



## **Form ADV Part 2A: Appendix – Wrap Fee Program Brochure**

### **Item 1 – Cover Page**

**Phillips and Company Advisors, LLC**

1300 SW Fifth Ave., Suite 2100

Portland, OR 97201

503-224-0858

[www.phillipsandco.com](http://www.phillipsandco.com)

Date of Disclosure Brochure: June 6, 2013

---

This **Wrap Fee Program Brochure** provides information about the **Investor Advantage Program** sponsored by Phillips and Company Advisors, LLC (also referred to as we, us and Phillips Advisors throughout this disclosure brochure). If you have any questions about the contents of this disclosure brochure, please contact Joe Harper at 503-224-0858. The information in this disclosure brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Phillips Advisors is also available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can view our firm's information on this website by searching for Phillips and Company Advisors, LLC or our firm's CRD number 35800.

\*Registration as an investment adviser does not imply a certain level of skill or training.

## Item 2 – Material Changes

On July 28, 2010, the United States Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that Phillips Advisors provides to clients as required by applicable rules and regulations. This disclosure brochure is a new document prepared according to the new requirements and rules. As such, this document is materially different in structure and requires certain new information about the Investor Advantage Program that the previous Form ADV Part II, Schedule H did not require.

We will ensure that you receive a summary of any material changes to this and subsequent disclosure brochures within 120 days after our firm’s fiscal year ends. Our firm’s fiscal year ends on June 30, so you will receive the summary of material changes no later than September 30 each year. At that time we will also offer or provide a copy of the most current disclosure brochure. We may also provide other ongoing disclosure information about material changes as necessary.

## Item 3 – Table of Contents

Item 2 – Material Changes .....	2
Item 3 – Table of Contents .....	2
Item 4 – Services, Fees and Compensation .....	3
Brokerage, Clearing and Custody .....	5
Aggregation of Client Orders .....	6
Trade Error Policy .....	7
Custody .....	7
Program Fees .....	7
Other Fees .....	8
Additional Compensation, Economic and Non-Economic Benefits .....	8
Termination of Services .....	8
Item 5 – Account Requirements and Types of Clients .....	9
Opening an Account .....	9
Types of Clients .....	9
Item 6 – Portfolio Manager Selection and Evaluation .....	9
General Description of Other Advisory Services .....	9
Lockwood Advisors Management Program .....	9
Concentrated Investment Management Account Services .....	9
Pension Consulting Services .....	9
Advice on Certain Types of Investments .....	10
Participation in Wrap Fee Programs .....	10
Performance-Based Fees and Side-By-Side Management .....	10
Client Assets Managed by Phillips Advisors .....	11
Methods of Analysis .....	11
Investment Strategies .....	12
Risk of Loss .....	12
Voting Client Securities .....	14
Legal Actions .....	14
Item 7 – Client Information Provided to Portfolio Managers .....	14
Item 8 – Client Contact with Portfolio Managers .....	15
Item 9 – Additional Information .....	15
Disciplinary Information .....	15

Code of Ethics Summary .....	16
Affiliate and Employee Personal Securities Transactions Disclosure .....	16
Account Reviews and Reviewers .....	17
Statements and Reports .....	17
Client Referrals and Other Compensation .....	17
Financial Information .....	18

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

Phillips Advisors sponsors the *Investor Advantage Program* (referred to as “Program”). The Program is a wrap-fee program. Only investment advisor representatives of Phillips may serve as portfolio managers in the Program. Therefore, participants in the Program must be advisory clients of Phillips Advisors.

Phillips Advisors is an investment adviser registered with the United States Securities and Exchange Commission (“SEC”) and is a limited liability company (LLC) formed under the laws of the State of Delaware.

- Timothy C. Phillips is the Chief Executive Officer (CEO) of Phillips Advisors. Timothy C. Phillips owns 100.00% of Phillips Advisors.
- Phillips Advisors has been registered as an investment adviser since October 2011. Prior to that time, beginning in 2004, the personnel of Phillips Advisors conducted advisory business through Phillips & Company Securities, Inc. in its former capacity as a registered investment adviser. In October 2011, we formed Phillips Advisors and registered the new company as an investment advisor.

Through the Program, we provide investment supervisory services defined as giving continuous investment advice to a client and making investments for the client based on the individual needs of the client.

The investment advisory services of Phillips Advisors are provided to you through an appropriately licensed and qualified individual who is an investment adviser representative of Phillips Advisors (referred to as your investment adviser representative throughout this brochure). Your investment adviser representative is limited to providing the services and charging investment advisory fees in accordance with the descriptions detailed in this brochure. However, the exact services you receive and the fees you will be charged will be specified in your advisory services agreement.

We provide Program services through a partnership with Lockwood Advisors, Inc. (referred to as “LA”). LA is an investment advisory firm registered with the SEC, but not affiliated with Phillips Advisors.

