



GRADIENT INVESTMENTS, LLC

AN SEC REGISTERED INVESTMENT ADVISOR



Firm Brochure

(Part 2A of Form ADV)

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This brochure provides information about the qualifications and business practices of Gradient Investments, LLC. Being registered as a registered investment adviser does not imply a certain level of skill or training. If you have any questions about the contents of this brochure, please contact us at: 888-824-3525 or by email at: info@gradientinvestments.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 Gradient Investments, LLC is available on the SEC's website at www.adviserinfo.sec.gov

October 3, 2013

Item 2: Material Changes

Annual Update

The Material Changes section of this brochure will be updated annually or when material changes occur since the previous release of the Firm Brochure.

Material Changes since the Last Update

This update is in accordance with the required annual update for Registered Investment Advisors. Since the last update (06/26/2013) GI has added the Absolute Yield portfolio and removed the Fixed Income - Income Focus Portfolio and Institutional Fund Series Portfolios.

Full Brochure Available

This Firm Brochure being delivered is the complete brochure for the Firm.

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- Charles E. Lucius, CLU®, CHFC®, MSFS - Founder and CEO
- Wayne Schmidt, CFA®, MBA – Chief Investment Officer
- Nathan Lucius – Managing Director and Chief Compliance Officer
- Michael Binger, CFA® - Senior Portfolio Manager

Item 4: Advisory Business

Firm Description

Gradient Investments, LLC, ("GI") is an independent, SEC registered investment advisor. Charles E. Lucius, CLU®, ChFC®, MSFS is a 90% owner, and Nathan Lucius is a 10% owner.

GI provides investment management services to individuals, pension and profit sharing plans, trusts, estates, corporations, charitable organizations, and small businesses. The clients to whom GI provides discretionary management services are often introduced to GI through other registered investment advisor firms operating as independent solicitors for GI.

GI is strictly a fee-only investment management firm. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other products for a commission.

GI does not act as a custodian of client assets. The client always maintains ownership of their assets. GI places trades for clients under a limited power of attorney and withdraws management fees per the Investment Proposal and Contract signed by the client.

Clients work with their independent investment advisor to determine the appropriate GI portfolio based on investment objectives, risk tolerance, and time horizon; however, GI is available throughout the consultation process. GI is only responsible for money allocated to and managed by GI. It is the client's obligation to notify their advisor immediately if circumstances have changed with respect to the goals of the money being managed by GI.

Types of Advisory Services

GI provides investment supervisory services, also known as asset management services, and upon request, GI furnishes investment advice about securities through consultations directly with clients.

Advisory Service Agreement

GI offers ongoing portfolio management services based on the individual goals, objectives, time horizon and risk tolerance of each client. This information is obtained through GI's Risk Tolerance Analysis from which an Investment Proposal and Investment Contract is prepared and presented to the client. GI practices management of portfolios on a discretionary basis unless directed otherwise by the client. Investment services include but are not limited to:

- Investment Strategy
- Asset Allocation
- Asset Selection
- Regular and/or continuous portfolio monitoring

Managed Portfolios

All client portfolios are managed on a discretionary basis unless otherwise noted. GI offers a variety of managed portfolios primarily utilizing no-load mutual funds, exchange traded funds (ETF), individual equities, covered calls, and money market funds. GI may also manage subaccounts within a variable annuity. Based on client circumstances, GI may create, recommend, and manage custom portfolios that fall outside the scope of the GI-managed model portfolios. GI offers the following managed portfolios:

ETF Endowment Series

The Endowment Series utilizes ETFs and gives the individual investor exposure to equity, fixed income and alternative investments. These allocations are modeled after the Super Endowment funds which have been successful providing superior risk-adjusted returns over time. The Endowment Series ETF portfolios have five levels of risk from conservative to growth (A-E).

Fixed Income Program

The two fixed income portfolios utilize fixed income ETFs and mutual funds of varying credit qualities and durations. Total Return is the most conservative fixed income portfolio offered and the National Muni is made up of ETFs and Mutual Funds that invest in muni bonds. GI does its best to ensure the portfolio is state specific where available and appropriate.

Gradient 50 (G50)

The G50 managed stock portfolio utilizes primarily individual stocks with some closed-end funds and ETFs when necessary. Each stock portfolio holds approximately 50 dividend paying stocks and, per the client's request, may hold a percentage of bond funds or ETFs based on the Risk Tolerance Analysis.

Gradient 33 (G33)

The G33 is an actively managed growth portfolio consisting of 33 stocks. The G33 targets 11 small, 11 mid, and 11 large cap stocks but can vary at GI's discretion. The G33 is continuously monitored and stocks that no longer meet our growth criteria will be sold and replaced. The G33 is a long-term growth strategy and will typically be more volatile than the overall US stock market.

Laddered Income

The Laddered Income strategy uses fixed income investments which mature at different intervals and can range from investment grade to high yield at GI's discretion. Individual securities, ETFs, and no-load funds may be used. The goal is to provide stability and cash flow (yield).

Covered Call

The Covered Call portfolio is a unique strategy by which GI writes (sells) call options on some or all of the securities held within the client portfolio, mainly ETFs, and on occasion individual securities.

Controlled Volatility Portfolio (CVP)

The Controlled Volatility Portfolio is an actively managed strategy utilizing a range of sectors and asset classes mainly through ETFs, no load mutual funds, and cash. Those sectors and strategies may include; dynamic allocation funds, long/short funds, managed futures, high yield, emerging markets, and others as our investment team deems appropriate.

Absolute Yield Portfolio

The Gradient Absolute Yield Portfolio is an actively managed strategy. The goal of the portfolio is to produce income/yield through dividends and distributions. The portfolio can invest in a wide variety of globally diverse assets at the discretion of the investment team.

Precious Metals Portfolio

The Precious Metals Portfolio consists of mutual funds, ETFs, and equities that invest in or are linked to the price of metals such as gold, silver, platinum, and several others.

Managed Portfolios Acknowledgement

All portfolios managed by GI involve risk including the potential loss of principal. It is important that you work closely with your investment advisor in selecting the proper allocation and investment strategy for the portion you are allocating to GI. GI will actively manage your account to ensure your investments are in line with your risk tolerance, time horizon and overall financial objectives. GI is not responsible for investments or other products recommended or purchased outside of the GI managed portfolios. Past performance is not an indication of future results.

