



LEGACY WEALTH  
MANAGEMENT®

Item 1 – Cover Page

**Part 2A of Form ADV “Brochure”**

**Legacy Wealth Management, Inc.**

**1715 Aaron Brenner Drive, Suite 301**

**Memphis, TN 38120**

**901-758-9006**

**[www.legacywealth.com](http://www.legacywealth.com)**

**March 27, 2014**

This Brochure provides information about the qualifications and business practices of Legacy Wealth Management, Inc. (“Legacy”). If you have any questions about the contents of this Brochure, please contact us at 901-758-9006. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Legacy is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you use to determine to hire or retain an Adviser.

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

## **Item 2 – Material Changes**

Legacy's most recent annual update to Part 2 of Form ADV was made on March 21, 2013. Legacy's business activities have not changed materially since the time of that update with the exception of the two items below.

Legacy's offices moved to 1715 Aaron Brenner Drive, Suite 301, Memphis, TN 38120. All email addresses and phone numbers remained the same.

Our Investment Committee has been realigned to reflect our team approach to the investment process and specific investment decisions. Therefore, the position of Chief Investment Officer has been eliminated. The committee meets at frequent regular intervals.

Currently, our Brochure may be requested by contacting Cathy A. Simmons, Chief Compliance Officer at 901-758-9006 or [cathys@legacywealth.com](mailto:cathys@legacywealth.com). Our Brochure is also available on our website [www.legacywealth.com](http://www.legacywealth.com), and free of charge.

Additional information about Legacy is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any persons affiliated with Legacy who are registered, or are required to be registered, as investment adviser representatives of Legacy.

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## **Item 4 – Advisory Business**

Legacy Wealth Management Inc. is an independent employee-owned firm that was founded in 1982. Legacy's team of financial professionals has extensive financial planning and portfolio management experience. Staff members work together in client service teams to develop and manage a client's overall long-term financial and investment strategies.

Legacy's President & CEO, Jim Isaacs, owns 35% of the outstanding shares. Other significant shareholders who own anywhere from 5% to 10% are: Duncan Miller, Hallie Peyton, Cathy Simmons, Charles Jalenak, Lindsey Mazzola and Bill Overcast.

Legacy coordinates financial planning with customized portfolio management and ongoing wealth management when appropriate. Our firm provides service on a "fee-only" basis. We do not sell products or earn commissions. Fee-only compensation allows Legacy to provide services that are objective and unbiased so that clients receive financial planning and portfolio management advice based on their specific long-term financial goals.

Legacy manages investment assets on a discretionary basis for individuals, trusts, and other investors. Legacy consults with its clients to determine their needs, risk tolerance, and investment objectives. When Legacy and the client have reached an agreement concerning investment objectives, Legacy implements day-to-day investment decisions based on those objectives. Legacy attempts to review client portfolios every ten business days. Legacy customarily rebalances portfolios and makes changes without additional consultation with clients. Client portfolios consist primarily of no-load mutual funds, exchange traded funds or individual bonds. In addition to the customary asset classes available through investment in mutual funds and ETF's (equity, fixed income, real estate, commodities), Legacy makes available other types of investment strategies and vehicles to clients for whom such investments are appropriate. Legacy may also recommend sub-advisers for a portion of a client's assets under management. Some portfolios consisting of individual bonds (as opposed to fixed income mutual funds and ETFs) are managed by a sub-adviser. Sub-advisers are compensated on an agreed upon fee schedule that is charged to the client in addition to fees charged by Legacy.

Legacy also offers financial planning services in addition to portfolio management services. Services range from simple hourly consultations on specific problems to comprehensive financial plans covering all aspects of a client's needs, including, but not limited to, cash flow, credit, budgeting, risk management, education planning, tax planning, retirement planning, early retirement-offer evaluations, compensation planning, estate planning and any other related issues. In each case client objectives are carefully identified at the

beginning and the planning process is structured so that these objectives are addressed. Except for brief consultations on one-time matters, most clients receive a written or electronic report on their objectives that addresses the facts, key assumptions, an analysis of the situation and recommendations on alternatives to help them reach their goals. In addition, Legacy will offer, at no additional charge, customary financial planning services to Wealth Management clients who meet our stated minimum of \$500,000.00 of managed household assets.

