

Item 1 Cover Page

# Feltl Advisors

## Wrap Fee Program Brochure

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*This Wrap Fee Program Brochure provides information about the qualifications and business practices of Feltl Advisors. If you have any questions about the contents of this brochure, please contact us at 866.655.3431. 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.*

*Registration as a Registered Investment Advisor does not imply a certain level of skill or training.*

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

## **Item 2 *Material Changes***

Effective January 1, 2013 Feltl Advisors (“FA”) acquired the investment advisory business of Feltl and Company, Inc. (“F&C”) d.b.a. Feltl Advisors. FA is no longer the same legal entity as F&C, however they are consider affiliates as they are operated by common owners. Any questions may be directed to FA’s Chief Compliance Officer at (612) 492-8882 or General Counsel at (612) 372-4300.

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

### **A. FA offers three types of advisory accounts:**

1. Separately-Managed Account (“SMA”) – With the assistance of FA’s Investment Advisor Representative (“IAR”), the customer selects one or more third-party professional money managers (“PMM”). The PMM is selected by matching the PMM’s investment strategy and risk profile with the customer’s risk profile and stated investment needs and objectives. The selected PMM invests and manages the customer’s assets on a discretionary basis, meaning the PMM selects investments for the customer without prior approval from the customer or the IAR. That said, FA does not consider this to be a “discretionary account” because, although the PMM may exercise discretion in selecting investments for the customer, FA itself does not exercise discretion, either in the selection of the PMM or in the selection of particular investments. The IAR actively monitors the performance of the selected PMM and may recommend a change in the PMM when and if the IAR believes such a change would be in the best interests of the customer. The customer must approve any change before it will be implemented.
2. IAR Actively Managed Account (“AMA”) – FA’s IAR recommends specific investments to the customer based on the customer’s risk profile and stated

investment needs and objectives. Such investments, depending on the individual customer, may include individual stocks and bonds, options, mutual funds, annuities, and insurance products. AMA accounts are non-discretionary, meaning the customer must approve each and every transaction before execution. The IAR actively monitors AMA accounts to determine whether the investments are generally performing within the anticipated guidelines (recognizing that neither FA nor the IAR can guarantee a profitable outcome), and whether the allocation of assets among risk categories is being adequately maintained. The IAR may recommend changes to the portfolio composition when and if the IAR believes such changes would be in the best interests of the customer. The customer must approve all transactions in advance of their execution.

3. IAR Transactional Advice Account (“TAA”) – As a result of FA’s historical emphasis on its stock brokerage business, FA recognizes that some customers may wish to engage in frequent securities transactions, but would prefer to pay for those trades through an asset-based fee, rather than pay commissions on each and every trade. These customers seek advice on individual securities transactions, but are uninterested in the type of “active” account management described in the prior paragraph. For these customers, FA has designed the Transactional Advice Account. On a TAA account, FA’s IAR recommends specific investments to the customer based on the customer’s risk profile and stated investment needs and objectives. Such investments, depending on the individual customer, may include individual stocks and bonds, options, mutual funds, annuities, and insurance products. TAA accounts are non-discretionary, meaning the customer must approve each and every transaction before execution. Unlike the AMA account described in the prior paragraph, on the TAA account, the IAR is not responsible for monitoring the account’s performance or recommending changes in the composition of the portfolio. Rather, the IAR will provide trade-by-trade advice isolated to specific transactions executed in the account, without any ongoing duty to monitor the account. The advisory fee that is paid is simply in lieu of paying commissions – the fee does not pay for ongoing management.

The advisory fees that FA charges are negotiable. The following chart sets forth for each type of account described above, the *maximum* annual fees that ordinarily may be charged:

<u>Account Value</u>	<u>SMA</u>	<u>AMA</u>	<u>TAA</u>
First \$500,000	3.75%	4.00%	3.50%
\$500,000 to \$1,000,000	3.50%	3.75%	3.25%
\$1,000,000 to \$2,000,000	3.25%	3.50%	3.00%
\$2,000,000 to \$5,000,000	3.00%	3.25%	2.75%
Over \$5,000,000	3.00%	3.00%	2.50%

The annual fee may exceed the percentages listed above *only if* special circumstances exist, and FA’s Chief Compliance Officer approves the upward deviation. On the SMA

accounts, the PMM will typically receive somewhere between 0.50% and 2.00% of the fee identified in the chart above. The annual fee described above is charged on a quarterly basis in advance of each quarter, and is based upon the value of the account at the close of the prior quarter. FA's clearing broker, National Financial Services, LLC ("NFS") deducts the fees from customer accounts, and pays those fees to FA, which shares the fees with the IAR. If a customer chooses to close an account in the middle of a quarter, the customer will receive a refund of the prorated amount of the fee that was paid in advance.

