

## ADV PART 2A AND APPENDIX 1

### ITEM 1 – COVER PAGE

#### Cetera Investment Management LLC

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September 30, 2013

This Brochure provides important information about Cetera Investment Management LLC (Firm, us, our, or we). You should use this Brochure to understand the relationship between you, the Firm, and your investment adviser representative (Advisor). If you have any questions about the contents of this Brochure, please contact Bryan Jacobsen, Chief Compliance Officer for Cetera Investment Management, at the address listed above or by calling 310.257.7546.

The Firm is registered with the Securities and Exchange Commission (SEC) as a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The information in this Brochure has not been approved nor verified by the SEC or by any state securities authority.

Additional information about the Firm is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (select "investment adviser firm" and type in our name).



## ITEM 2 – MATERIAL CHANGES

On November 15, 2011, we established and registered Cetera Investment Management LLC. The purpose of Cetera Investment Management is to provide portfolio advice to related broker-dealers and registered investment advisers. We may, at any time, update this Brochure.

On April 17, 2013, we became the Model Provider and Strategist for the Mutual Fund/Exchange-Traded Funds Advisory Programs sponsored by related registered investment advisory firms. The Mutual Fund/Exchange-Traded Funds Advisory Programs are wrap fee programs.

On September 30, 2013, we became the Model Provider for Managed Wealth ADVANTAGE (MWA), a wrap fee program sponsored by a related registered investment advisory firm.

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## ITEM 4 – ADVISORY BUSINESS

Cetera Investment Management LLC was established and registered on or about November 15, 2012 to provide portfolio advice to the firm's related broker-dealers and registered investment advisers.

Cetera Investment Management provides advice that is non-discretionary in nature. The firm is not involved in implementing or entering trades based on its advice. Cetera Investment Management provides the following services:

- asset allocation services
- model portfolios
- access to its list of highest conviction mutual funds

We are wholly owned by Cetera Financial Group, Inc. Please refer to Item 10 of this Brochure for more information on our corporate structure.

### **Firm-Advised Programs**

#### **Mutual Fund/Exchange Traded Funds Advisory Programs Sponsored by our Affiliated RIAs**

Cetera Investment Management LLC's affiliated registered investment advisory or RIA firms (Program Sponsors) offer separate portfolio management services known as the Mutual Fund/Exchange Traded Funds Advisory Program (MF/ETF Program). As of April 17, 2013, we are responsible for making a set of tactical model portfolios of securities (Tactical Portfolios) and a set of passive model portfolios of securities (Passive Portfolios) (the Tactical Portfolios and the Passive Portfolios collectively referred to as the (Portfolios)) available to clients of the Program. As such, we act as the Model Provider to those Programs.

As Model Provider, we may add or remove one or more Tactical Portfolios or Passive Portfolios from the Programs from time to time. Once a client has determined the preference for either Tactical Portfolios or Passive Portfolios for a Program, the Program Sponsor will recommend a Portfolio that is consistent with a client's Asset Allocation Model, choosing from the applicable set of Portfolios made available by us for the Program. With respect to your designated Portfolio, as Model Provider, we will independently select the mutual funds and/or exchange traded funds (ETFs) as a provider (Strategist) of model portfolio design services to the Program or, in our sole discretion, we may authorize a third-party investment adviser to provide such services as a Strategist to the Program. In either case, the fees payable to us and/or our affiliates with respect to the applicable set of Portfolios will be the same and levelized, and the cost for any third-party investment adviser's services as a Strategist shall be incurred by and charged to us and/or our affiliates. In addition to our portfolio design services, Wilshire, Sage, and UBS currently serve as Strategists for the MF/ETF Program. Each Program Sponsor, and not us nor any other Strategist, make the investment decisions for client accounts under the MF/ETF Program. Wilshire, Sage and UBS are Registered Investment Advisers that are not affiliated with us.

As a Strategist, we make Portfolios developed by us available to the Program. As a Model Provider, in our discretion, we may also authorize non-affiliated Strategists to provide Portfolios to the Program. Since the costs for the use of any non-affiliated Strategist's Portfolios would be incurred by us and/or our affiliates, reducing our and/or our affiliates' net compensation, we and/or our affiliates may have a financial incentive to limit the use of non-affiliated Strategists. We mitigate this risk by supervising the suitability of the Tactical Portfolios and Passive Portfolios made available under the Program and our affiliates' mitigate this risk by supervising the suitability of the selected Portfolios against the client's goals and objectives.