Sub-manager Arrangement

GI may from time to time enter into sub-manager agreements with other registered investment advisor firms by which GI will pay a fee to that firm for investment consultation. Sub-manager acts as a direct consultant to GI on portfolio strategies and does not have the ability to trade assets or access any private client information. This arrangement in no way alters the custodial relationship that is setup between GI and the custodian.

GI enters into these agreements with advisory firms that bring a unique skill set and level of expertise to the GI investment strategies.

AccountXcelerator

The AccountXcelerator is a service offered to clients for the purpose of expediting the transfer and liquidation of client holdings as documented in the AccountXcelerator Service Agreement. GI will transfer account(s) to the custodian and per the client's instruction will liquidate the securities held within the account(s) and disperse the funds as directed.

Gradient Open Architecture 401(k) Platform

GI provides investment portfolios to all participants primarily made up of mutual funds and ETFs. GI works with the investment advisor, employer, third-party administrator, and custodian to help ensure the investment objectives of the plan participants are achieved and a variety of investment options are available.

Financial Planning

A financial plan is designed to help the client with all aspects of their financial situation.

A financial or investment plan, upon request, may be developed through a series of meetings between GI and the client. At these meetings, the client will elect from the following topics for review and analysis:

- Financial goals and needs analysis
- Analysis of current investments
- Analysis of expenses (present and future)
- Analysis of short/long-term financial goals
- Review of current tax status
- Review of retirement goals
- Asset allocation strategies
- Risk tolerance analysis
- Investment recommendations

The financial and investment planning process covers approximately four to 10 hours of plan development and client meetings. Financial planning services are offered to clients based on a negotiable fixed fee described in Item 5 of this brochure.

Investment Accounts Not Involving Supervisory Services

GI will assist in the opening, closing and transferring of accounts. GI will not have discretion at any time on these accounts. Client is solely responsible for the assets held within the accounts and their values which could increase or decrease (potential loss of principal). GI will liquidate and purchase securities per the client's request as a service to the client. GI will also provide performance reporting on these accounts and can furnish 3rd party analysis reports per the client's request.

Client Tailored Services and Client Imposed Restrictions

The investment objective and risk tolerance for each client is documented in our client relationship management system through our Risk Tolerance Analysis and Investment Proposal and Contract. Clients may impose restrictions on investing in certain securities or types of securities in writing on the Investment Proposal and Contract. These restrictions may, however, prohibit investment in certain GI strategies. Agreements may not be assigned without written client consent.

Wrap Fee Programs

GI does not participate in wrap fee programs.

Client Assets under Management

As of September 30, 2013, GI manages approximately \$379,747,448 in assets for approximately 4,842 accounts. Approximately \$367,410,717 is managed on a discretionary basis and \$12,336,731 is managed on a non-discretionary basis.

Item 5: Fees and Compensation

Method of Compensation and Fee Schedule

GI bases its fees on assets under management and fixed fees.

Managed Portfolios

Fees for the various managed portfolios are as follows:

Fee Schedule for: Gradient 50 – Gradient 33 – Covered Call – Controlled Volatility			
Assets Valuation	Annual Advisory Fee	GI Retention	Solicitor Retention
\$100,000 to \$1,000,000	2.00%	1.00%	1.00%
Next \$1,000,000	1.65%	.80%	.85%
Next \$1,000,000	1.20%	.60%	.60%
Over \$3,000,000	.95%	.45%	.50%

Fee Schedule for: ETF Endowment Series – Laddered Income Fixed Income – Absolute Yield – Precious Metals			
Assets Valuation	Annual Advisory Fee	GI Retention	Solicitor Retention
\$50,000 to \$1,000,000	1.70%	.70%	1.00%
Next \$1,000,000	1.35%	.60%	.75%
Next \$1,000,000	1.00%	.50%	.50%
Over \$3,000,000	.80%	.40%	.40%

Fee Schedule for: Non-managed Accounts			
Assets Valuation	Annual Advisory Fee	GI Retention	Solicitor Retention
All Values	.60%	.30%	.30%

*The minimum quarterly fee billed will be \$25

Advisory fees do not include brokerage (transaction) fees that may be assessed by the custodial broker-dealer (custodian). Custodial fees are offered on a per transaction or a percentage of asset basis when available from the custodian. Advisory fees and custodial fees are separate and distinct. Client is responsible for miscellaneous account fees that may be charged by the custodian which include but are not limited to: overnight fees, ACH fees, account closure fees, reorganization fees, check writing fees, etc. GI may charge an account service and technology/administrative fee of up to \$120 per account annually. All fees paid to GI for investment advisory services are separate and distinct from the internal expenses charged by ETFs, mutual funds, closed-end funds, and variable annuities.

The above fees are negotiable and the final fee schedule will be attached in the investment advisory contract. Fees are assessed quarterly in arrears based on the amount of the assets managed as of the end of the previous quarter. All management fees are withdrawn from the client's account unless otherwise

noted. GI will receive written authorization from the client to deduct advisory fees from an account held by a qualified custodian. GI will send the qualified custodian written notice of the amount of the fee to be deducted from the client's account. All management fees will be noted on the custodian's monthly/quarterly account statements sent directly to the client. Clients may find comparable services for higher or lower fees from other sources. Clients may terminate their account within five days of signing the investment advisory contract with no penalty and a full refund. For terminations that end on other than the last day of the quarter, GI will be entitled to a pro-rata fee for the days service was provided in the final quarter and will bill the client accordingly.

AccountXcelerator

The one-time service fee is based on a percentage of the total value of the account(s). GI will directly debit/charge the client account(s) at the time of liquidation per the following fee schedule:

Total Assets*	Client Fee
\$0 to \$500,000	.50%
\$500,001 to \$999,999	.40%
\$1,000,000 +	.30%

Clients will pay all custodial transactions and miscellaneous account fees as well as a fee to GI for the expedited service.

*Assets will be combined per household to allow client to obtain the maximum fee reduction. Minimum client fee is \$500 per household. Transfers must be completed within 90 days to receive household status. Fee schedule is negotiable on a case-by-case basis, and similar services may be found at a lower cost elsewhere.