- B. The programs described in Item 4(A) above may cost the customer more or less than purchasing such services separately. Among the factors that FA considers in determining the annual fee is the cost of the RIA platform, the cost of supervising the RIA business, FA's general overhead requirements, total assets the customer has invested with FA, the level of activity in the customer's account, knowledge of competitor's pricing, and regulatory guidance.
- C. In addition to the annual fees described in subpart A above, customers who have Individual Retirement Accounts pay a \$35.00 annual custodian fee to the custodian of the IRA, which typically is NFS. Customers who chose to maintain AMA and TAA accounts pay a \$75.00 annual fee to NFS to cover billing and reporting services.

Customers with TAA accounts, in addition to the annual fees already described, will be charged a "ticket charge" of \$12.00 per transaction, which is a pass-through of the charge FA pays NFS on each transaction.

Although margin accounts are not usually permitted in advisory accounts, if indeed such an arrangement was requested and approved, the customer is advised that under F&C's clearing agreement with NFS, F&C receives a share of the margin interest generated on debit balances in customers' margin accounts. This is not shared with FA.

Under F&C's clearing agreement with NFS, F&C may also receive from NFS a payment based on a percentage of the free credit balances that FA's customers have on deposit with NFS. In the current interest rate environment, no such payment is occurring, but if interest rates were to rise, F&C could receive compensation from NFS under the aforementioned agreement.

In addition to the fees and charges already discussed, FA may receive the following forms of compensation:

- 1. On mutual funds, FA sells primarily "A shares" and "no load" funds to advisory accounts. FA may receive ongoing payments from the mutual fund companies related to those purchases, which are commonly known as "12b-1 fees."
- 2. Certain new issue offerings, whether underwritten by F&C or by an unaffiliated financial institution, carry a sales credit that is built into the price of the offering – in other words, a commission. For example, a customer may purchase an offering at \$25.00 per share that includes a built-in sales credit of \$0.50 per share. If a

customer chooses to purchase that type of product in an advisory account, the customer would be paying both a commission and an advisory fee on that product for as long as that product is held in the advisory account. In those circumstances, FA does *not* typically adjust the sales credit or the annual fee to account for the double payment, but may do so in particular circumstances.

3. IARs may recommend the purchase of certain proprietary corporate finance products to customers who hold TAA accounts. Such products include private placements of securities, debt offerings, initial public offerings, and secondary offerings for which F&C serves as an underwriter for the offering. As described in the prior paragraph, those products carry a sales credit built into the price of the offering. If a customer chooses to purchase this type of product in an advisory account, the customer would be paying both a commission and an advisory fee on that product for as long as that product is held in the advisory account. In those circumstances, F&C does *not* typically adjust the sales credit or the annual fee to account for the double payment, but may do so in particular circumstances. In addition, F&C receives other underwriting fees and expenses on these corporate finance products, and typically receives stock warrants as well. On each such offering, the sales credits, underwriting fees, warrants, and other forms of compensation that F&C receives are clearly described in the offering memorandum that each customer receives before making the investment. This information is usually summarized on the cover page of the offering memorandum. These corporate finance products may generate substantial revenue for F&C.
4. FA's IARs may recommend the purchase of certain products outside of the advisory account as part of the customer's recommended investment mix. Examples might include variable annuities or other insurance-based products. In those instances, FA will receive compensation related to the customer's purchase of that product, but FA will not charge an asset-based annual fee on the product, which is typically held outside the FA advisory account.