As the sponsor, we provide an extensive range of investment advisory services through Program. These services may include:

- Assessment of the client’s investment needs and objectives;
- Development of an asset allocation strategy designed to meet the client’s objectives;
- Recommendations on suitable style allocations;
- Identification of appropriate investments and investment vehicles suitable given the client’s goals;

- Evaluation of investments meeting style and allocation criteria;
- Review of client accounts to ensure adherence to policy guidelines and asset allocation;
- Recommendations for account rebalancing, if necessary;
- Online and paper reporting of client account(s) performance and progress; and
- Fully integrated back office support systems to advisers, including custody, trade execution, and confirmation and statement generation, through Pershing.

We provide some or all of the above referenced investment advisory services. Though all of the above referenced services may be offered, services offered are based on the type of account and your individual situation.

We will obtain from you information to determine your financial situation and investment objectives. Accounts are managed on the basis of your financial situation and investment objectives. At least quarterly, you will be instructed to notify us whether your financial situation or investment objectives have changed, or if you want to impose and/or modify any reasonable restrictions on the management of your accounts. At least annually, your investment adviser representative will contact you to determine whether your financial situation or investment objectives have changed, or if you want to impose and/or modify any reasonable restrictions on the management of your accounts. Your investment adviser representative is always reasonably available to consult with you relative to the status of your accounts. You have the ability to impose reasonable restrictions on the management of your accounts, including the ability to instruct us not to purchase certain securities. Your beneficial interest in a security does not represent an undivided interest in all the securities held by the custodian, but rather represents a direct and beneficial interest in the securities which comprise your accounts. A separate account is maintained for you with the custodian and you retain right of ownership of the account (e. g. right to withdraw securities or cash, exercise or delegate proxy voting, and receive transaction confirmations).

Upon establishment of a Program account, your investment adviser representative will be granted trading authorization over your account. Accounts managed through the Program are typically done so on a discretionary basis. However, at your request, we will manage Program accounts on a non-discretionary basis. You must opt-in to provide us with the ability to manage accounts on a discretionary basis. The opt-in of such authority must be memorialized in the *Investor Advantage Client Agreement*. This authority allows us to determine the type of securities and the amount of securities that can be bought or sold for the client portfolio without obtaining the client's consent for each transaction.

#### **Administrative Services Provided by Lockwood Advisors**

We have contracted with LA to utilize LA technology platforms to support performance reporting, fee calculation, investment research and billing. Pershing, LA's parent company will be responsible for delivering account statements and confirmations. Lockwood provides access to account management systems which allow us to view and administer all Program accounts. Lockwood may be given authorization to accept and process trade instructions from our firm.

#### **Suitability and Investment Strategy**

Your investment advisor representative will work with you to determining your objective(s), investment strategy, and investment suitability, prior and subsequent to opening a Program account. You must contact your investment adviser representative to advise us of any changes to your investment objective(s) and/or financial situation.

Client portfolios developed through the Program may be constructed by your investment advisor representative or may be developed by the Phillips Investment Committee. We will agree, in writing, to a

particular investment portfolio. Numerous model portfolios are developed by the Phillips Investment Committee at any one time, but generally speaking, portfolios will be designed based on the following objectives: Current Income, Growth & Income, Conservative Growth, Moderate Growth, and Growth. Depending on your individual needs, investment recommendations will be made in, but not necessarily limited to, no-load mutual funds, funds at NAV, equity positions, fixed income positions, municipal securities and U.S. government securities.

Phillips Advisors' advisory services are always provided based on your individual needs. This means, for example, that when we provide asset management services, you are given the ability to impose restrictions on the accounts we manage for you, including specific investment selections and sectors. We work with you on a one-on-one basis through interviews and questionnaires to determine your investment objectives and suitability information.

We will not enter into an investment adviser relationship with a prospective client whose investment objectives may be considered incompatible with our investment philosophy or strategies or where the prospective client seeks to impose unduly restrictive investment guidelines.

### **Brokerage, Clearing and Custody**

Our affiliated broker/dealer, Phillips & Company Securities, Inc. ("Phillips & Company"), is used as the broker/dealer for all Program accounts. Our advisor representatives are also registered securities representatives of Phillips & Company and are required to use the services of Phillips & Company and Phillips & Company's approved clearing broker-dealer when acting in their capacity as registered representatives. Phillips & Company serves as the introducing broker-dealer. All accounts established through Phillips & Company will be cleared and held at Pershing, LLC which acts as the qualified custodian. It should be noted that Pershing and Lockwood are related companies.

Phillips & Company has a wide range of approved securities products for which Phillips & Company performs due diligence prior to selection. Phillips & Company's registered representatives are required to adhere to these products when implementing securities transactions through Phillips & Company.