Legacy does not participate in wrap fee programs.

As of March 6, 2014, Legacy managed approximately \$1,052,542,400 in assets for approximately 760 clients. Approximately \$1,002,692,500 is managed on a discretionary basis and approximately \$49,849,900 is managed on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

Fees for Wealth Management services are based on the amount of assets under management. The recommended minimum account size for a new client relationship is \$500,000.

Fees for Wealth Management are:

### **Annual Fee Schedule**

1.0% on the first \$2 million

0.5% on the next \$3 million

0.4% on the amount over \$5 million

Fees for all services, on an exception basis, may be negotiable depending upon specific services required and type of investments under management.

The specific manner in which fees are charged by Legacy is established in a client's written agreement with Legacy. Generally, Legacy bills its fees on a quarterly basis, with one fourth of the annual fee being billed quarterly. The amount billed is determined by the market value of account assets at the end of each calendar quarter. Legacy's fees are not payable in advance; however, a client may pay in advance if he or she prefers to do so. Clients may also elect to be billed directly for fees or to authorize Legacy to debit fees directly from client accounts. Accounts initiated or terminated during a calendar quarter will be charged

a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded and any earned, unpaid fees will be due and payable. Legacy's standard advisory agreement provides that the client may terminate the agreement upon written notice to Legacy.

Legacy's fees do not include brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers or other third parties, including fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are in addition to Legacy's fee. Legacy does not receive any portion of these commissions, fees and costs.

Item 12 further describes the factors that Legacy considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

#### Financial Planning Fees:

Each contract for Financial Planning consulting services identifies the scope of services to be performed and how fees are to be charged. Most fees are based on hourly rates which range from \$75 to \$300 per hour. Fees for most engagements are fixed in advance depending on the scope of work, while others are computed hourly. An initial consultation is free to determine if Legacy's services are appropriate for the prospective client. One hour is the minimum billing on any new client after the initial consultation.

The Financial Planning contract can be canceled at any time with no penalty. Fees are due for time and services up to the point of cancellation. Fees are billed to the client and are not collected more than six months in advance. Prepaid fees at signing are negotiated depending on the amount of work to be performed. Generally one-half of the estimated fees are due at signing or start of the work with the balance upon completion. For longer projects, progress billings may be used. In the event of termination of the contract with advance fees, refunds would be made with respect to any unused fees based on actual time and services performed.

Legacy's Officer Planning time is billed at \$300 per hour; Director of Financial Planning time at \$200 per hour; Portfolio Manager and Financial Planner time at \$150 per hour and administrative staff time at \$75 per hour. In meetings requiring multiple staff members,

additional staff time will be discounted by 50%. If a client who retains Legacy solely for Financial Planning services subsequently retains Legacy for Wealth Management services (portfolio management as well as financial planning) within 9 months of plan delivery and household assets managed are over the stated minimum of \$500,000, fees paid for planning will be credited and applied to Wealth Management fees at the rate of \$1,000 per quarter until exhausted.

### **Item 6 – Performance-Based Fees and Side-By-Side Management**

Legacy does not charge any performance-based fees (fees based on a share of capital gains on, or capital appreciation of, the assets of a client) or engage in side-by-side management.

### **Item 7 – Types of Clients**

Legacy provides portfolio management services to individuals, high-net-worth individuals, corporate pension, 401(k) and profit-sharing plans, foundations, endowments and state and municipal government entities.

As stated in Item 5 above, the recommended minimum account size for a new client relationship is \$500,000.

### **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear.

Legacy's basic approach to portfolio management is to use a globally diverse portfolio of asset classes. Historically, equities have offered the potential for higher investment returns (and greater volatility) than cash or fixed income investments. In order to generate a higher rate of return, investors must increase the proportion of equities in their portfolio and accept greater variation of results (including declines in value).

The primary asset classes in which Legacy invests client funds are equities and fixed income, commonly known as stocks and bonds. Legacy invests client funds in stocks and bonds issued by companies and governments in the U.S. and abroad. The vehicles Legacy uses to invest in these asset classes are mutual funds and exchange traded funds (ETFs). For certain clients Legacy may also recommend separate portfolios of individual bonds managed by a sub-adviser.