Because FA and its IARs receive additional compensation on the products described in this subpart E, this presents a conflict of interest – FA and the IAR have a financial incentive to recommend these types of products, whether or not they are in the best interests of the customer. FA may also have a financial incentive to recommend corporate finance products to its customers to make sure that a particular underwriting is fully subscribed. To deal with such actual and potential conflicts, FA does the following:

1. Trains its IARs that they have a fiduciary duty to always act in the best interests of the customer, rather than their own personal interests or the interests of FA.
2. FA's supervisors review all trading in advisory accounts to assess whether the activity is in the customer's best interests.
3. FA limits the purchase of F&C's proprietary corporate finance products to advisory customers holding TAA accounts. TAA accountholders desiring to

purchase corporate finance products will receive, in addition to the usual offering documents, a special disclosure statement reminding the customer that (i) The investment is a proprietary product of F&C; (ii) F&C and the IAR will receive additional compensation related to the customer's purchase of that product beyond the annual advisory fee; (iii) The sale of the product will be deemed a "principal transaction" under SEC rules; and (iv) Significant conflicts of interest may exist due to the aforementioned factors. The customer will be required to read and sign the disclosure statement. The customer's signature will signify that he/she has read and understands the disclosure, accepts the conflicts of interest, and specifically consents to engaging in a principal transaction with FA. FA's Compliance Department must review and approve the purchase of all proprietary products before the purchase is consummated.

4. FA asks that customers notify FA's Compliance Department promptly if they suspect that the IAR may be recommending investments for the primary purpose of benefitting the IAR or FA. Customers should keep in mind they are always free to accept or reject any recommendation that FA or its IARs might make. Moreover, customers are always free to purchase products from other BDs and RIAs that are unaffiliated with FA, even if the product or investment strategy was initially introduced and/or recommended by FA's IAR (with the exception of F&C's proprietary corporate finance products, which are generally not available through other BDs or RIAs).
- D. The IAR advising the customer receives a share of the fees under all three types of advisory accounts. However, the compensation the IAR receives on these advisory accounts is no higher than he/she would typically receive on other investment products or services. Accordingly, there is no financial incentive for the IAR to recommend a SMA, AMA, or TAA account over any other type of investment product or service.

#### **Item 5    *Account Requirements and Types of Customers***

The vast majority of FA's advisory customers are individual investors. FA also offers investment advice to corporations, partnerships, pension and profit sharing plans, institutions, trusts, and other business entities. FA does not currently have a minimum account size to open or maintain AMA or TAA accounts, but reserves the right to implement minimums in the future. On SMA accounts, individual PMMs may have account minimums.

#### **Item 6        *Professional Money Manager Selection and Evaluation***

- A. FA subscribes to the Management Account Solutions ("MAS") platform of its clearing broker, NFS. On the AMA and TAA accounts described in Item 4(A) above, FA's IARs serve as "portfolio managers" on a non-discretionary basis. For a description of how those accounts are reviewed, see Item 9(C)(1) below.

On SMA accounts, FA's IARs use the MAS platform to evaluate, select, and monitor performance of PMMs. NFS contracts with Envestnet Asset Management, Inc. ("Envestnet") to perform due diligence on PMMs, and to make its findings available to FA's IARs through the MAS platform. According to Envestnet, its approval process for PMMs uses an objective, transparent methodology consistent with industry fiduciary standards to provide a broad universe of investment managers across investment styles that offer an attractive risk/reward proposition. The process consists of the following steps:

- A PMM must successfully complete Envestnet's Annual Compliance Due Diligence Questionnaire.
- Envestnet's quantitative risk/return model is used to select PMMs that rank in the top 40% of their overall peer group based on three years of historical performance data. (Customers should keep in mind that past performance does not guarantee similar performance in the future.)

Envestnet research analysts also work to provide additional insight across the approved universe of PMMs by strategically performing additional analytics, including:

- Interviews of PMMs to gain a clearer understanding of their investment process.
- Holdings-based analysis using a factor model to calculate performance attribution.
- Finding statistically significant alpha scores using a custom Returns-Based Style Analysis (RBSA) process.