Gradient Open Architecture 401(k) Platform

401(k)

GI will provide investment portfolios to all participants primarily made up of mutual funds and ETFs. GI will work with the investment advisor, employer, third-party administrator, and custodian to help ensure the investment objectives of the plan participants are achieved and a variety of investment options are available.

Investment Advisory Services

Investment Review and Analysis

Open Architecture Investment Recommendations	
Plan Assets*	Annual Fees
\$0 to \$3,000,000	.50%
\$3,000,001 to \$5,000,000	.40%
\$5,000,000+	.30%

The above fees are charged at the plan level and do not include any fees charged by the third-party administrator, custodian, or any other RIA firm or entity. Separate account management fees within qualified retirement plans fall under the regular fee schedule as noted in Item 5. All internal fees charged by ETFs, mutual funds and closed-end funds are separate and distinct from the fee schedule listed above. GI does not share in any brokerage commissions. The above fees are negotiable, and the final fee schedule will be attached in the investment advisory agreement. GI does not at anytime act as the custodian or third-party administrator on any employer sponsored plans it renders advice on. Fees are deducted quarterly in arrears and are based on the total asset value as of the last business day of the quarter.

401(k) Investment Analysis and Plan Design

GI will, at the request of the employer, offer 401(k) plan analysis and investment recommendations for a one-time fee of up to \$2,500. The above fees are negotiable,

and the final fee schedule will be attached in the Investment Proposal and Investment Contract. Client will pay 50% upon commencement and the balance due upon analysis and design completion. GI reserves the right to postpone or waive fees. Services will be completed and delivered within six (6) months. Client will have five (5) days to terminate this agreement. For cancellations after 5 days, client will be due a pro-rata refund, or GI will be entitled to a pro-rata share of work completed.

Financial Planning

The fee for a financial plan is based on a negotiated fixed fee with a maximum fee of \$2,500 based on complexity and unique client needs, geographic market differences, and the experience of the advisor preparing the plan. Prior to the planning process the client will be provided an estimated plan fee. Services include but are not limited to a thorough review of all applicable topics including wills, estate plan/trusts, investments, taxes, and insurance. The payments are received in two installments: Half is received at the commencement of the planning process. The balance of the final payment is due upon delivery of the completed plan.

Client Payment of Fees

Fees for asset management are billed quarterly in arrears, meaning we bill you after the three-month billing period has ended. Fees for financial plans are billed 50% in advance, with the balance due upon delivery of the financial plan. All plans will be completed and delivered within six months.

Additional Client Fees Charged

Custodians may charge transaction fees on purchases or sales of certain mutual funds, equities and ETFs. These charges may include mutual fund transaction fees, postage and handling and miscellaneous fees (fee levied to recover costs associated with fees assessed by self-regulatory organizations). These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

GI, in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.).

For more details on the brokerage practices, see Item 12 of this brochure.

Prepayment of Client Fees

Financial planning payments are received in two installments: half is received commencement of the planning process and is refundable based on the pro-rata of work completed. The balance of the final payment is due upon delivery of completed plan. Client may cancel within five (5) business days of signing the Investment Advisory Agreement for a full refund. If cancellation occurs after five (5) business days, client will be entitled to a pro-rata refund based on work completed.

External Compensation for the Sale of Securities to Clients

GI does not receive any external compensation for the sale of securities to clients.

Item 6: Performance-Based Fees

Sharing of Capital Gains

Fees are not based on a share of the capital gains or capital appreciation of managed securities. GI does not use a performance-based fee structure.

Item 7: Types of Clients

Description

GI generally provides investment advice to individuals, pension and profit-sharing plans, trusts, estates, or charitable organizations, corporations, and business entities. Client relationships vary in scope and length of service.

Account Minimums

GI has a minimum account value, per client or household, of \$50,000 for the following portfolio(s): ETF Endowment Series, Laddered Income, Fixed Income, Absolute Yield and Precious Metals. The Gradient 50, Gradient 33, Covered Call and Controlled Volatility have an account minimum of \$100,000. GI at its sole discretion may accept accounts of a lesser value.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategies

Security analysis methods may include fundamental analysis, technical analysis and cyclical analysis.

Fundamental analysis involves evaluating a stock using real data such as company revenues, earnings, return on equity, and profits margins to determine underlying value and potential growth. Technical analysis involves evaluating securities based on past prices and volume. Cyclical analysis involves analyzing the cycles of the market.

The main sources of information include financial publications, corporate activities, research materials prepared by others, corporate rating services, annual reports, prospectuses, financial publications, research prepared by others, filings with the Securities and Exchange Commission, and company press releases.

GI utilizes investment research software in its investment analysis process and selection of securities.

GI may also use outside investment consultants or sub-managers for specific areas of expertise.

Investment Strategy and Method of Analyzing Material Risks

GI actively monitors and manages accounts through our proprietary Wright Investment Strategy focusing on the core principles of risk exposure, investment strategy, and investment performance. Our strategies focus on your unique investment objectives: (e.g. - preservation of principal, income maximization, capital accumulation). Our portfolios are designed to meet your long-term objectives.

Other strategies may include long-term purchases, short-term purchases, trading, and option strategies.

Security-Specific Material Risks

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

Interest-rate Risk: Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.

Market Risk: The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.

Inflation Risk: When any type of inflation is present, a dollar today will buy more than a dollar next year because purchasing power is eroding at the rate of inflation.

Currency Risk: Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.

Reinvestment Risk: This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e., interest rate). This primarily relates to fixed income securities.

Business Risk: These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

Liquidity Risk: Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, treasury bills are highly liquid while real estate properties are not.

Financial Risk: Excessive borrowing to finance a business's operations increases the risk of profitability because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Item 9: Disciplinary Information

Criminal or Civil Actions

The firm and its management do not have any criminal or civil actions to report.

Administrative Enforcement Proceedings

The firm and its management have not been involved in any reportable administrative enforcement proceedings.

Self Regulatory Organization Enforcement Proceedings

The firm and its management have not been involved in legal or disciplinary events related to past or present investment clients.

Item 10: Other Financial Industry Activities and Affiliations

Broker-Dealer or Representative Registration

GI has investment advisor representatives that are registered representatives of Gradient Securities LLC, a broker-dealer.

Futures or Commodity Registration

Neither GI nor its employees are registered or have an application pending to register as a futures commission merchant, commodity pool operator, or a commodity trading advisor.