#### *Investment Management Philosophy*

The Mutual Fund / Exchange Traded Funds Advisory Program provides clients with the opportunity to participate in an asset allocation program using either a tactical model, a strategic model, or a combination of tactical and strategic models.

#### *Strategic Asset Allocation*

Strategic asset allocation is a portfolio strategy that involves the periodic rebalancing of the portfolio in order to maintain a long-term goal of a chosen asset allocation mix. The initial investments are chosen based on expected returns and risk tolerance. Because the value of the assets can change based on market conditions, the portfolio constantly needs to be re-adjusted to meet the policy. This is often called rebalancing, and may be done at regular intervals.

The Strategist does not purposely deviate from the original determined asset allocation percentages. The emphasis is on preserving this initial chosen asset allocation mix because the mix ultimately relates to a larger performance objective based on historical data.

### *Tactical Asset Allocation*

Tactical asset allocation is a portfolio strategy that involves the rebalancing of assets held in various categories in order to take advantage of market pricing anomalies or strong market sectors, as chosen by the portfolio managers. This strategy allows the Strategist the opportunity to try and create extra value by taking advantage of these potential situations in the markets. It is a moderately active strategy and may use short-term trading methods.

The investment philosophy is usually based on the belief that investor psychology and market forces can lead to periods of misvaluation. A tactical allocation process attempts to capture these misvaluations. It is not a fixed asset weight mix and the allocation and risk level of the portfolio may change quite dramatically.

For information about the MF/ETF Programs sponsored by our affiliate RIAs, including information about the Program's proposal process, trading authorization, minimum account balance, trade confirmations, and quarterly performance reports, please refer to the Form ADV Part 2A for the Program Sponsors.

### **Portfolio Advisory Services**

We advise two asset management programs: Portfolio Advisory Services and Managed Wealth ADVANTAGE, which are two managed money programs sponsored and managed by a related registered investment adviser.

Portfolio Advisory Services offers passively-managed asset allocations based on clients' assessed risk tolerance using primarily institutional mutual funds from Dimensional Fund Advisors (DFA). We provide asset allocation and portfolio advice as part of the Investment Committee supporting Portfolio Advisory Services.

Managed Wealth ADVANTAGE (MWA) is a discretionary wrap fee program that offers investments in mutual funds and exchange-traded funds (collectively, "Funds"). Funds from several investment companies are available. We act as the Model Provider for MWA and develop the asset allocation models offered in the program. We also independently select and add or remove the mutual funds and/or exchange traded funds that is made available through the Program ("Available Funds"). We do not however make the investment decisions for client accounts under the MWA Program.

### **Strategic and Tactical Model Portfolios**

We also provide strategic and tactical model portfolios across the five traditional risk tolerance profiles – Conservative Income, Balanced, Moderate Growth, Growth, and Aggressive Growth. Each portfolio has a broad equity/fixed income asset allocation based on risk tolerance level.

The Strategic and Tactical Model Portfolios are based on certain key principles. First, we believe that diversified portfolios provide a prudent approach to achieving long-term investment goals. Second, we believe that many different investment strategies can be valuable if implemented in a consistent, disciplined manner. Finally, we believe that top quartile performance over a complete market cycle is achievable by outperforming blended benchmarks by 2% per annum, although there is no guarantee we will achieve our objective.

## **ITEM 5 – FEES AND COMPENSATION**

Cetera Investment Management's fees depend on the nature of the services it provides. Generally, Cetera Investment Management is paid on a negotiated percentage of assets managed or administered by its client firms. For its services in the Mutual Fund/Exchange Traded Funds Program, the Firm receives a strategist fee that is based on assets invested in the Model Portfolios it offers as a Strategist. The Firm does not receive any compensation for its services as Model Provider.

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

We do not participate in any programs that charge performance-based fees.

## ITEM 7 – TYPES OF CLIENTS

The Firm offers its investment consulting services to related broker-dealers and registered investment advisers.

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

The Firm may use various methods of analysis and investment strategies to formulate our investment advice. We describe these methods and strategies in this Item. Investing involves the potential risk of loss that investors should be prepared to bear.

To construct our Strategic and Tactical Model Portfolios, we engage in a multi-step process. First, we establish strategic asset allocation weights for each investment objective/profile using methods such as mean variance optimization and mean reversion methodology. Mean variance optimization is a quantitative modeling process used to determine the optimal allocation of investments in different asset classes to maximize the trade-off between risk and return. With regard to investing, mean reversion is a theory that suggests that prices and returns eventually revert back to their long-term averages.