For more detailed information concerning Envestnet and its procedures for evaluating PMMs, see <http://www.envestnet.com/products/pmc/managerelection.html>, or search for "Envestnet Asset Management, Inc." at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). FA does not independently conduct due diligence or compile performance information on PMMs available on the MAS platform. FA relies on Envestnet to perform this function. On at least a quarterly basis, FA's IARs who have customers with SMA accounts will review the due diligence and performance information gathered by Envestnet and made available on the MAS platform. Using that information, IARs may recommend that customers consider changing their PMM(s) if changes are warranted.

- B. FA has two RRs affiliated with F&C's BD who operate their own Registered Investment Advisors. One operates Rocket Capital Management, LLC ("RCM"), and the other operates Arch Asset Management, Inc. ("AAM"). These relationships present potential conflicts of interest in that FA could give preferential treatment to RCM or AAM when it comes to placing customers with a PMM, or when reviewing PMM performance. FA addresses in the following manner:

AAM does not provide any advisory services for any FA customers beyond AAM's own customers. FA and its representatives do not recommend AAM to FA's customers, nor does FA allow AAM to solicit business from FA's customers. Because FA does not recommend AAM as a PMM, FA does not conduct any due diligence or performance review of AAM.

RCM provides advisory services to less than ten FA accounts that are not otherwise RCM accounts. Those accounts are the result of prior relationships and do not reflect cross-marketing efforts. If FA or its representatives recommend RCM to serve as a PMM, or if RCM solicits business from FA's customers, such customers will be provided an additional disclosure document that references this potential conflict of interest.

Both RCM and AAM direct most of their brokerage business to FA's brokerage division.

C. This Item is inapplicable.

**Item 7**      *Customer Information Provided to Professional Money Managers*

FA's clearing broker, NFS, provides outside PMMs with information from the customer's suitability questionnaire and customer account form concerning the customer's employment, income and net worth, financial sophistication, risk profile, and investment needs and objectives. IARs are expected to discuss with each customer any changes in the customer's life circumstances, risk tolerance, or investment needs and objectives on at least an annual basis. Any material changes to the customer's life circumstances, risk tolerance, or investment needs and objectives are reported to the PMMs via revised documentation when an IAR learns of such changes, whether that occurs during the annual review or otherwise.

**Item 8**      *Customer Contact With Professional Money Managers*

Customers do not have direct contact with outside PMMs. They may contact FA's IAR when they need information or assistance.

**Item 9**      *Additional Information*

A. Disciplinary Information:

1. FA and its managers have never been convicted of, and are not currently named in, any criminal proceeding alleging commission of a felony, or a misdemeanor involving fraud-related allegations, or conspiracy allegations. FA and its managers have never been found in any civil action to have engaged in fraudulent activities or to have violated any investment-related statutes.



2. On November 28, 2011, the Securities & Exchange Commission (“SEC”) instituted a settled administrative and cease-and-desist proceeding related to F&C’s fee-based investment advisory business d.b.a. Feltl Advisors (“FA”). (This Order has nothing to do with F&C’s affiliated commission-based securities brokerage, which accounts for more than 90% of F&C’s business.) In the Order, the SEC determined that from February 2008 through March 2011, FA did not have adequate written policies, procedures, code of ethics, or supervisory systems in place with respect to its advisory business. The SEC found that such deficiencies resulted in principal trades with advisory customers, and fees and commissions that FA did not disclose. The SEC ordered FA (i) to pay a penalty of \$50,000.00; (ii) to refund \$142,527.00 of commissions and fees to its advisory customers; and (iii) to hire an independent compliance consultant to review FA’s compliance procedures. The Order acknowledges that FA cured many of the deficiencies before the Order was issued. FA has complied with all other requirements in the Order in a timely manner. FA consented to the Order without admitting or denying liability. FA will provide a copy of the SEC Order upon request.
3. FA’s RIA business and its managers have never been found by any self-regulatory organization (“SRO”) to have engaged in fraudulent activities, to have violated any investment-related statutes or industry rules, or to have caused an investment-related business to lose its authorization to conduct business.