The requirement to use Phillips & Company is based on our decision that we can provide efficient and cost-effective services through our affiliated broker/dealer. However, the use of an affiliated broker/dealer is an inherent conflict of interest between Phillips Advisors and its clients because requiring our clients to use Phillips & Company as the broker/dealer allows Phillips & Company to retain brokerage revenue that would otherwise be retained by an unaffiliated broker/dealer. Clients should understand that not all investment advisors require the use of a particular broker/dealer or require the use of a broker/dealer that is affiliated with the investment advisor.

The requirement to use Pershing, LLC ("Pershing") (which is not affiliated with Phillips & Company/Phillips Advisors) is based on the fact that Phillips & Company has established a clearing agreement with Pershing as its preferred clearing broker/dealer and qualified custodian. Because Phillips Advisors and Phillips & Company are under common ownership and have mutual executive officers and control persons, the decision to use Pershing was mutually determined by both Phillips & Company and Phillips Advisors. The decision to use Pershing is based on past experiences, minimizing brokerage expenses and other costs as well as offerings or services Pershing provides that Phillips & Company, Phillips Advisors or clients may require or find valuable. There are some investment advisors that permit the use of multiple broker/dealers and permit clients to select the broker/dealer. We have considered the positive factors to this approach which include the ability to better negotiate brokerage costs such as transaction fees, the ability to better analyze speed of execution, and the ability to compare and negotiate services.

However, we have determined that the use of one brokerage platform (Phillips & Company/Pershing) allows us to provide more streamlined operational and trading services. We consider the fact that allowing multiple brokerage arrangements would increase the need for additional internal staff and technology which may increase the overall fees charged to Phillips Advisors clients. By selecting one brokerage platform, Phillips Advisors is able to avoid additional compliance, recordkeeping, staffing, and technological costs that may be associated with implementing procedures designed to work with multiple brokerage platforms. Considering all factors in relation to our structure and capacities, we have concluded that requiring one brokerage platform (Phillips & Company/Pershing) is a better policy than permitting multiple brokerage arrangements including client directed brokerage arrangements. However, the current policy may change in the future and if we decide to permit other brokerage arrangements all clients will be made aware of the change in policy.

Phillips Advisors may not necessarily obtain the lowest possible commission and brokerage rates for client account transactions. Therefore, the overall services provided by both Phillips & Company and Pershing are evaluated to determine the level of best execution provided to clients. However, considering Phillips Advisors requires its clients to use the brokerage services of Phillips & Company and Pershing, Phillips Advisors may not be able to achieve the *most* favorable execution of client transactions and therefore our practice of requiring the use of Phillips & Company and Pershing may cost clients more money compared to advisory programs offered by other investment advisors.

While clients may be able to attain brokerage services with lower costs and expenses, clients should be aware of some of the qualitative factors Phillips Advisors considers for selecting Phillips & Company and Pershing as its required Program brokerage platform. These factors include, but are not necessarily limited to, being able to rely on the internal staff of Phillips & Company to provide operations, trading, and other services.

Pershing is able to provide numerous specialized service groups and a Client Service Manager who is dedicated to servicing our accounts. Their back-office system generates exception reports designed to monitor all aspects of brokerage accounts, including trading, money movement, transfers, and client account data. Client paperwork is processed through a secure electronic workflow and storage system. Pershing's electronic trading platform provides a real-time order matching system, ability to "block" client trades, investment research tools, automated rebalancing, account balance and position information, and access to mutual fund families, many of which have no transaction fees. Clients may access their account information over the internet, including balances, transactions, positions, statements, confirmations, and tax documents. Advisory fees can be calculated on aggregated account balances and are debited directly from client accounts

#### **Aggregation of Client Orders**

Transactions implemented for Program accounts are generally effected on an aggregated basis. This means we purchase or sell the same securities for several clients at approximately the same time. This process is also referred to as batch trading or block trading. When Phillips Advisors aggregates client orders, the allocation of securities among client accounts will be done on a fair and equitable basis. Typically, the process of aggregating client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among Phillips Advisors clients in proportion to the purchase and sale orders placed by Phillips Advisors for each client account on any given day. When Phillips Advisors determines to aggregate client orders for the purchase or sale of securities,

including securities in which an associated person of Phillips Advisors may invest, Phillips Advisors will do so in accordance with the parameters set forth in the SEC No-Action Letter, *SMC Capital, Inc.* It should be noted, Phillips Advisors does not receive any additional compensation or remuneration as a result of aggregation.

#### **Trade Error Policy**

Phillips has implemented procedures designed to prevent trade errors; however, trade errors in client accounts cannot always be avoided. It is the policy of Phillips to correct trade errors in a manner that is in the best interest of the client. In cases where the client causes the trade error, the client will be responsible for any loss resulting from the correction but will not receive any gains generated as a result of the error correction. In all situations where the client does not cause the trade error, the client will be made whole and any loss resulting from the trade error will be absorbed by Phillips. However, Phillips will maintain gains that may result from correcting a trade error and in some instances may use such gains to offset overall losses Phillips incurs from trading errors.

