

## APPENDIX 1 – WRAP FEE BROCHURE



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## WRAP FEE DISCLOSURE BROCHURE

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This brochure provides important information about the qualifications and business practices of USA Financial Portformulas Corporation. If you have questions about the contents of this brochure, please contact our compliance department at 800.869.5994. The information contained in this document has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or any state securities authority. This brochure was last revised on October 31, 2014.

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

Please consider carefully before becoming a client. USA Financial Portformulas is an SEC registered adviser, SEC File No.801-67442. SEC registration does not imply a certain level of skill or training.

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## **MATERIAL CHANGES**

USA Financial Portformulas Corporation's ("Portformulas") last firm brochure ("Brochure") update was July 22, 2014. This wrap-fee brochure ("Wrap-Fee Brochure") is a new addition to our firm's disclosure documents since our last Brochure update. We incorporated this Wrap-Fee Brochure based on our new custodial relationship with TD Ameritrade and our sub-adviser arrangement with Pershing. Portformulas' relationship with Trust Company of America ("TCA") does not constitute a wrap-fee arrangement because TCA charges clients a nominal cents-per-share trading cost above the assets under management ("AUM") fee. Conversely, all of TD Ameritrade's and Pershing's trading costs are incorporated into the AUM fee, therefore, our relationships with TD Ameritrade and Pershing are considered wrap-fee arrangements for which the SEC requires this supplemental disclosure document.

You may request a copy of our Brochure by contacting the compliance department at 800.869.5994.

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

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## SERVICES, FEES AND COMPENSATION

### Services

The primary purpose of this Appendix is to provide detailed information regarding our firm's wrap-fee program. A wrap-fee program bundles various services together and charges an all-inclusive fee, named a "wrap fee" because it wraps around all of the services rather than charging a separate fee for each service. Portformulas receives a portion of the wrap fee, as does the solicitor who referred you to our firm. Currently, Portformulas has relationships with two custodians: Trust Company of America ("TCA") and TD Ameritrade<sup>1</sup>. We also operate as a subadviser on USA Financial Securities' Pershing accounts. Our arrangements with TD Ameritrade and Pershing constitute wrap-fee programs. Our custodial arrangement with TCA is not considered a wrap-fee program because TCA charges clients a nominal cents-per-share charge above and beyond the assets under management ("AUM") fee.

Because wrap-fee accounts pay fees on a monthly basis, these accounts are typically best suited for investors who anticipate engaging in moderate to high levels of investment activity within their account. Infrequent trading is not supported by the fee structure, and clients with very little trading activity or account management are often better served in a traditional commission-based brokerage account. Because Portformulas engages in frequent, large-volume trading across all accounts on a monthly basis, we believe our clients are well suited for a wrap-fee arrangement.

TD Ameritrade and Pershing offer services to independently registered investment advisers, such as Portformulas. These services include custody of securities, trade execution, and clearance and settlement of transactions. Portformulas receives some economic benefits from TD Ameritrade through its participation in the TD Ameritrade Institutional program, such as discounts on marketing, technology, and practice management products provided to Portformulas by third-party vendors. See Other Compensation, below. These benefits do not depend on the amount of brokerage transactions directed to TD Ameritrade.

### Fees and Compensation

Clients who maintain TD Ameritrade or Pershing accounts will be charged a monthly fee, in arrears, based on assets under management. Fees may be negotiated, provided that the negotiated fee is within the appropriate assets under management fee range.

