and the titles of our employees who conduct the review.

We review accounts on at least a quarterly basis for our clients subscribing to the following services: Asset Management. Third Party Money Management clients receive at least quarterly reviews. The nature of these reviews is to learn whether clients' accounts are in line with their investment objectives, appropriately positioned based on market conditions, and investment policies, if applicable

- b) Review of client accounts on other than a periodic basis, along with a description of the factors that trigger a review.

We may review client accounts more frequently than described above. Among the factors which may trigger an off-cycle review are major market or economic events, the client's life events, requests by the client, etc.

- c) Description of the content and indication of the frequency of written or verbal regular reports we provide to clients regarding their accounts.

We do not provide written reports to clients, unless asked to do so. Verbal reports to clients take place on at least an annual basis when we meet with clients in person, telephonically or through internet-based services who subscribe to the following services: Asset Management and Third Party Money Management. LPL Financial provides monthly statements and quarterly performance reports.

## **3. Client Referrals and Other Compensation.**

- a) If someone who is not a client provides an economic benefit to our firm for providing investment advice or other advisory services to our clients, we must generally describe the arrangement. For purposes of this Item, economic benefits include any sales awards or other prizes.

### **Investment or Brokerage Discretion**

We provide discretionary portfolio management services where the investment advice provided is custom tailored to meet the needs and investment objectives of each client. Accordingly, we are authorized to perform various functions, at the client's expense, without further approval from the client. Such functions include the determination of securities to be purchased/sold and the amount of securities to be purchased/sold. We do not have discretionary authority over the broker or dealer to be used.

### **Suggestion of Brokers to Clients**

We shall recommend LPL Financial. LPL is the broker-dealer and investment adviser with which our representatives are also associated. As a result of the individual association of our representatives with LPL, we are generally required to utilize the brokerage/custodial services of LPL for investment advisory accounts. Our general policies relative to the execution of client securities brokerage transactions are as follows:

### **Execution of Brokerage Transactions (when applicable)**

If requested, we will arrange for the execution of securities brokerage transactions for the account through broker-dealers that we reasonably believe will provide "best execution". In seeking "best execution", the determinative factor is not the lowest possible commission cost, but whether the transaction represents the best qualitative execution. We also take into consideration the full range of a broker-dealer's services including execution capability, commission rates, and responsiveness. Although we will seek competitive commission rates, it may not necessarily obtain the lowest possible commission rates for account transactions.

Over-the-Counter (OTC) securities transactions for our clients are generally effected based on two (2) separate broker-dealers: (1) a "dealer" or "principal" acting as market-maker; and (2) the executing broker-dealer that acts in an agency capacity for the client's account. Dealers executing principal transactions typically include a mark-up/down, which is included in the offer or bid price of the securities purchased or sold. In addition to the dealer mark-up/down, the client may also incur the transaction fee imposed by the executing broker-dealer. We do not receive any portion of the dealer mark-up/down or the executing broker-dealer transaction fee.

Transactions for each client account generally will be effected independently, unless we decide to purchase or sell the same securities for several clients at approximately the same time. We may, but are not obligated to, combine or "batch" such orders to obtain "best execution", to negotiate more favorable commission rates, to allocate fairly among the clients' differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among our clients in proportion to the purchase and sale orders placed for each client account on any given day. To the extent that we determine to aggregate client orders for the purchase or sale of securities, including securities in which our principals) and/or associated persons) may invest, we shall generally do so in accordance with the parameters set forth in SEC No-Action Letter, SMC Capital, Inc. We shall not receive any additional compensation or remuneration as a result of the aggregation.

When referring clients to dealers, we will only refer clients to dealers registered in states where the clients reside.

### **Additional Compensation**

We may receive from LPL, a mutual fund company or variable annuity company without cost and/or at a discount support services and/or products, to assist us to better monitor and service client accounts maintained at such institutions. Included within the support services we may receive investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by us to assist us in our investment advisory business operations. Our clients do not pay more for investment transactions effected and/or assets maintained at LPL as result of this arrangement. There is no commitment made by us to LPL or any other institution as a result of the above arrangement.

Occasionally, Allianz Life Insurance may co-sponsor firm events and/or social gatherings.

b. If our firm or a related person directly or indirectly compensates any person who is not our employee for client referrals, we are required to describe the arrangement and the compensation.

We do not pay referral fees (non-commission based) to independent solicitors (non-registered representatives) for the referral of their clients to our firm.

### **4. Financial Information.**

a) If we require or solicit prepayment of more than \$500 in fees per client, six months or more in advance, we must include a balance sheet for our most recent fiscal year.

We do not require nor do we solicit prepayment of more than \$500 in fees per client, six months or more in advance, therefore we have not included a balance sheet for our most recent fiscal year.

b) If have discretionary authority or custody of client funds or securities, or we require or solicit prepayment of more than \$500 in fees per client, six months or more in advance, we must disclose any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.

We have nothing to disclose in this regard.

c) If we have been the subject of a bankruptcy petition at any time during the past ten years, we must disclose this fact, the date the petition was first brought, and the current status.

We have nothing to disclose in this regard.

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

In addition to any relationship or arrangement described in response to Item 9.A.2 of Part 2A Appendix 1 of Form ADV, we must describe any relationship or arrangement that our firm or any of our management persons have with any issuer of securities that is not listed in Item 9.A.2 of Part 2A Appendix 1 of Form ADV.

We are State registered and have responded to this Item in Item 9.A.2 of this Part 2A Appendix 1 of Form ADV.