There are risks associated with investing in equities and fixed income securities. Among those risks are the following:

Market Risk: The prices of the securities in which we invest may decline for a number of reasons. The price decline of all securities, equities in particular, may be steep, sudden, and/or prolonged.

Interest Rate Risk: In general, the value of bonds and other debt securities falls when interest rates rise. Longer term obligations are usually more sensitive to interest rate changes than shorter term obligations. While bonds and other debt securities normally fluctuate less in price than common stocks, there have been extended periods of increases in interest rates which have caused significant declines in bond prices.

Credit Risk: The issuers of the bonds and other debt securities may not be able to make interest or principal payments. Even if these issuers are able to make interest or principal payments, they may suffer adverse changes in financial condition that would lower the credit quality of the security, leading to greater volatility in the price of the security.

Foreign Securities Risk: The securities of foreign issuers may be less liquid and more volatile than securities of comparable U.S. issuers. The U.S. dollar value of foreign securities traded in foreign currencies (and any dividends and interest earned) held by mutual funds in which we invest may be affected favorably or unfavorably by changes in foreign currency exchange rates. An increase in the U.S. dollar relative to these other currencies will adversely affect our client's investments. Additionally, investments in foreign securities, even those publicly traded in the United States, may involve risks which are in addition to those inherent in domestic investments. Foreign companies may not be subject to the same regulatory requirements of U.S. companies, and as a consequence, there may be less publicly available information about such companies. Also, foreign companies may not be subject to uniform accounting, auditing, and financial reporting standards and requirements comparable to those applicable to U.S. companies. Foreign governments and foreign economies may be less stable than the U.S. Government and the U.S. economy.

Non-traditional Investments: Non-traditional investments may include investments that are direct, indirect, or inverse and may include leverage. Indirect investment may be obtained through various derivative instruments including but not limited to (i) options, (ii) futures, (iii) forwards or (iv) spot contracts, each of which may be tied to but not limited to (i) commodities, (ii) financial indices and instruments, (iii) foreign currencies, or (iv) equity indices. An inverse investment is designed to move in the opposite direction of the index or benchmark it is tracking. Non-traditional investments may involve substantial risks that differ from those of more traditional investments, such as stocks and



bonds. These risks include, among others, liquidity risk, sector risk, and foreign currency risk, as well as risks associated with fixed income securities, equities, commodities and derivatives. In addition, the use of leverage may increase gains and losses. Non-traditional investments may be implemented through a “fund of funds” structure. In a “fund of funds” arrangement, the manager attempts to build a portfolio of funds with low correlation to the markets and each other in order to produce returns that are less volatile and steadier than individual fund strategies. Many different techniques, including leverage and short selling (inverse), are used to implement fund strategies. Each underlying fund operates independently. There are risks unique to investment in “fund of funds”, including lack of transparency, liquidity, leverage, and the high level reliance on the “fund of funds” manager’s due diligence. The cost of investing in a “fund of funds” will be higher than the cost of investing directly in underlying funds and may be higher than other mutual funds that invest directly in stocks and bonds. Investors indirectly bear fees and expenses charged by the underlying funds in addition to the “fund of funds” direct fees and expenses.

Other general risks that investors should consider include the following:

Asset Allocation Risk: A client’s relative investment performance will be affected by our ability to anticipate correctly the potential returns and risks of and correlation between the asset classes in which we invest. For example, a client’s relative investment performance would suffer if only a small portion of its assets were allocated to equities during a significant stock market advance, and its absolute investment performance would suffer if a major portion of its assets were allocated to equities during a market decline. Finally, since we intend to assume only prudent investment risk, there will be periods in which our clients’ portfolios underperform other portfolios that are willing to assume greater risk.

Mutual Fund Risk: Costs Despite Negative Returns — Investors must pay annual fees, and other expenses regardless of how the fund performs. Depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive — even if the fund went on to perform poorly after they bought shares.