Next, we modify our strategic asset allocations to arrive at tactical asset allocation weights. We do this by considering near-term market perspectives and valuation, fundamentals, and momentum inputs and allocating to alternative strategies. Third, we choose mutual funds and construct final portfolios. Lastly, we monitor portfolios and underlying mutual funds.

### **Mutual Fund Selection and Monitoring**

In selecting investment options for the Portfolios, we seek to develop and maintain a broad universe of investment vehicles to provide flexibility and choice in asset allocation and portfolio construction. All investment vehicles in the Portfolios will be subject to the same guideline criteria. Investment options may not meet all criteria at all times.

We use the same process to evaluate and retain mutual fund selections. First, we engage in initial screening and a quantitative analysis. Next, we complete a qualitative analysis. Third, we consider timing factors. Lastly, we review selections with our Investment Committee.

### **Ongoing Monitoring and Replacement**

The underlying mutual funds and overall portfolio is reviewed daily, quarterly and annually. A mutual fund may be removed from the portfolio if it no longer meets the basic criteria for inclusion.

## ITEM 9 – DISCIPLINARY INFORMATION

The firm has no disciplinary events to disclose.

## ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Cetera Investment Management is part of Cetera Financial Group, Inc. Cetera Financial Group, Inc. has a network of independent broker-dealers, investment advisers registered with the SEC, and general insurance agencies.

Cetera Investment Management is wholly owned by Cetera Financial Group, Inc., which is wholly owned by Cetera Financial Holdings, Inc. Cetera Financial Holdings, Inc. is principally owned by Lightyear Fund II, L.P., a private equity investment fund advised by Lightyear Capital LLC.

Lightyear Capital is a New York-based private equity firm, formed in 2000, that specializes in investing in financial service companies. For a more detailed description of Lightyear Capital, please visit [www.lycap.com](http://www.lycap.com).

## ITEM 11 – CODE OF ETHICS

We are committed to providing brokerage services and/or investment advice with the utmost professionalism and integrity.

To help us avoid potential conflicts we have developed a Code of Ethics designed to protect our professional reputation and comply with federal or other applicable securities laws. Our Code of Ethics may be summarized as follows:

## **Personal Investing by Firm Employees**

Our employees may purchase or sell the same security that they recommend to a client. This type of trading activity creates a conflict because an employee's transaction may receive a better price than your transaction. To help mitigate this potential conflict, we routinely review our employees' personal trading activity. Our Code of Ethics also places restrictions on personal trading activities. This prohibition includes a prohibition on trading based on non-public information.

Also, employees may not purchase securities in an initial public offering or participate in a private placement without our written approval.

## **Personal Holdings and Transaction Reporting**

Employees submit quarterly reports of the securities transactions purchased and/or sold in their personal accounts during the prior quarter. On an annual basis, employees submit a report to us with all the securities that they currently own. Certain investments are not required to be reported to us by the employees, such as mutual funds holdings and securities issued by the Government of the United States. A list of securities and investments that are not required to be reported is located within our complete Code of Ethics.

You may request a copy of our Code of Ethics at any time by contacting Bryan Jacobsen, Chief Compliance Officer for Cetera Investment Management, by calling 310.257.7546.

## **ITEM 12 – BROKERAGE PRACTICES**

We do not enter any trades on behalf of our clients. Any portfolio advice provided is given to our clients or any overlay manager contracted with our clients.

## **ITEM 13 – REVIEW OF ACCOUNTS**

Our recommended portfolios and underlying mutual funds and overall portfolios are reviewed daily, quarterly and annually. A mutual fund may be removed from the portfolio if it no longer meets the basic criteria for inclusion.

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

We do not have any solicitors. We do not receive any other compensation.

## **ITEM 15 – CUSTODY**

We do not have physical or constructive custody for any client funds.

## **ITEM 16 – INVESTMENT DISCRETION**

The Firm does not have investment discretion over any client accounts.

## **ITEM 17 – VOTING CLIENT SECURITIES (I.E., PROXY VOTING)**

The Firm does not vote proxies on behalf of any client.

## **ITEM 18 – FINANCIAL INFORMATION**

We do not take prepayment of more than \$1,200 in fees, six months or more in advance or have a financial condition that could impair our ability to meet our contractual obligations. Therefore, we are not required to provide our audited balance sheets.