Account Value			AUM Formula Fee	Portfolio Fee	Combined Total Fee
\$35,000	but less than	\$500,000	1.44%	1.44%	2.88%
\$500,000	but less than	\$1,000,000	1.32%	1.32%	2.64%
\$1,000,000	but less than	\$2,000,000	1.20%	1.20%	2.40%
\$2,000,000	but less than	\$3,000,000	1.08%	1.08%	2.16%
\$3,000,000	but less than	\$4,000,000	0.96%	0.96%	1.92%
\$4,000,000	but less than	\$5,000,000	0.84%	0.84%	1.68%
<b>Larger accounts may be negotiable based upon size.</b>			0.84%	0.72%	1.56%
			0.84%	0.60%	1.44%
			0.84%	0.48%	1.32%

Account management fees are based on the account's fair market value (as reported by TD Ameritrade or Pershing) as of the preceding month's end. Our account management fees may be lower than this rate schedule, but only in limited circumstances. For example, in determining fees, rates, and minimums, we may aggregate related accounts and, for billing purposes, treat them like one account. This is done at our discretion and should not be considered the normal order of business. We may also reduce fees for employees and employees' family members. A Portformula's maximum fee may be lower than the fees listed, however, **none of Portformulas' models will charge fees that exceed those referenced in the above fee schedule**. Specific fee schedules, if different, will be provided as part of the informational documents that are generated when you select a specific Portformula or combination of Portformulas.

The maximum annual fee you will pay, based on your account value, is reflected in the column labeled Combined Total Fee. The AUM Formula Fee is the portion of the combined total fee paid to Portformulas. The Portfolio Fee is the portion of the combined total fee that is paid to the solicitor. The combined total fee is calculated by adding the AUM Formula Fee to the Portfolio Fee. The Combined Total Fee, above, includes all fees and charges related to Portformulas' and TD Ameritrade's or Pershing's services.

TD Ameritrade and Pershing will bill you for your account management fees on a monthly basis and will deduct the fees directly from your account. TD Ameritrade and Pershing are also responsible for sending you account statements. Your statements will show your account value and the fee charged. Statements are sent quarterly. You may object to the fee deduction by notifying us at the address or telephone number shown on each billing invoice or by notifying your custodian. Please keep in mind that in addition to the quarterly paper statements you receive, you also have 24-hour online access to your account and statements. Please review your account statements carefully and contact us if you have questions.

<sup>1</sup> Portformulas participates in TD Ameritrade Institutional's, Institutional Adviser Program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc., member FINRA/SIPC/NFA, an unaffiliated SEC-registered broker-dealer and investment adviser. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. TD Ameritrade, TD Ameritrade Institutional, and Portformulas are separate and unaffiliated companies.

Because wrap-fee programs charge a single fee for a range of services that could potentially be obtained separately, it is possible that our wrap fee may be more or less than the cumulative fees you would be charged if you obtained each service separately. Additionally, because your solicitor receives a percentage of the total AUM fee, that may be an incentive to recommend Portformulas over another money manager or investment product.

#### **ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS**

Portformulas requires a minimum account size of \$35,000 for TD Ameritrade accounts and \$50,000 for Pershing accounts. Exceptions may be made, solely in our discretion, based on a variety of factors, including but not limited to, prior or anticipated investment activity and family or employment relationships. We may also, in our discretion, aggregate related accounts in the same household in determining whether the account minimum has been met. Minimums may be negotiated depending on your personal circumstances. Furthermore, we also require that clients invest at least \$15,000 in each model.

#### **PORTFOLIO MANAGER SELECTION AND EVALUATION**

Because Portformulas strives to remove human emotion from investing as much as possible, we do not use money managers. Our CEO, Michael Walters, creates and defines each Portformula's overall investment objectives and the investment selection criteria. Once the investment-selection criteria is defined, however, we use that criteria to determine our investment recommendations – our proprietary, formulaic process applies the investment selection criteria to a universe of stocks or investment.

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

Portformulas does not charge performance fees – that is, fees based on a share of capital gains or capital appreciation of the assets in your account.

Side-by-side management occurs when an investment adviser manages both performance-based fee accounts non-performance based fee accounts at the same time. Side-by-side management can result in conflicts of interest because there is an incentive to direct clients to performance-based fee accounts because the firm will, most likely, receive more fees. However, because Portformulas does not charge performance fees, we do not engage in side-by-side management and have no conflicts of interest relevant to side-by-side management.