Lack of Control: Investors typically cannot ascertain the exact make-up of a mutual fund's portfolio at any given time, nor can they directly influence which securities the mutual fund manager buys and sells or the timing of those trades.

Price Uncertainty: With an individual stock, you can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling your custodian. You can also monitor how a stock's price changes from hour to hour — or even second to second. By contrast, with a mutual fund, the price at which you purchase or

redeem shares will typically depend on the fund's NAV, which the fund might not calculate until many hours after you've placed your order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close. ETF shares are priced continuously and investors can buy and sell their ETF shares throughout the day at the current offering price. As a result, two investors selling ETF shares at different times on the same day may receive different prices for their shares. Additionally, ETFs can trade at both premium and discount to net asset value, creating overbought and oversold prices relative to the value of the ETFs underlying holdings.

**Exchange Traded Fund Risk:** Costs despite negative returns — Investors must pay annual fees, and other expenses regardless of how the ETF performs. And, depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive (although less likely than a mutual fund) — even if the fund went on to perform poorly after they bought shares.

### **Additional Information Concerning Methods of Analysis and Investment Practices**

Legacy seeks to identify the objectives of each of its clients and to offer investment strategies as set forth below:

- **Individually designed asset-allocation strategies** – Legacy's portfolio managers identify an asset allocation strategy that they believe will best suit a client's specific investment objectives based on a risk tolerance questionnaire that the client completes. Using their investment knowledge, outlook and experience, they make adjustments to a client's personal asset allocation model so that the client's investment portfolio will reflect their unique financial goals.
- **Institutional quality investments** – At Legacy, we focus on providing our clients with an investment portfolio at a reasonable cost. Through relationships with our primary custodians, National Financial Services, LLC and Fidelity Brokerage Services, LLC (together, with all affiliates, "Fidelity"), Charles Schwab & Company ("Schwab"), and National Advisors Trust Company, FSB ("National Advisors Trust"), Legacy is able to include many institutional-quality investments as part of an investment portfolio at no additional cost. Not all of Legacy's investment solutions are available to or cost-effective for the general public or retail investor.
- **Diversified mix of actively and passively managed funds** – Managing risk can be just as important as managing return. Diversification is the process of placing a percentage of an investment portfolio in different market sectors with different correlation to each other to help minimize risk. Within each asset class, Legacy recommends particular funds that it has researched and believes are well suited to meet a client's financial and

life goals. Because a client's goals may change, Legacy's team of portfolio managers assesses each investment portfolio to reflect significant changes in a client's life. The firm believes a suitable mix of both active and passive funds is appropriate for most clients. Actively managed funds allow the possibility of out-performing a benchmark but at higher operating and tax costs. Passively managed funds reduce the likelihood of under-performing a benchmark and reduce operating and tax costs.

- **Rigorous money-manager selection to maximize risk-adjusted returns and minimize fees** – Legacy's Investment Committee uses a team approach to decisions affecting portfolio changes. The committee directs the investigation of products ranging from mutual funds, exchange traded funds, separate account managers and other less-correlated investments. Strict criteria are developed to screen investments based on the asset class being researched. For example, if an equity asset class was being screened, criteria would include the composition of equities, sector weighting, risk measures, the manager's process involved around buying and selling decisions, fund staffing tenure, expenses/fees, and performance in various market conditions. After the selection process is completed, the position is then monitored to ensure consistency of investment style, philosophy, staff continuity and performance.
- **Bond portfolios structured for individual tax and cash-flow requirements** – To meet the income needs of certain clients, the firm has retained an experienced sub-adviser that specializes in managing bond portfolios and who has several billion in assets under management. Legacy has ongoing communication with this separate account management firm regarding both municipal and taxable bonds. Legacy's longstanding use of this firm has allowed Legacy to provide a preferential sub-advisory fee. This program provides Legacy's clients with the benefits of owning individual bonds combined with control and flexibility.
- **Monitoring accounts and reporting portfolio performance** – After Legacy selects investments believed to be best suited for client personal objectives, Legacy's team of investment professionals monitor client investment portfolios to ensure consistency of investment style, philosophy and performance. Legacy will review client investment portfolios with regard to performance, risk tolerance and personal goals. The Portfolio Manager will focus on the following items when reviewing each client's managed accounts:
  - Objectives, constraints, and allocation targets are still appropriate
  - Compare asset allocation of the portfolio versus the target allocation to determine if rebalancing is necessary; if so, perform the rebalancing
  - Review portfolio to ensure cash is available for scheduled income needs and stated liquidity requirements