#### **Custody**

Custody, as it applies to investment advisors, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding client funds and securities. If an investment adviser has the ability to access or control client funds or securities, the investment adviser is deemed to have custody and must ensure proper procedures are implemented. According to this definition, Phillips Advisors does **not** have custody of client funds or securities.

#### **Program Fees**

As a participant in the Program, you will pay an annualized asset-based fee ("Program Fee") which includes all fees and charges for the advisory services, selected Managers, Lockwood and all applicable brokerage charges. Therefore, you are not charged transaction fees separately from the Program Fee. Specifically, the Program Fee will cover all commissions, prime broker fees, and any other transaction fees relating to the execution of securities transactions within client accounts.

The Program Fee will be payable quarterly in advance. The first payment is due upon the later of opening an account or executing a client agreement and will be assessed on a pro rata basis in the event an agreement is executed at any time other than the first day of the billing cycle. All subsequent payments will be assessed accordingly.

Fees are negotiable and will depend on factors such as, but not limited to, the amount of assets under management, the number of accounts established, the complexity of the client's financial situation, and the investment advisor representative.

The following is a sample fee schedule provided for illustrative purposes. The exact fee charged to a client will be detailed in the *Investor Advantage Client Agreement Exhibit "A"*.

Household	Fees
First \$ 500,000	2.20%
Next \$ 250,000	1.95%
Next \$ 250,000	1.75%

Over \$ 1,000,000

1.60%

The maximum fee charged for the Program shall not exceed 2.20%. A portion of the fee shall be retained by LA. LA shall retain a maximum of twenty-two (22) basis points (0.22%) of the fee. This fee includes custodial and trade execution services paid to Pershing. In addition, clients electing to subscribe to the Performance Link option will be charged up to an additional three (3) basis points (0.03%).

Fees are generally deducted directly from your Phillips & Company/Pershing brokerage account. Clients must provide written authorization to have fees deducted from the account. At our discretion, you may pay fees directly via invoice. For clients that pay directly, payment is due upon receipt of the billing invoice. Pershing will send client brokerage account statements, at least quarterly, showing all disbursements for the account including the amount of the advisory fee, when deducted directly from the account.

The Program may cost more or less than purchasing such advisory and execution services separately. As disclosed in this section, we receive compensation as a result of a client's participation in Program. Therefore we have a financial incentive to recommend the Program over other programs or services. The amount of our compensation may be more than what you would receive if you participated in programs sponsored by other financial firms or paid separately for investment advice, brokerage, and other services.

In the event you have purchased commissionable products through your investment advisor representative in the investment advisor representative's capacity as a securities agent, we will offset or waive the management fee charged through Program. Any reduction will not exceed 100% of the commission received and will be disclosed prior to beginning services or at the time the deduction is made.

### **Other Fees**

You may incur certain charges imposed by third parties other than Phillips Advisors and Phillips & Company in connection with investments made through the account, including but not limited to, mutual fund sales loads, surrender charges, and IRA and qualified retirement plan fees charged by Pershing, a product sponsor or other third party. Our Program fees are separate and distinct from the fees and expenses charged by investment company securities that may be recommended to clients. A description of these fees and expenses are available in each investment company security's prospectus.

### **Additional Compensation, Economic and Non-Economic Benefits**

Through the relationship with Pershing and LA, we receive economic and non-economic benefits. These benefits include, but are not necessarily limited to: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk; access to block trading which provides the ability to aggregate securities transactions and allocate the appropriate the shares to client accounts; the ability to have investment advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information.

### **Termination of Services**

You or Phillips Advisors may terminate Program services at any time, for any reason upon receipt of written notice to the other party. Services will be terminated without penalty and you will receive a pro-rated refund based on the amount of time remaining in the period. We will cooperate fully in any requests to deliver funds and securities held in the Account to another custodian. Pershing may charge an Account Transfer fee, which is detailed in the Phillips & Company Fee Schedule. Transactions in a



closed account are subject to normal brokerage rates applied by Phillips & Company. Termination of services will not affect the liabilities or obligations of the parties arising out of transactions initiated prior to termination.

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

### **Opening an Account**

To become a Program participant, you must execute a program agreement (the *Investor Advantage Client Agreement*). In addition, you will be required to establish a brokerage account through Phillips & Company and held at Pershing with additional documentation as required by Phillips & Company and/or Pershing pursuant to securities regulations including the USA PATRIOT Act.

### **Types of Clients**

We offer advisory services to:

- Individuals
- High net worth individuals
- Trusts, estates, or charitable organizations
- Corporations or business entities other than those listed above

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

The Program does not allow investment adviser representatives or clients to utilize portfolio managers that are not associated with Phillips Advisors. In other words, the only portfolio managers selected for managing client assets in the Program are investment adviser representatives of Phillips Advisors. Therefore, conflicts of interest present in other wrap-fee programs that make available both affiliated and unaffiliated portfolio managers are not present in this Program. Because the Program does not provide for a multitude of outside portfolio managers, Phillips Advisors does not have procedures designed to select outside portfolio managers. Most of the items required by this item of the Wrap Fee Program Brochure instructions do not apply to Phillips Advisors. Items that do apply are answered below.