Material Relationships Maintained by this Advisory Business and Conflicts of Interest

Charles E. Lucius is also founder and CEO of Gradient Advisors, LLC, an SEC registered investment advisor. Gradient Advisors, LLC and GI are affiliated entities. Associated persons of Gradient Advisors may refer clients to GI for investment management services. This creates a conflict of interest as GI would receive compensation through assets under management. This conflict is mitigated by the fact that associated persons of Gradient Advisors maintain a fiduciary duty to their client and must act in the clients' best interest at all times. Clients of Gradient Advisors are not required to use GI as a money manager, and may choose from several other third party money managers Gradient Advisors solicits for.

Charles E. Lucius is also a consultant for Gradient Insurance Brokerage Inc. (GIB). GIB is an Insurance Marketing Organization (IMO) which provides a distribution channel on behalf of insurance companies for independent licensed insurance agents. The independent registered investment advisors/solicitors for GI may also have an outside affiliation through a separate agency (or individually as an agent) for the placement of non-securities products and receive a commission rate which could be higher than traditional investments. In the event an independent agent elects to partner with the IMO Gradient Insurance Brokerage Inc. (GIB), GIB will be compensated directly from the insurance company. The commission structure built into insurance products is predetermined by the insurance companies. The product purchased by the client is issued by the insurance company and the cost to the client is in no way altered by the IMO or the insurance agent involved. Furthermore, the client has no obligation to do business with the advisor/agent. Charles E. Lucius receives consulting compensation from GIB and therefore, a conflict of interest occurs. This conflict is mitigated by the fact that all investment advisor representatives have a fiduciary duty to act in the clients' best interest at all times and independent insurance agents may work with any insurance company and any IMO of their choosing, one of which may be GIB.

Recommendations or Selections of Other Investment Advisors and Conflicts of Interest

The firm and its management do not recommend or select other investment advisors for clients.

Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics Description

The employees of GI have committed to a Code of Ethics ("Code"). The purpose of our Code is to set forth standards of conduct expected of GI employees and addresses conflicts that may arise. The Code defines acceptable behavior for

employees of GI. The Code reflects GI and its supervised persons' responsibility to act in the best interest of their client.

One area in which the Code addresses is when employees buy or sell securities for their personal accounts and how to mitigate any conflict of interest with our clients. We do not allow any employees to use non-public material information for their personal profit or to use internal research for their personal benefit in conflict with the benefit to our clients.

GI's policy prohibits any person from acting upon or otherwise misusing non-public or inside information. No advisory representative or other employee, officer or director of GI may recommend any transaction in a security or its derivative to advisory clients or engage in personal securities transactions for a security or its derivatives if the advisory representative possesses material, non-public information regarding the security.

GI's Code is based on the guiding principle that the interests of the client are our top priority. GI's officers, directors, advisors, and other employees have a fiduciary duty to our clients and must diligently perform that duty to maintain the complete trust and confidence of our clients. When a conflict arises, it is our obligation to put the client's interests over the interests of either employees or the company.

The Code applies to "access" persons. "Access" persons are employees who have access to non-public information regarding any clients' purchase or sale of securities, or non-public information regarding the portfolio holdings of any reportable fund, who are involved in making securities recommendations to clients, or who have access to such recommendations that are non-public.

The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

Investment Recommendations Involving a Material Financial Interest and Conflict of Interest

GI and its employees do not recommend to clients securities in which we have a material financial interest.

Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest

GI and its employees may buy or sell securities that are also held by clients. In order to avoid potential conflicts of interest such as front running of client trades, employees are required to disclose all reportable securities transactions as well as provide GI with copies of their brokerage statements.

The chief compliance officer of GI is Nathan Lucius. He reviews all employee trades each quarter. His trades are reviewed by Charles Lucius. The personal trading reviews ensure that the personal trading of employees does not affect the markets and that clients of the firm receive preferential treatment. Since most employee trades are in products such as mutual funds, government securities, bonds or are small in size, they do not impact the securities markets.

Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest

Gradient Investments does maintain a master/corporate account at each custodian. From time to time GI will place trades and hold securities in the account in an attempt to earn better than money market rates.

In order to mitigate conflicts of interest such as front running, a copy of the custodian statement will be provided to the Chief Compliance Officer for review.

The Chief Compliance Officer of GI is Nathan Lucius. He will review all firm trades each quarter to ensure the trading of GI does not affect the markets and that clients of the firm receive preferential treatment over the firm transactions.

Item 12: Brokerage Practices

Factors Used to Select Broker-Dealers for Client Transactions

Specific custodian recommendations are made to clients based on their need for such services. GI recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

GI may recommend discount brokerage firms and trust companies (qualified custodians), such as Pershing, E-Trade, Scottrade and TD Ameritrade. GI does not receive fees or commissions from any of these arrangements.

Directed Brokerage

In circumstances where a client directs GI to use a certain broker-dealer, GI still has a fiduciary duty to its clients. The following may apply with directed brokerage: GI's inability to negotiate commissions, to obtain volume discounts, disparity in commission charges among clients, and potential conflicts of interests arising from brokerage firm referrals.

Best Execution

Investment advisors who manage or supervise client portfolios on a discretionary basis have a fiduciary obligation of best execution. The determination of what may constitute best execution and price in the execution of a securities transaction by a broker involves a number of considerations and is subjective. Factors affecting brokerage selection include the overall direct net economic result to the portfolios, the efficiency with which the transaction is effected, the ability to effect the transaction where a large block is involved, the operational facilities of the broker-dealer, the value of an ongoing relationship with such broker and the financial strength and stability of the broker.

Soft Dollar Arrangements

GI utilizes the services of several custodial broker-dealers. Economic benefits are received by GI which would not be received if GI did not give investment advice to clients. These benefits include a dedicated trading desk, dedicated service group and account services manager dedicated to GI's accounts, ability to conduct "block" client trades, electronic download of trades, balances and positions, duplicate and batched client statements, and the ability to have advisory fees directly deducted from client accounts.

Advisor participates in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade, Inc., member FINRA/SIPC/NFA ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Advisor receives some benefits from TD Ameritrade through its participation in the Program. (Please see the disclosure under Item 14 below.)