- Maintain allocations according to latest fund screening and Investment Committee actions
- Review unrealized gains and losses in taxable accounts and take losses as appropriate in order to minimize tax burden
- When relevant, utilize realized capital loss carry-forwards to offset gains as appropriate
- A quarterly report is issued to each client (in addition to monthly or quarterly statements directly from custodians) to show:
  - Investment Policy Summary Statement (IPSS) that defines the facts, objectives, constraints of the portfolio and risk tolerance;
  - all investments consolidated and organized by asset class
  - performance of the investment portfolio over relevant time periods;
  - purchase and sale transactions which have taken place in the portfolio during the quarter just ended; and
  - calculation of the portfolio management fee.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Legacy or the integrity of Legacy's management. Legacy has no legal or disciplinary information applicable to this Item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

As a financial advisory firm, Legacy is involved in financial planning and advising clients on financial matters that do not directly involve advice on securities. These financial planning-services comprise approximately 50% of planning staff time. In most cases, Legacy provides both financial planning and portfolio management advice to clients. However, from time to time, Legacy provides only financial planning services to clients.

In most cases, Legacy recommends that its clients establish a brokerage account with one of three financial institutions that provide access to hundreds of no-load mutual funds and the normal range of stocks, exchange traded funds and bonds at discounted brokerage costs. These institutions include: Fidelity, Schwab and National Advisors Trust. By agreement with Legacy, these institutions also provide Legacy with electronic access to the client's account, access to the trading desk, and other services in connection with Legacy's management of the account assets. Fidelity, Schwab, and National Advisors Trust also offer

Legacy's clients access to many institutional funds and share classes that would be otherwise unavailable to individual investors, owing to the minimum investment required. When the client has selected a custodian broker, that institution's fee and commission structure will apply to trading in the client's account.

Clients who wish to utilize the services of another custodian/broker are free to do so, and are not required to retain Fidelity, Schwab, or National Advisors Trust. However, when a client selects another custodian broker, Legacy cannot assure the client that they will receive comparable services or pay comparable fees and commissions in connection with its account management.

Fidelity, Schwab, and National Advisors Trust also offer products, research, and services that may benefit Legacy. These are more fully described below. From time to time, Legacy may use some or all of the products, research and services offered. Therefore, Legacy's recommendation of Fidelity, Schwab, and National Advisors Trust can create conflicts or potential conflicts of interest because the services could influence Legacy's judgment in making such recommendations. Please refer to Legacy's disclosures in Item 12.

## **Item 11 – Code of Ethics**

Legacy invests client assets primarily in mutual funds, exchange traded funds and individual bonds. From time to time, however, Legacy may also recommend individual securities or other investment vehicles deemed attractive.

Legacy believes that its employees should be willing to commit their own funds to the investments they recommend to clients and that it is better for employees to invest with their clients rather than separately from them. Therefore, when Legacy employees invest client assets, they frequently commit their own funds to the same investments.

Legacy also recognizes that potential conflicts of interest can arise from the personal investment activities of its principals and employees. In addition to its basic philosophical commitment to always place the interest of its clients above the personal interests of its principals and employees, Legacy has addressed potential conflict of interest issues decisively in its Personal Investment Policy and Code of Ethics (The "Legacy Code of Ethics"). The Legacy Code of Ethics governs the personal investment activities of Legacy's principals and employees and includes ethical policies and procedures that have been recommended by investment industry organizations and their advisors.

For example, the Legacy Code of Ethics requires that all principals and employees obtain approval from Legacy's Compliance Committee before buying or selling securities. It

restricts and, in most cases, prohibits short-term trading and requires all principals and employees to disclose their personal portfolio positions to Legacy's Compliance Committee on a regular basis. The Code of Ethics also addresses other aspects of business conduct, legal compliance, and the responsibilities of investment fiduciaries. Legacy will furnish its Code of Ethics to any client or prospective client upon request. The Legacy Code of Ethics reflects Legacy's commitment to always put the interests of its clients first.