### **General Description of Other Advisory Services**

Because investment adviser representatives serve as portfolio managers of the Program, the following is provided as brief descriptions of our primary services. Detailed descriptions of our services other than the Program are provided in our Form ADV Part 2A - Firm Brochure.

***Lockwood Advisors Management Program.*** We provide advisory services through programs available through a relationship with Lockwood Capital Management and Lockwood Advisors. Through such programs we are able to access investment strategies developed by Lockwood and other managers selected by Lockwood.

***Concentrated Investment Management Account Services.*** We offer another asset management program outside of the Investor Advantage Program. Through our Concentrated Investment Management Account Services, we provide clients with continuous and on-going supervision over client accounts. This program is setup on a non-wrap fee basis.

***Pension Consulting Services.*** We provide several advisory services for corporate retirement plans, separately or in combination. While the primary clients for these services will be pension, profit sharing,

and 401(k) plans, Phillips Advisors will also offer these services, where appropriate, to individual participants.

***Advice on Certain Types of Investments.*** Phillips Advisors provides investment advice on the following types of investments:

- Mutual Funds
- Exchange Traded Funds (ETFs)
- Exchange-listed Securities
- Certificates of Deposit
- Municipal Securities
- US Government Securities
- Foreign Issues,
- Warrants,
- Corporate debt securities,
- Commercial paper, Variable annuities,
- Variable life insurance,
- Options
- Interests in partnerships investing in real estate, partnerships investing in oil and gas interests, securities properly exempted from registration, and hedge funds. Such investments are often illiquid, which means that the investments can be difficult to trade and consequently limits a client's ability to dispose of such investments in a timely manner and at an advantageous price. Additionally, such investments may not have registered pursuant to the Securities Act of 1933, and therefore the client will need to complete a subscription agreement showing the client is an "accredited" investor (as defined by applicable law and rules and regulations) and acknowledge that he or she has read and understands the private placement memorandum and is aware of the various risk factors associated with such an investment.

It is not our typical investment strategy to attempt to time the market, but we may increase cash holdings modestly as deemed appropriate based on your risk tolerance and our expectations of market behavior. We may modify our investment strategy to accommodate special situations such as low basis stock, stock options, legacy holdings, inheritances, closely held businesses, collectibles, or special tax situations.

#### **Participation in Wrap Fee Programs**

As thoroughly discussed in this brochure, Phillips Advisors provides asset management services through our Investor Advantage Program which is a wrap-fee program. Under a wrap-fee program, advisory services and transaction services are provided for one fee. This is different from non-wrap fee management programs whereby an investment advisory firm's services are provided for a fee, but transaction services are billed separately on a per-transaction basis. Our Concentrated Investment Management Services program is an example of such a "non-wrap" fee program.

#### **Performance-Based Fees and Side-By-Side Management**

Performance-based fees are defined as fees based on a share of capital gains on or capital appreciation of the assets held in a client's account. We do not charge or accept performance-based fees.

### **Client Assets Managed by Phillips Advisors**

The amount of clients' assets managed by Phillips Advisors totaled \$753,832,149 as of June 6, 2013. \$104,337,303 is managed on a discretionary basis and \$690,838,724 is managed on a non-discretionary basis.

### **Methods of Analysis**

Phillips Advisors uses the following methods of analysis in formulating investment advice:

**Cyclical** – This method analyzes the investments sensitive to business cycles and whose performance is strongly tied to the overall economy. For example, cyclical companies tend to make products or provide services that are in lower demand during downturns in the economy and in higher demand during upswings. Examples include the automobile, steel, and housing industries. The stock price of a cyclical company will often rise just before an economic upturn begins, and fall just before a downturn begins. Investors in cyclical stocks try to make the largest gains by buying the stock at the bottom of a business cycle, just before a turnaround begins. While most economists and investors agree that there are cycles in the economy that need to be respected, the duration of such cycles is generally unknown. An investment decision to buy at the bottom of a business cycle may actually turn out to be a trade that occurs before or after the bottom of the cycle. If done before the bottom, then downside price action can result prior to any gains. If done after the bottom, then some upside price action may be missed. Similarly, a sell decision meant to occur at the top of a cycle may result in missed opportunity or unrealized losses.

**Fundamental** – This is a method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individually specific factors (like the financial condition and management of a company). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). Fundamental analysis is considered to be the opposite of technical analysis. Fundamental analysis is about using real data to evaluate a security's value. Although most analysts use fundamental analysis to value stocks, this method of valuation can be used for just about any type of security.