Generally, in addition to a broker's ability to provide "best execution," we may also consider the value of "research" or additional brokerage products and services a broker-dealer has provided or may be willing to provide. This is known as paying for those services or products with "soft dollars." Because many of the services or products could be considered to provide a benefit to the firm, and because the "soft dollars" used to acquire them are client assets, the firm could be considered to have a conflict of interest in allocating client brokerage business: it could receive valuable benefits by selecting a particular broker or dealer to execute client transactions and the transaction compensation charged by that broker or dealer might not be the lowest compensation the firm might otherwise be able to negotiate. In addition, the firm could have an incentive to cause clients to engage in more securities transactions than would otherwise be optimal in order to generate brokerage compensation with which to acquire products and services.

The firm's use of soft dollars is intended to comply with the requirements of Section 28(c) of the Securities Exchange Act of 1934. Section 28(c) provides a "safe harbor" for investment managers who use commissions or transactions fees

paid by their advised accounts to obtain investment research services that provide lawful and appropriate assistance to the manager in performing investment decision-making responsibilities. As required by Section 28(c), the firm will make a good faith determination that the amount of commission or other fees paid is reasonable in relation to the value of the brokerage and research services provided. That is, before placing orders with a particular broker, we generally determine, considering all the factors described below, that the compensation to be paid to TD Ameritrade is reasonable in relation to the value of all the brokerage and research products and services provided by TD Ameritrade. In making this determination, we typically consider not only the particular transaction or transactions, and not only the value of brokerage and research services and products to a particular client, but also the value of those services and products in our performance of our overall responsibilities to all of our clients. In some cases, the commissions or other transaction fees charged by a particular broker dealer for a particular transaction or set of transactions may be greater than the amounts another broker dealer who did not provide research services or products might charge.

Aggregating Securities Transactions for Client Accounts

GI is authorized in its discretion to aggregate purchases and sales and other transactions made for the account with purchases and sales and transactions in the same securities for other clients of GI. All clients participating in the aggregated order shall receive an average share price with all other transaction costs shared on a pro-rated basis.

Item 13: Review of Accounts

Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved

Account reviews are continuously performed by GI's investment team and/or its chief investment officer, Wayne Schmidt CFA. Account reviews are performed more frequently when market conditions dictate. Financial plans are considered complete when recommendations are delivered to the client, and a review is done only upon request of client.

Review of Client Accounts on Non-Periodic Basis

Other conditions that may trigger a review of client's accounts are changes in the tax laws, new investment information and changes in a client's own situation.

Content of Client Provided Reports and Frequency

GI, through its network of independent investment advisors, furnishes quarterly performance reports through an online system, Client Navigator. This system allows clients and advisors to login and run performance reports, holdings reports, asset allocation reports, and much more at their convenience. The custodian will also provide monthly or quarterly holdings reports directly to the client via mail or electronic version.

Item 14: Client Referrals and Other Compensation

Economic benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest

GI does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

As disclosed under Item 12. above, Advisor participates in TD Ameritrade's institutional customer program and Advisor may recommend TD Ameritrade

to Clients for custody and brokerage services. There is no direct link between Advisor's participation in the program and the investment advice it gives to its Clients, although Advisor receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Advisor by third party vendors.

TD Ameritrade may also have paid for business consulting and professional services received by Advisor's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit Advisor but may not benefit its Client accounts. These products or services may assist Advisor in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Advisor manage and further develop its business enterprise. The benefits received by Advisor or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, Advisor endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Advisor or its related persons in and of itself creates a conflict of interest and may indirectly influence the Advisor's choice of TD Ameritrade for custody and brokerage services.

Advisory Firm Payments for Client Referrals

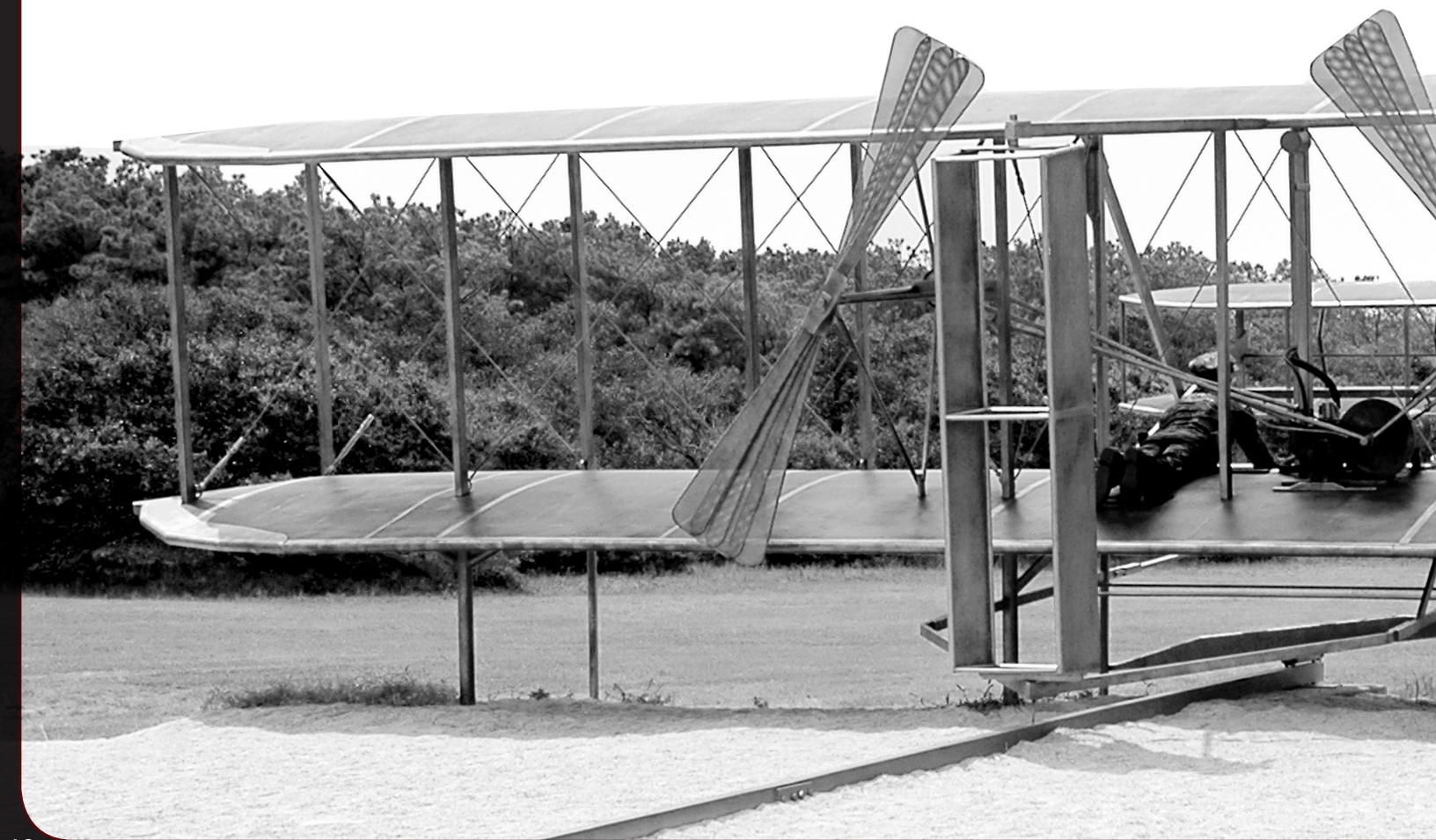
GI may enter into "Solicitor/Finder" relationships. These individual solicitors offer our services to the public. GI pays a referral fee to the solicitor or finder based on its advisory fee and written agreement. Solicitors/finders will also be appropriately registered under federal and state securities laws where applicable. Client receives all related agreements and disclosures prior to or at the time of entering into an Investment Advisory Agreement.