Legacy also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by Legacy or any person associated with Legacy.

## **Item 12 – Brokerage Practices**

In most cases, Legacy recommends that its clients establish a custodial and brokerage account with one of three financial institutions that provide access to hundreds of no-load mutual funds and the normal range of stocks, exchange traded funds and bonds at discounted brokerage costs. These institutions include: Fidelity, Schwab and National Advisors Trust. By agreement with Legacy, these institutions also provide Legacy with electronic access to the client's account, access to the trading desk, and other services in connection with Legacy's management of the account assets. Fidelity, Schwab, and National Advisors Trust also offer Legacy's clients access to many institutional funds and share classes that would be otherwise unavailable to individual investors. When the client has selected a custodian broker, that institution's fee and commission structure will apply to trading in the client's account.

Clients who wish to utilize the services of another custodian/broker are free to do so, and are not required to retain Fidelity, Schwab, or National Advisors Trust. However, when a client selects another custodian broker, Legacy cannot assure the client that it will receive comparable services or pay comparable fees and commissions in connection with its account management.

Fidelity, Schwab, and National Advisors Trust also offer products, research, and services that may benefit Legacy. These are more fully described below. From time to time, Legacy may use some or all of the products, research and services offered. Therefore, Legacy's recommendation of Fidelity, Schwab, and National Advisors Trust can create conflicts or potential conflicts of interest because the services could influence Legacy's judgment in making such recommendations.

Legacy has established a Best Custody/Best Execution Committee which periodically reviews and evaluates the range and quality of services provided by Fidelity, Schwab, and

National Advisors Trust, the cost of such services, and its clients' needs for such services. The Committee considers at least the following factors: execution capabilities and efficiency, clearance, settlement, reputation, financial strength and stability, error resolution, fees, and other factors of that nature. In certain cases, a broker may be paid a commission in excess of that which another broker might have charged for effecting the same transaction.

Schwab provides Legacy with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisers on an unsolicited basis, at no charge to them as long as a total of at least \$10 million of the advisor's clients' assets are maintained in an account at Schwab Institutional. These services are not contingent upon Legacy's committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For Legacy client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab Institutional also makes available to Legacy other products and services that may benefit Legacy but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of Legacy's accounts, including accounts not maintained at Schwab.

Schwab's products and services that assist Legacy in managing and administering client accounts include software and other technology that (1) provide access to client account data (such as trade confirmations and account statements); (2) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (3) provide research, pricing, and other market data; (4) facilitate payment of Legacy's fees from client accounts; and (5) assist with back-office functions, recordkeeping, and client reporting.

Schwab Institutional also offers other services intended to help Legacy manage and further develop its business enterprise. These services may include: (1) compliance, legal and business consulting; (2) publications and conferences on practice management and business association; and (3) access to employee benefits providers, human capital consultants, and insurance providers. Schwab may make available, arrange and/or pay



third party vendors for the types of services rendered to Legacy. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services, or pay all or a part of the fees of a third-party providing these services to Legacy. Schwab Institutional may also provide other benefits such as educational events or occasional business entertainment of Legacy personnel. In evaluating whether to recommend or require that clients maintain custody of their assets at Schwab, Legacy may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

Legacy may receive client referrals from Schwab through Legacy's participation in Schwab Advisor Network® ("the Service"). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with Legacy. Schwab does not supervise Legacy and has no responsibility for Legacy's management of clients' portfolios or Legacy's other advice or services. Legacy pays Schwab fees to receive client referrals through the Service. Legacy's participation in the Service may raise potential conflicts of interest described below.

Legacy pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab, and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by Legacy is a percentage of the fees the client owes to Legacy or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. Legacy pays Schwab the Participation Fee for as long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to Legacy quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by Legacy and not by the client. Legacy has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs Legacy charges clients with similar portfolios who were not referred through the Service.