The risk associated with fundamental analysis is that it is somewhat subjective. While a quantitative approach is possible, fundamental analysis usually entails a qualitative assessment of how market forces interact with one another in their impact on the investment in question. It is possible for those market forces to point in different directions, thus necessitating an interpretation of which forces will be dominant. This interpretation may be wrong, and could therefore lead to an unfavorable investment decision.

**Technical** – This is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity. Technical analysts believe that the historical performance of stocks and markets are indications of future performance.

Technical analysis is even more subjective than fundamental analysis in that it relies on proper interpretation of a given security's price and trading volume data. A decision might be made based on a historical move in a certain direction that was accompanied by heavy volume; however, that heavy volume may only be heavy relative to past volume for the security in question, but not compared to the future trading volume. Therefore, there is the risk of a trading decision being made incorrectly, since future trading volume is an unknown. Technical analysis is also done through observation of various market sentiment readings, many of which are quantitative. Market sentiment gauges the relative degree of bullishness and bearishness in a given security, and a contrarian investor utilizes such sentiment advantageously. When most traders are bullish, then there are very few traders left in a position to buy the security in question, so it becomes advantageous to sell it ahead of the crowd. When most traders are bearish, then there are very few traders left in a position to sell the security in question, so it becomes advantageous to buy it ahead of the crowd. The risk in utilization of such sentiment technical measures is that a very bullish reading can always become more bullish, resulting in lost opportunity if the money manager chooses to act upon the bullish signal by selling out of a position. The reverse is also true in that a bearish reading of sentiment can always become more bearish, which may result in a premature purchase of a security.

### **Investment Strategies**

We use the following investment strategies when managing client assets and/or providing investment advice:

Long term purchases. Investments held at least a year.

Short term purchases. Investments sold within a year.

Frequent trading. This strategy refers to the practice of selling investments within 30 days of purchase.

Margin transactions. When an investor buys a stock on margin, the investor pays for part of the purchase and borrows the rest of the purchase price from a brokerage firm. For example, an investor may buy \$5,000 worth of stock in a margin account by paying for \$2,500 and borrowing \$2,500 from a brokerage firm. Clients cannot borrow stock from Phillips Advisors.

### **Risk of Loss**

Past performance is not indicative of future results. Therefore, you should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities (including stocks, mutual funds, and bonds, etc.) involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk. You should be prepared to bear investment loss including loss of original principal.

Because of the inherent risk of loss associated with investing, our firm is unable to represent, guarantee, or even imply that our services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines. There are certain additional risks associated with investing in securities through our investment management program, as described below:

- Market Risk – Either the stock market as a whole, or the value of an individual company, goes down resulting in a decrease in the value of client investments. This is also referred to as systemic risk.
- Equity (stock) market risk – Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.
- Company Risk. When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives unfavorable media attention for its actions, the value of the company may be reduced.
- Fixed Income Risk. When investing in bonds, there is the risk that the issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.
- Options Risk. Options on securities may be subject to greater fluctuations in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks.
- ETF and Mutual Fund Risk – When investing in a an ETF or mutual fund, you will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. You will also incur brokerage costs when purchasing ETFs.
- Management Risk – Your investment with our firm varies with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our investment strategies do not produce the expected returns, the value of the investment will decrease.
- Margin Risk - When you purchase securities, you may pay for the securities in full or borrow part of the purchase price from your account custodian or clearing firm. If you intended to borrow funds in connection with your Account, you will be required to open a margin account, which will be carried by the clearing firm. The securities purchased in such an account are the clearing firm's collateral for its loan to you.

If those securities in a margin account decline in value, the value of the collateral supporting this loan also declines, and as a result, the brokerage firm is required to take action in order to maintain the necessary level of equity in your account. The brokerage firm may issue a margin call and/or sell other assets in your account.

It is important that you fully understand the risks involved in trading securities on margin, which are applicable to any margin account that you may maintain, including any margin account that may be established as part of the Asset Management Agreement

established between you and Phillips Advisors and held by the account custodian or clearing firm.

These risks include the following:

- You can lose more funds than you deposit in your margin account.
- The account custodian or clearing firm can force the sale of securities or other assets in your account.
- The account custodian or clearing firm can sell your securities or other assets without contacting you.
- You are not entitled to choose which securities or other assets in your margin account may be liquidated or sold to meet a margin call.
- The account custodian or clearing firm may move securities held in your cash account to your margin account and pledge the transferred securities.
- The account custodian or clearing firm can increase its “house” maintenance margin requirements at any time and they are not required to provide you advance written notice.
- You are not entitled to an extension of time on a margin call.

#### **Voting Client Securities**

Phillips Advisors does not vote proxies on behalf of clients. We have determined that taking on the responsibilities for voting client securities does not add enough value to the services provided to you to justify the additional compliance and regulatory costs associated with voting client securities. Therefore, it is your responsibility to vote all proxies for securities held in Account.