Item 15: Custody

Account Statements

All assets are held at qualified custodians, meaning the custodians provide account statements directly to clients at their address of record or via email notification at least quarterly. Clients are urged to review their account statements received directly from the custodian and compare them to the performance reports prepared by GI.

Advisor is deemed to have indirect custody solely because advisory fees are directly deducted from client's accounts by the custodian on behalf of Advisor per the advisory agreement.



Item 16: Investment Discretion

Discretionary Authority for Trading

GI accepts discretionary authority to manage securities accounts on behalf of clients. GI has the authority to determine, without obtaining specific client consent, the securities to be bought or sold and the amount of the securities to be bought or sold.

The client approves the custodian to be used and the commission rates paid to the custodian. GI does not receive any portion of the transaction fees or commissions paid by the client to the custodian on certain trades.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment strategy that you have approved in writing.

A limited power of attorney is a trading authorization for this purpose. You sign/initial a limited power of attorney and investment proposal/contract so that we may execute the trades that you have approved and withdraw the contractually agreed upon advisory fees.

Item 17: Voting Client Securities

Proxy Votes

GI does not vote proxies on securities. Clients are expected to vote their own proxies. The client will receive their proxies directly from the custodian of their account or from a transfer agent.

When assistance on voting proxies is requested, GI will provide recommendations to the client. If a conflict of interest exists, it will be disclosed to the client.

Item 18: Financial Information

Balance Sheet

A balance sheet is not required to be provided because GI does not serve as a custodian for client funds or securities, and GI does not require prepayment of fees of more than \$1,200 per client and six (6) months or more in advance.

Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients

GI has no condition that is reasonably likely to impair our ability to meet contractual commitments to our clients.

Bankruptcy Petitions during the Past Ten Years

Neither GI nor its management has had any bankruptcy petitions in the last 10 years.



Executive Officers and Management Brochure

(Part 2B of Form ADV)

4105 Lexington Avenue North, Suite 320
Arden Hills, MN 55126

PHONE: (888) 824-3525

FAX: (651) 925-0636

WEBSITE www.gradientinvestments.com

EMAIL: info@gradientinvestments.com

This brochure supplement provides information about the Executive Officers and Management that supplements the Gradient Investments, LLC brochure. You should have received a copy of that brochure. Please contact us at the above address, if you did not receive Gradient Investments, LLC's brochure or if you have any questions about the contents of this supplement.

Additional information about the Executive Officers and Management may be available on the SEC's website at www.adviserinfo.sec.gov.

October 3, 2013

Brochure Supplement (Part 2B of Form ADV)

Education and Business Standards

GI requires each investment advisor who renders investment and financial planning to clients to be an investment advisor representative meeting the registration requirements in their applicable state.

Professional Certifications

Employees have earned certifications and credentials that are required to be explained in further detail.

Chartered Financial Consultant (ChFC):

Chartered Financial Consultants are licensed by the American College to use the ChFC mark. ChFC certification requirements:

- Complete ChFC coursework within five years from the date of initial enrollment
- Pass the exams for all required elective courses. You must achieve a minimum score of 70% to pass.
- Meet the experience requirements: Three years of business experience immediately preceding the date of use of the designation are required. An undergraduate or graduate degree from an accredited educational institution qualifies as one year of business experience.
- Take the Professional Ethics Pledge.
- When you achieve your ChFC designation, you must earn your recertification every two years.

Chartered Life Underwriter (CLU):

Chartered Life Underwriters are licensed by the American College to use the CLU mark. CLU certification requirements:

- Complete successfully CLU coursework 5 required and 3 elective
- Meet the experience requirements: Three years of business experience immediately preceding the date of use of the designation are required. An undergraduate or graduate degree from an accredited educational institution qualifies as one year of business experience.
- Take the Professional Ethics Pledge.
- When you achieve your CLU designation, you must earn 30 hours of continuing education credit every two years.

Chartered Financial Analyst (CFA):

Chartered Financial Analysts are licensed by the CFA Institute to use the CFA mark. CFA certification requirements:

- Hold a bachelor's degree from an accredited institution or have equivalent education or work experience.
- Successful completion of all three exam levels of the CFA Program.
- Have 48 months of acceptable professional work experience in the investment decision-making process.
- Fulfill society requirements, which vary by society. Unless you are upgrading from affiliate membership, all societies require two sponsor statements as part of each application; these are submitted online by your sponsors.
- Agree to adhere to and sign the Member's Agreement, a Professional Conduct Statement, and any additional documentation requested by CFA Institute.