Legacy generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by Schwab, or assets in the account are transferred from Schwab. This Fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees the Advisor generally would pay in a single year. Thus, Legacy will have an incentive to recommend that Schwab-referred client accounts be held in custody at Schwab.



The Participation and Non-Schwab Custody Fees will be based on assets in accounts of Legacy's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, Legacy will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab, and to instruct Schwab to debit Legacy's fees directly from the accounts.

For accounts of Legacy's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from Legacy's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, Legacy may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. Legacy, nevertheless, seeks best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for Legacy's other clients. Thus, trades for accounts held in custody by Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

Legacy has an arrangement with Fidelity through which Fidelity provides Legacy with Fidelity's "platform" services. The platform services include, among others, brokerage, custodial, administrative support, recordkeeping and related services that are intended to assist Legacy in providing advisory services to its clients and, therefore, may also benefit Legacy.

Fidelity charges brokerage commissions for effecting individual equity and debt securities transactions and transaction fees for effecting certain no-load mutual fund transactions. Legacy's arrangement with Fidelity permits Legacy to obtain many no-load mutual funds without transaction charges and other no-load mutual funds at nominal transaction charges. Fidelity's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Fidelity may be higher or lower than those charged by other custodians and broker dealers.

As part of the arrangement, Fidelity also makes available to Legacy, at no additional charge to Legacy, certain research services. These services presently include access to a Fidelity website that includes numerous investment research publications, databases and/or conferences. Without its arrangement with Fidelity, Legacy might be compelled to purchase the same or similar services at its own expense.

National Advisors Trust is a federally chartered thrift institution founded by independent investment advisory firms like Legacy to provide custodial and trust services to their clients. Legacy owns less than .5% of the outstanding common stock of National Advisors Holdings, Inc., a Delaware corporation ("Holdings"), the parent company of National Advisors Trust. As shareholders in Holdings, Legacy is entitled to share in any dividends Holdings may pay to its shareholders. No such dividends have ever been paid.

National Advisors Trust provides Legacy with access to its institutional trading and custody services. It generally does not charge separately for custody services, but is compensated through commissions and other transaction-related fees for trades it executes or settles on behalf of Legacy clients. National Advisors Trust makes available a wide array of no-load mutual funds and other investments to Legacy's clients. In addition, it provides other services that assist Legacy in managing and administering client accounts. These services include access to client account data, facilitating securities transactions, research, pricing, and market data, facilitation of payment of Legacy's fees, and assistance with back office functions, recordkeeping, client reporting and/or conferences.

As a result of its ownership interest in Holdings and its receipt of services from National Advisors Trust at no additional cost, Legacy may have an incentive to refer clients to National Advisors Trust.

Historically, Legacy has not relied significantly on the research services offered by the three custodian brokers it currently recommends to clients. From time to time, however, Legacy may take advantage of research material, investment seminars, discounts on research subscriptions, and other similar services they offer, and such research services may be beneficial to Legacy and its clients. In such cases, clients who have retained the custodian broker that provides the research service may or may not benefit from the service, and clients who have not retained the custodian broker may or may not benefit from the service.

Legacy believes that many of the products, research and services offered by these custodian brokers are beneficial to its clients. However, because they also assist Legacy in the management of its clients' accounts, they are also beneficial to Legacy. Therefore, Legacy's recommendation of Fidelity, Schwab, or National Advisors Trust can create conflicts or potential conflicts of interest because the services could influence Legacy's judgment in selecting custodians to recommend to its clients. Legacy has addressed these conflict issues by establishing certain guidelines. Each recommended custodian must satisfy certain conditions: execution capabilities, clearance, settlement, reputation, financial strength and stability, access to a wide range of no-load mutual funds, well organized and efficient administrative and "back office" operations, responsiveness, and

competitive rates. Legacy's Best Custody and Best Execution Committee periodically reviews and evaluates each recommended custodian broker for its satisfaction of these conditions. The custodian brokers must be institutions that Legacy considers qualified and would recommend regardless of any additional services they provide to assist Legacy. The fees and commissions charged must be, in Legacy's judgment, reasonable in light of the value of services provided.