You will receive proxies directly from the qualified custodian or transfer agent; we will not provide you with the proxies. You are encouraged to read through the information provided with the proxy-voting documents and make a determination based on the information provided. Although we do not vote client proxies, if you have a question about a particular proxy feel free to contact us. However, you will have the ultimate responsibility for making all proxy-voting decisions.

#### **Legal Actions**

Clients retain the right under the applicable securities laws to initiate individually a lawsuit or join a class-action lawsuit against the issuer of a security that was held, purchased or sold by or for a client in Program. We will not initiate such a legal proceeding on behalf of any of its client and does not provide legal advice to clients regarding potential causes of action against such a security issuer and whether its clients should join a class-action lawsuit. We recommend clients seek legal counsel prior to making a decision regarding whether to participate in such a class-action lawsuit. Our services do not include monitoring or informing its clients of any potential or actual class-action lawsuits against the issuers of the securities that were held, purchased or sold by or for any of its clients. However, upon a client's specific instruction, we may provide factual information related to the individual client's investment history in the security underlying the individual or class-action lawsuit and provide assistance with the completion of a portion of certain class-action paperwork. At no time should such assistance by our firm or our investment adviser representatives be deemed as a substitute for consulting with legal counsel.

### **Item 7 – Client Information Provided to Portfolio Managers**

Because only our investment adviser representatives serve as portfolio managers, investment adviser representatives or their assistants are responsible for gathering all information provided by clients.

Investment adviser representatives will interview and work with clients to gather all information needed relative to their investment objectives and needs in order to provide management services through the Program. Clients need to contact their investment adviser representative whenever there are changes to their financial situation that will impact or materially influence the way Phillips Advisors manages accounts.

### **Item 8 – Client Contact with Portfolio Managers**

Because only investment adviser representatives of Phillips Advisors serve as portfolio managers, there are no restrictions placed on clients' ability to contact and consult with their portfolio managers. It is the policy of Phillips Advisors to provide an "open channel" of communication between investment adviser representatives and their clients. Clients are encouraged to contact their investment adviser representative whenever they have questions about the management of their account.

### **Item 9 – Additional Information**

#### **Disciplinary Information**

This item is not applicable to our brochure because there are no legal or disciplinary events listed at Item 9 of the Form ADV Part 2A instructions that are material to a client's or prospective client's evaluation of our business or the integrity of our firm's management personnel.

Phillips Advisors is **not** and does **not** have a related person that is an investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund), another investment adviser or financial planner, a futures commission merchant, commodity pool operator, or commodity trading advisor, a banking or thrift institution, an accountant or accounting firm, a lawyer or law firm, an insurance company or agency, a pension consultant, a real estate broker or dealer, and a sponsor or syndicator of limited partnerships.

We are an independent registered investment adviser and only provide investment advisory services. We are not engaged in any other business activities and offer no other services except those described in this Disclosure Brochure. However, while we do not sell products or services other than investment advice, our representatives may sell other products or provide services outside of their role as investment adviser representatives with us.

#### **Registered Representative of a Broker-Dealer**

Phillips Advisors is under common ownership with a full-service, introducing broker/dealer, Phillips & Company Securities, Inc. (Phillips & Company), member of FINRA and SIPC. Our representatives are also registered representatives of Phillips & Company. You may work with your investment adviser representative in his or her separate capacity as a registered representative of Phillips & Company. When acting in his or her separate capacity as a registered representative, your investment adviser representative may sell, for commissions, general securities products such as stocks, bonds, mutual funds, exchange-traded funds, and variable annuity and variable life products to you. As such, your investment adviser representative may suggest that you implement investment advice by purchasing securities products through a commission-based brokerage account in addition to or in lieu of a fee-based investment-advisory account. This receipt of commissions creates an incentive to recommend those products for which your investment adviser representative will receive a commission in his or her separate capacity as a registered representative of a securities broker-dealer. Consequently, the objectivity of the advice rendered to you could be biased.

You are under no obligation to use the services of our representatives in this separate capacity or to use Phillips & Company and can select any broker/dealer you wish to implement securities transactions. If you select our representatives to implement securities transactions in their separate capacity as registered representatives, they must use Phillips & Company. Prior to effecting any such transactions, you are required to enter into a new account agreement with Phillips & Company. The commissions charged by Phillips & Company may be higher or lower than those charged by other broker/dealers. In addition, the registered representatives may also receive additional ongoing 12b-1 fees for mutual fund purchases from the mutual fund company during the period that you maintain the mutual fund investment.

### **Insurance Agent**

You may work with your investment adviser representative in his or her separate capacity as an insurance agent to review and/or purchase variable annuity products. As such, your investment adviser representative in his or her separate capacity as an insurance agent may suggest that you implement recommendations of Phillips Advisors by purchasing variable annuity insurance products. If you choose to purchase a variable annuity through your investment adviser representative in his or her capacity as an insurance agent and registered representative, commissions will be earned by the investment adviser representative. The receipt of commissions creates an incentive for the representative to recommend those products for which your investment adviser representative will receive a commission in his or her separate capacity as an insurance agent. Consequently, the advice rendered to you could be biased. You are under no obligation to implement any insurance or annuity transaction through your investment adviser representative.