CHARLES E. LUCIUS, CLU®/ChFC®/MSFS
- Founder and CEO



WAYNE SCHMIDT, CFA®/MBA
- Chief Investment Officer



NATHAN LUCIUS
- Managing Director and
Chief Compliance Officer



MICHAEL BINGER, CFA
- Senior Portfolio Manager

Charles E. Lucius, CLU®, CHFC®, MSFS
Founder and CEO

With a deep passion for knowledge, Charles E. “Chuck” Lucius, has earned many degrees and designations, but it was serving as a pilot in the United States Air Force that he found a deeper passion for freedom and the boundless opportunity it affords. Over the course of his career, Chuck has attained the following licenses and/or designations: Series 7, 24, 63, 65, CFP.

In 1975, Chuck began his career in the insurance industry with Prudential Life Insurance Company. He successfully served in the field and in numerous leadership roles to include Estate Planning Specialist, Director of Advanced Marketing, and Director of Fee-Based Financial Planning. Chuck also served as Managing Director overseeing the leading Prudential Agency in Minnesota earning Prudential’s highest honors as the recipient of The President’s Citation.

In 2001, Chuck began his tenure as President and Principal of Personalized Brokerage Services, LLC / USAllianz Securities. Under his leadership, the organization grew to become an industry leader from a group of 15 professionals to a team of over 150 professionals and 200 + Registered Representatives. Annual premium soared under his leadership, and a wealth management business model was created which included fixed annuities, securities, long-term care and life insurance divisions as well as a top-tier practice management program. He earned a reputation for operational excellence.

Currently, Chuck is founder and CEO of Gradient Financial Group and founded Gradient Investments in 2006. His organizations provide a cutting-edge platform which emphasizes his passion for maintaining independence for agents within the financial services industry. Chuck also serves on numerous Insurance Company Leadership Councils.

Chuck resides in North Oaks, Minnesota with his wife Tami and enjoys spending time with his children, Megan, Brian, Nate, Chaz and Cruz. He enjoys spending family time at his lake home as well as personal aviation and furthering his industry knowledge.

Year of birth: 1948

Educational Background:

- The American College; Masters of Science in Financial Services; 1988
- North Dakota State University; BS Psychology; 1970
- U.S. Air Force Pilot; 1970-1975

Business Experience:

- Luson Capital, LLC; Owner; 2013-Present
- KonnexME, LLC; Owner 2012-Present
- Gradient Advisors, LLC; Owner/CEO; 2009-Present
- BZ Inc.; Owner; 2009-2013
- RIA Registrar, LLC; Owner; 2006-Present
- Gradient Investments, LLC; Owner/CEO; 2006-Present
- Gradient Insurance Brokerage, Inc.; Consultant; 2005-Present
- A Street, LLC; Owner; 2005-Present
- J Street, LLC; Owner; 2005-2013

Disciplinary Information: None to report

Other Business Activities: Chuck is a consultant to Gradient Insurance Brokerage Inc. (GIB), an insurance wholesaling company and owner of Gradient Advisors LLC, a registered investment advisor.

Additional Compensation: The independent registered investment advisors/solicitors for GI may also have an outside affiliation through a separate agency (or individually as an agent) for the placement of non-securities products and receive a commission rate which could be higher than traditional investments. In the event an independent agent elects to partner with the IMO Gradient Insurance Brokerage Inc. (GIB), GIB will be compensated directly from the insurance company. The commission structure built into insurance products is predetermined by the insurance companies and is not altered by the IMO. The product purchased by the client is issued by the insurance company and is no way altered by the IMO or the insurance agent. Furthermore, the client

has no obligation to do business with the advisor/agent. Charles Lucius receives consulting compensation from GIB and therefore, a conflict of interest occurs. This conflict is mitigated by the fact that all investment advisor representatives have a fiduciary duty to act in the clients’ best interest at all times and independent insurance agents may work with any insurance company and any IMO of their choosing, one of which may be GIB.

Associated persons of Gradient Advisors may refer clients to GI for investment management services. This creates a conflict of interest as GI would receive compensation through assets under management. This conflict is mitigated by the fact that associated persons of Gradient Advisors maintain a fiduciary duty to their client and must act in the clients best interest at all times. Clients of Gradient Advisors are not required to use GI as a money manager and may choose from several other third party money manager’s Gradient Advisors solicits for.

Wayne Schmidt, CFA®, MBA
Chief Investment Officer

In October 2008, Wayne Schmidt, CPA®, MBA joined Gradient Investments, LLC and serves as Chief Investment Officer. With 26 years of investment experience, Wayne brings decades of institutional experience and in-depth knowledge of the private client market to Gradient Investments, and offers a global investment management perspective. Wayne is an invaluable and direct resource for affiliated investment advisors and their clients. He provides vast wisdom, knowledge, experience and tools to help investment advisors grow their practice, while also growing clients’ assets.

In a nationwide search that included acquisition considerations, AXA Investment Managers, a subsidiary of the European insurance giant AXA Group, handpicked Wayne to build their U.S investment grade fixed income capabilities and to lead a seasoned portfolio team located in St. Paul, Minnesota. During his tenure at AXA Investment Managers, Wayne served as senior portfolio manager for the U.S. Investment Grade Fixed Income Team. As the lead portfolio manager, he managed \$9.5 billion of fixed income assets with a variety of mandates ranging from aggregate, corporate and government bond portfolios.

Before joining AXA Investment Managers, Wayne dedicated over 20 years to Minnesota Life and its \$14 billion investment arm, Advantus Capital Management. As portfolio manager, he managed a variety of high-grade funds as part of Advantus’s \$1.8 billion Total Return Product for institutional and retail clients. He also served as the lead portfolio manager of the Advantus Bond Fund and the co-portfolio manager of the Advantus Spectrum Fund.

Wayne earned his Master of Business Administration in Finance from the University of Minnesota and a Bachelor of Science from Cornell University. He is a Chartered Financial Analyst® and a member of The Chartered Financial Analyst Institute and the Twin Cities Society of Security Analysts.

Over the years, Wayne has been quoted on the global economy in numerous nationally and internationally recognized investment publications such as Bloomberg, Pension & Investments, Reuters, The Los Angeles Times, Financial Week (2008 Neal Award Winner), Asia Times, InvestorVillage, Safehaven, SFO, Credit Investment News and RGE Monitor (Nouriel Roubini’s Global EconoMonitorinvestment). He has also provided market insights on Bloomberg radio and television.

Wayne’s love of Minnesota is Gradient Investments’ great fortune, as he declined to relocate with AXA Investment Managers following their strategic decision to consolidate function into the high-yield operation in Greenwich, Connecticut. Wayne resides in Lakeville, Minnesota with his wife Sue. Wayne and Sue have two children, Heidi and Brian.