Legacy may aggregate trades in client accounts when implementing a new strategy or exiting an existing strategy. Legacy does not normally aggregate trades during the course of rebalancing individual portfolios. Aggregation does not reduce transaction fees.

### **Item 13 – Review of Accounts**

Legacy reviews all client accounts periodically. Each client account is assigned to a client service team.

The team has primary responsibility for the client relationship and reviews its client accounts. Teams are made up of at least four financial advisors. The titles of the team members responsible for client relationships and the review of client accounts are typically: Director of Client Services, Director of Financial Planning, Portfolio Manager and Financial Planner.

Reviews of client accounts are conducted to:

- 1) ascertain adequate cash for fee billing or client cash needs;
- 2) invest available funds or liquidate as instructed by client, rebalancing as necessary to keep the account within the parameters of the Investment Policy; and
- 3) change asset allocation if deemed necessary by the Investment Committee.

A review to determine need for rebalancing is performed every ten business days when possible on accounts for which custodians provide daily information. If the account information is received and loaded manually into the portfolio accounting system, and some accounts with limited holdings, the reviews for rebalancing are performed at least quarterly. Relationship Managers attempt to contact clients on a regular basis to see if the client's needs have changed and review other items.

Investment advisory clients receive written quarterly reports detailing their investment policy statement summary, holdings and valuation, performance, transactions, and fees.

Clients also receive written or electronic statements prepared by custodians either monthly or quarterly.

Financial Planning Account Reviews: For ongoing financial planning client services, review discussions are conducted on an as-needed basis or as stipulated in the contract. The review may include tax planning, retirement updates, or other financial issues. The teams conduct reviews in the manner described above for investment accounts.

#### **Item 14 – Client Referrals and Other Compensation**

Legacy may receive client referrals and other benefits through programs maintained by Schwab, Fidelity and National Advisors Trust. Legacy's participation in these programs is described in detail in Item 12, above.

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

#### **Item 15 – Custody**

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Legacy urges its clients to carefully review such statements and compare such official custodial records to the account reports that Legacy provides to you. Our reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Legacy is deemed to have custody based solely on the ability to obtain payment of its advisory fees upon presentation of a bill to the client's custodian.

#### **Item 16 – Investment Discretion**

At the outset of an advisory relationship, the client customarily provides Legacy with discretionary authority to select the identity and amount of securities to be bought or sold. The client provides this authority in our investment advisory agreement and in the various custodian account applications. In all cases, however, our discretion must be exercised in a manner consistent with the stated investment objectives for the particular client account.

Clients may place written limitations on Legacy's discretionary authority, but do not

customarily do so. Investment guidelines and restrictions imposed by client must be provided to Legacy in writing.

### **Item 17 – Voting Client Securities**

Legacy's advisory agreement does not authorize Legacy to vote client proxies. Clients will receive their proxies and other solicitations directly from custodians (or the investment company itself) and will retain responsibility for voting proxies for securities held in their portfolios. Legacy will provide clients with certain recommended guidelines for voting their proxies upon request, and Legacy may provide advice to clients regarding the clients' voting of proxies.

Legacy has agreed to vote client proxies for a limited number of trust clients whose circumstances require Legacy to vote the proxies. Legacy's Proxy Voting Policy describes its voting policy with respect to certain frequently recurring proxy proposals such as election of directors, selection of auditors, corporate governance, and other matters of that nature. The Proxy Voting Policy also describes Legacy's procedures for resolving any conflicts of interest that may arise. Because Legacy invests client assets primarily in open-end mutual funds with which Legacy has no affiliation, it is unlikely that such conflicts will arise. However, if Legacy should identify a conflict of interest, it will consult with an independent third party on any issues not specifically covered by its voting policy and guidelines, and will vote the proxies in accordance with the third party's recommendations. Clients for whom Legacy does vote proxies may obtain information from Legacy about how Legacy voted any proxies on behalf of their account(s).

Clients may obtain a copy of Legacy's proxy voting guidelines by contacting Legacy's Chief Compliance Officer, Cathy A. Simmons, at 901.758.9006.

### **Item 18 – Financial Information**

There are no financial conditions that are reasonably likely to impair Legacy's ability to meet its contractual commitments to clients.