### **Code of Ethics Summary**

According to the *Investment Advisers Act of 1940*, an investment adviser is considered a fiduciary and has a fiduciary duty to all clients. Phillips Advisors has established a Code of Ethics to comply with the requirements of Section 204(A)-1 of the *Investment Advisers Act of 1940* that reflects its fiduciary obligations and those of its supervised persons. The Code of Ethics also requires compliance with federal securities laws. The Code of Ethics covers all individuals that are classified as “supervised persons”. All employees, officers, directors and investment adviser representatives are classified as supervised persons. Phillips Advisors requires its supervised persons to consistently act in your best interest in all advisory activities. Phillips Advisors imposes certain requirements on its affiliates and supervised persons to ensure that they meet the firm’s fiduciary responsibilities to you. The standard of conduct required is higher than ordinarily required and encountered in commercial business.

This section is intended to provide a summary description of the Code of Ethics of Phillips Advisors. If you wish to review the Code of Ethics in its entirety, you should send us a written request and upon receipt of your request, we will promptly provide a copy of the Code of Ethics to you.

### **Affiliate and Employee Personal Securities Transactions Disclosure**

Phillips Advisors or associated persons of the firm may buy or sell for their personal accounts, investment products identical to those recommended to clients. This creates a potential conflict of interest. It is the express policy of Phillips Advisors that all persons associated in any manner with our firm must place clients’ interests ahead of their own when implementing personal investments. Phillips Advisors and its associated persons will not buy or sell securities for their personal account(s) where their decision is derived, in whole or in part, by information obtained as a result of employment or association with our firm unless the information is also available to the investing public upon reasonable inquiry.

We are now and will continue to be in compliance with applicable state and federal rules and regulations. To prevent conflicts of interest, we have developed written supervisory procedures that include personal investment and trading policies for our representatives, employees and their immediate family members



(collectively, associated persons):

- Associated persons cannot prefer their own interests to that of the client.
- Associated persons cannot purchase or sell any security for their personal accounts prior to implementing transactions for client accounts.
- Associated persons cannot buy or sell securities for their personal accounts when those decisions are based on information obtained as a result of their employment, unless that information is also available to the investing public upon reasonable inquiry.
- Associated persons are prohibited from purchasing or selling securities of companies in which any client is deemed an “insider”.
- Associated persons are discouraged from conducting frequent personal trading.
- Associated persons are generally prohibited from serving as board members of publicly traded companies unless an exception has been granted to the Chief Compliance Officer of Phillips Advisors.

Any associated person not observing our policies is subject to sanctions up to and including termination.

#### **Account Reviews and Reviewers**

Account reviews are made on a regular basis during a calendar year. Account reviews will include investment strategy and objectives review and making a change if your strategy and objectives have changed. Your investment advisor representative is primarily responsible for conducting reviews of your accounts.

#### **Statements and Reports**

You are provided with transaction confirmation notices and regular quarterly account statements directly from Pershing. Additionally, Phillips Advisors may provide position or performance reports to you quarterly and upon request. You are encouraged to always compare any reports or statements provided by us against the account statements delivered from Pershing. When you have questions about your account statement, you should contact your investment adviser representative.

#### **Client Referrals and Other Compensation**

##### ***Client Referrals***

Phillips Advisors does not directly or indirectly compensate any person for client referrals.

##### ***Other Compensation***

The only compensation received from advisory services is the fees charged for providing investment advisory services as described in *Item 4* of this brochure. Phillips Advisors receives no other forms of compensation in connection with providing investment advice. However, please refer to preceding sections of this brochure for additional discussion concerning other compensation.

We may from time to time receive expense reimbursement for travel and/or marketing expenses from distributors of investment and/or insurance products. Travel expense reimbursements are typically a result of attendance at due diligence and/or investment training events hosted by product sponsors. Marketing expense reimbursements are typically the result of informal expense sharing arrangements in which product sponsors may underwrite costs incurred for marketing such as client appreciation events, advertising, publishing, and seminar expenses. Although receipt of these travel and marketing expense reimbursements are not predicated upon specific sales quotas, the product sponsor reimbursements are typically made by those sponsors for which sales have been made or for which it is anticipated sales will

be made. This creates a conflict of interest in that there is an incentive to recommend certain products and investments based on the receipt of this compensation instead of what is in the best interest of our clients. We attempt to control for this conflict by always basing investment decisions on the individual needs of our clients.

**Financial Information**

Phillips Advisors does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Therefore, we are not required to include a balance sheet for the most recent fiscal year. We are not subject to a financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Finally, Phillips Advisors has not been the subject of a bankruptcy petition at any time.