B. Code of Ethics, Participation or Interest in Customer Transactions, and Personal Trading:

1. Pursuant to SEC Rule 204A-1, FA has created and adopted a Code of Ethics addressing a variety of topics, including: fiduciary duty and general standards of conduct; personal securities transactions; unethical trading practices; and misuse of material inside information. Upon request, FA will provide a copy of its Code of Ethics to any customer or potential customer.
2. FA may sell proprietary corporate finance products to advisory customers. For a discussion of the conflicts of interest involved in those sales, and how FA addresses those conflicts, see Item 5(E) above.
3. FA, its officers, employees, and IARs may invest in the same securities in which FA’s customers are invested. At times, individual FA personnel may make investments consistent with recommendations being made to customers (*i.e.*, FA personnel buy a particular security at the same time buy recommendations are being made to customers, or sell at the same time sell recommendations are being made to customers). Other times, individual FA personnel may be making investment decisions that are contrary to the recommendations being made to customers (*i.e.*, FA personnel may sell a particular investment at the same time buy recommendations are being made to customers, or buy at the same time sell recommendations are being made to customers). As such, there is a potential that conflicts of interest may arise.

FA has made it very clear to all personnel, in its Code of Ethics and otherwise, that FA and its IARs owe a fiduciary duty to their customers, that the best interest of the customer is paramount, and must always take precedence over the interests of FA and its agents. FA has multiple policies in place to detect, prevent, and remedy these potential conflicts. If the “recommendation” at issue is actually a formal recommendation from F&C’s Research Department, there are rules in place as to when an IAR is allowed to trade a security following a change in recommendation – *i.e.*, customer orders are taken first. If the “recommendation” at issue is simply the IAR’s personal recommendation to the customer, FA has reports that are triggered whenever an IAR trades in the same security on the same day as one (or more) of the IAR’s customers. In that instance, assuming the IAR’s activity is consistent with the customer’s activity, the customer(s) will always get the better price, and the IAR will be assigned the worst price of the day, among his/her customers. If the IAR’s activity is contrary to the customer’s activity (*i.e.*, the IAR is buying when the customer is selling and vice versa), the Compliance Department will contact the IAR to get an explanation for his/her activity. Cross trades between an IAR and a customer are prohibited unless there is a compelling reason, the customer has received adequate disclosure that the contemplated trade is a “cross” with the IAR, the customer understands that there are significant conflicts of interest inherent in any cross, the customer has consented, and the Compliance Department has approved the arrangement in advance of execution. Such requests will be closely scrutinized.

#### C. Review of Accounts:

1. FA reviews all new accounts when they are opened to make sure that appropriate documentation has been obtained, and to verify that the proposed investment strategy is consistent with the customer’s risk profile and stated investment needs and objectives. On a daily basis, a supervisor reviews all trades in AMA and TAA accounts to confirm that the trading is consistent with the customer’s investment needs and objectives. On a quarterly basis, FA reviews reports designed to detect potential concerns in customer accounts.
2. (*See prior paragraph.*)
3. NFS sends the following information to all FA advisory customers: (i) Trade confirmations on every purchase or sale of securities – on AMA and TAA accounts, these confirms are mailed after each trade is executed, while on SMA accounts, a summary of all trades is sent quarterly; (ii) Monthly account statements every month that a customer has activity in the account – if the account has no activity, the customer will receive account statements at least quarterly; and (iii) Quarterly performance reporting. It is important for the customer to compare the trade confirmations with the account statements, and compare the account statements with the quarterly performance reports, to make sure all documents are consistent. The customer should notify FA’s Compliance Department immediately if he/she notices any inconsistencies among the various reports.

D. Customer Referrals and Other Compensation: This Item is inapplicable because FA is not compensated by anyone other than its customers for providing investment advice, FA does not receive compensation for referring customers to other investment advisors, and FA does not pay compensation to any person for referring customers to FA.

E. Financial Information:

1. This Item is inapplicable because FA does not charge advisory fees six months or more in advance.
2. This Item is inapplicable because FA does not exercise discretion in customer accounts, does not have custody of customer funds or securities, and does not charge advisory fees six months or more in advance.
3. This Item is inapplicable because FA has never been the subject of any bankruptcy petition.

**Item 10**      *Requirements for State-Registered Advisors*

This Item is inapplicable because FA is registered with the SEC, and not with any state.