#### **Methods of Analysis, Investment Strategies and Risk of Loss**

##### Methods of Analysis

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As referenced above, Michael Walters, creates and defines each Portformula's overall investment objectives and the investment selection criteria. Once the investment-selection criteria is defined, however, we use that criteria to determine our investment recommendations – our proprietary, formulaic process applies the investment selection criteria to a universe of stocks or investment.

##### Investment Strategies

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Portformulas' investment strategies are varied. For example, our Squadron Portformula is based on a growth objective while the Brigade Portformula is based on a growth and value objective.

The most important thing to understand is that Portformulas' investment strategies utilize equities. Equities are risky and if you invest with Portformulas, you must be capable of bearing the risk of loss associated with an equity-laden investment strategy.

Additionally, attempting to eliminate human intervention from the investing process carries unique risks. Our RAM Score tool tracks market and economic indicators to determine the risk of recession. If the RAM Score tool detects a probable recession, it will move your assets out of the market. Similarly, once the RAM Score feature detects a probable bull market, it moves your assets back into the market. However, there is no tool that can predict market performance with any certainty. Thus, your Portformula could be invested in the market during a significant decline, resulting in losses, or out of the market during a period of growth, causing you to miss out on market gains.

Portformulas' investment strategies also involve frequent trading. Accounts are traded on a monthly basis. Because we trade on an omnibus level, we are able to keep trading costs low, however, you will pay more in transaction costs than you would if we did not engage in frequent trading. Also, frequent trading can result in tax consequences.

##### Risk of Loss

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Portformulas' investment strategies utilize securities, primarily equities. Investing in securities involves risk, including but not limited to, loss of principal, loss of investment gains and missed growth opportunities. Before investing you must determine whether you are financially capable of withstanding these losses, which could be significant.

#### **Voting Client Securities**

Portformulas will not be responsible for responding to proxies. TD Ameritrade and Pershing will forward all proxy information directly to you for response and voting. Because the majority of Portformulas' portfolios are equities-based, you may receive a large volume of proxies. It is also possible that

due to Portformulas' high turnover, by the time you receive proxy material, you will no longer own the relevant shares. Portformulas will not answer questions or provide guidance regarding particular proxy solicitations.

#### **CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS**

Portformulas does not utilize traditional money managers. When Portformulas opens your account, we allocate your assets to the specific Portformula or Portformulas you selected. From there, the Portformula chooses holdings based on the objective, investment selection criteria. Portformulas' advice is impersonal – we keep human emotion out of the investing process.

#### **CLIENT CONTACT WITH PORTFOLIO MANAGERS**

Portformulas does not utilize portfolio managers. However, you may contact our firm at any time if you have questions regarding your account or Portformulas' investment strategies.

#### **ADDITIONAL INFORMATION**

##### **Disciplinary Information**

Neither Portformulas nor its owners, officers, or directors have ever been involved in a material, disciplinary action.

##### **Other Financial Industry Activities and Affiliations**

###### **Other Financial Industry Activities**

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Portformulas' only business activity is operating as a registered investment adviser.

###### **Other Financial Industry Affiliations**

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Portformulas is a wholly owned subsidiary of USA Financial. USA Financial also owns three other companies: USA Financial Insurance Services Corporation, USA Financial Securities Corporation, and USA Financial Plug-N-Run Corporation. USA Financial Insurance Services wholesales fixed insurance products to independent licensed agents. USA Financial Securities is an SEC-registered investment adviser and broker-dealer. USA Financial Plug-N-Run develops marketing and technology solutions for financial professionals. USA Financial Media produces radio shows and other broadcast content.

Michael Walters is the chief executive officer of USA Financial Insurance Services, USA Financial Securities, and USA Financial Plug-N-Run. Brent D. Enders is the president of all three companies.