Year of birth: 1955

Educational Background:

- University of Minnesota; MBA, Finance; 1991
- Cornell University; Bachelor of Science; 1977

Business Experience:

- Gradient Investments, LLC; Chief Investment Officer; 2008-Present
- Gradient Insurance Brokerage, Inc.; Senior Vice-President; 2008-2009
- AXA-Investment Managers, Inc.; Portfolio Manager; 2003-2008
- Mimlic Imperial Corp.; Portfolio Manager; 2003-2008
- Securian Financial Services, Inc.; Registered Representative; 1984-2003
- Advantus Capital Management Co.; Assistant Secretary; 1984-2003
- Minnesota Life Insurance; Assistant Treasurer; 1979-2003
- Dataplan Securities, Inc.; Registered Representative; 1986-1992

Disciplinary Information: None to report

Other Business Activities: None to report

Additional Compensation: None to report

Supervision: Wayne Schmidt's advisory activities are supervised by Nathan Lucius, Chief Compliance Officer. He reviews Wayne Schmidt's advisory work through frequent office interactions. Nathan Lucius also reviews Wayne Schmidt's activities through our client relationship management system. Nathan Lucius's contact information: Tele: (888) 824-3525, Email: nlucius@gradientinvestments.com

Nathan Lucius

Managing Director and Chief Compliance Officer

Nathan serves as the Managing Director and Chief Compliance Officer of Gradient Investments, LLC. He oversees the day-to-day business operations, staff development, marketing, compliance and the overall growth of the firm.

As Managing Director, he is accountable to plan and execute the firm's internal and external operational infrastructure leveraging overall growth opportunities for the firm and its affiliated advisors. As Chief Compliance Officer, Nathan oversees the compliance and supervisory responsibilities and is accountable for oversight ensuring that all internal policies, procedures, standards of conduct and ethical principals are adhered to relative to SEC regulations.

Nathan has held various leadership roles within Gradient Investments, which include New Advisor Development, Investment Consultant and Assistant Portfolio Manager. Under his guidance, Gradient Investments has grown to a team of 17 professionals managing over \$350 million of client assets.

Nathan boasts a broad knowledge of the financial services industry and has been a featured guest on several financial radio shows. His knowledge spans across the insurance and securities spectrum. He has held key roles at Registered Independent Advisors, State Farm, Morgan Stanley, and American Financial Marketing.

Since the inception of Gradient Investments, Nathan has dedicated himself to providing affiliated advisors and their clients with a comprehensive money management platform that is actively managed, results oriented, progressive and sustainable long term. He holds his Series 65 and earned his undergraduate degree in business from the University of Colorado and an MBA from the University of St. Thomas in Minneapolis, MN.

Year of birth: 1983

Educational Background:

- University of St. Thomas; MBA; 2013
- University of Colorado; BS Major in Marketing; 2006

Business Experience:

- Luson Capital, LLC; Owner; 2013-Present
- Gradient Investments, LLC; Managing Director/Chief Compliance Officer; 2008-Present
- Gradient Insurance Brokerage, Inc.; Vice President of Marketing; 2006-2009
- Registered Independent Advisors; Vice President of Marketing; 2006-2009
- Morgan Stanley; Business Consultant, 2006-2006
- American Financial; Business Consultant; 2005-2006

Disciplinary Information: None to report

Other Business Activities: None to report

Additional Compensation: None to report

Supervision: Nathan Lucius is supervised by Charles Lucius. He reviews Nathan Lucius's work through frequent office interactions. He also reviews Nathan Lucius's activities through our client relationship management system. Charles Lucius's contact information: Tele: (888) 824-3525, Email: clucius@gradientinvestments.com.

Michael Binger, CFA® - Senior Portfolio Manager

Chief Financial Officer

Michael Binger, CFA®, serves as the senior portfolio manager for Gradient Investments, LLC. Binger brings over 24 years of institutional equity investment experience to Gradient Investments and its affiliated advisors and clients. He has extensive experience working directly with financial advisors designing and actively managing portfolios. Binger has successfully invested in numerous market and economic cycles giving him a level and depth of experience that is rare in this industry.

Binger started his investment career in Minneapolis, Minnesota with Lutheran Brotherhood in 1987 and gained experience managing assets in a variety of asset classes including convertible bonds, small cap equities, and large cap equities. When Lutheran Brotherhood and Aid Association for Lutherans merged in 2001 to become Thrivent Financial, Binger was selected to work as the senior portfolio manager on the Large Cap Growth team and Large Cap Alpha Team managing over \$3 billion in assets. As the senior portfolio manager, he developed and oversaw the tactical investment strategies utilized within mutual funds, variable annuities, pension funds and insurance company products. These investment processes included proprietary portfolio construction strategies, security selection parameters and volatility controlled umbrellas.

Binger graduated from the University of Minnesota earning a Bachelor of Science in Business Administration-Finance. He graduated with honors and was the University of Minnesota's "Wall Street Journal Award Winner." Binger is a CFA® and a member of The Chartered Financial Analyst Institute and the Twin Cities Society of Security Analysts.

Binger's media highlights include numerous appearances, providing market insight on CNBC, Bloomberg TV and Bloomberg Radio. He has also been quoted in The Wall Street Journal, Barron's, Smart Money, Reuters, Business Week and numerous other local, national, and global investment publications.

Year of birth: 1960

Educational Background:

- University of Minnesota; Bachelor of Science in Finance; 1987

Business Experience:

- Gradient Investments, LLC; Senior Portfolio Manager; 2012 - Present
- Thrivent Financial for Lutherans; Senior Portfolio Manager; 1987 - 2011

Disciplinary Information: None to report

Other Business Activities: None to report

Additional Compensation: None to report

Supervision: Michael Binger's advisory activities are supervised by Nathan Lucius, Chief Compliance Officer. He reviews Michael's advisory work through frequent office interactions. Nathan Lucius also reviews Michael's activities through our client relationship management system. Nathan Lucius's contact information: Tele: (888) 824-3525, Email: nlucius@gradientinvestments.com



GRADIENT
INVESTMENTS, LLC
AN SEC REGISTERED INVESTMENT ADVISOR

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