Our success depends on continued corporate and individual solicitor relationships with various broker-dealers, investment advisers, and banking institutions. Through these contacts, we obtain solicitors, and our relationship with solicitors is how we develop a client base. Additionally, we have custodial agreements with TCA and TD Ameritrade, and we serve as a subadviser on Pershing accounts. Only financial advisers registered with USA Financial Securities will have access to Portformulas' sub-advisory services on Pershing accounts. This is because USA Financial Securities utilizes Pershing as its clearing firm and custodian. Allowing Portformulas to act as a subadviser through Pershing simply allows Pershing clients to gain access to Portformulas' models without opening a separate account. We do not believe this represents a disadvantage because our non-Pershing clients will have access to the same models and receive the same services as Pershing clients. Portformulas' fees will also be the same across Pershing, TD Ameritrade, and TCA.

Portformulas obtains many of its solicitors through USA Financial Securities. USA Financial Securities also utilizes Pershing as a clearing firm (for brokerage transactions) and custodian (for investment advisory transactions). We also have an expense sharing agreement with USA Financial Securities and USA Financial Insurance Services. Employees of Portformulas may also be employees of USA Financial Securities, USA Financial Insurance Services, or USA Financial Plug-N-Run. Furthermore, some of the solicitors of Portformulas are also registered representatives of USA Financial Securities. Therefore, Portformulas' clients may also be clients of USA Financial Securities.

TCA, TD Ameritrade, and Pershing also provide our firm with technical support, as well as assistance in managing our investment portfolios.

Portformulas will recommend solicitors or other investment advisers upon request. Because Mr. Walters and Mr. Enders own an investment adviser, USA Financial Securities, we may recommend this firm for transactions. If you work with USA Financial Securities, it will result in compensation being paid to our affiliate. However, you do not have to use USA Financial Securities to invest with Portformulas and you will never pay more than what is stated in our fee schedule for Portformulas' services, regardless of which investment adviser you use.

###### **Additional Arrangements**

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Portformulas may, in its discretion, permit certain entities and/or individuals to work with Portformulas on a corporate level. An investor working with Portformulas on a corporate level does not utilize a solicitor. However, this is an extremely limited arrangement and is typically not available to most retail investors. While Portformulas utilizes the same fee schedule for all of its clients, when a client works with Portformulas on a corporate level, we retain the entire fee – including the portion that would normally be paid to the solicitor. Corporate-level investing is contingent upon a number of

factors, including, but not limited to, the value of an account's assets under management, the investor's industry experience or involvement, and the investor's organizational structure.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics**

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Our firm, its employees and associated persons are committed to providing high quality investment guidance to our clients in an atmosphere that puts your interests first, in full compliance with federal and state laws and regulations. Accordingly, the board of directors has adopted a code of ethics pursuant to SEC Rule 204A-1.

Our code of ethics covers our Firm, and its directors, officers, managers, employees and associated persons ("Covered Persons"). We have made our Code of Ethics available to all "Covered Persons." The Code of Ethics will be provided to any client or prospective client upon request.

### **Participation in Client Transactions and Personal Trading**

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Our firm has its own account and many of our employees and solicitors also have individual accounts ("proprietary accounts"). It is possible that our firm, our employees or our solicitors may purchase the same securities for its or their own accounts that we recommend to our clients, including clients that are related persons. Neither our firm nor our related persons are permitted to enter into or have an interest in an investment transaction that would create a conflict between our interests and your interests without fully disclosing the conflict to you. Neither our firm nor our related persons are permitted to benefit, directly or indirectly, from client transactions. Proprietary accounts may benefit on the same basis and to the same extent as clients' accounts when each holds the same investment. We do not allow "cross transactions" between clients or between clients and proprietary accounts.

Generally, client transactions must be executed before or at the same time as transactions for proprietary accounts. Portformulas' investment philosophy does not permit individual stock trades or independent transactions. Because each account within a particular Portformula has the same holdings and trades are made at the same time on an omnibus level, we do not believe that this is an issue.

### **Review of Accounts**

Portformulas reviews client accounts prior to the account opening. We examine each client's stated investment objectives, risk tolerance, and other financial holdings to determine if Portformulas is a suitable investment. We have a number of Portformulas and while each Portformula may have different goals and objectives, our overall investment strategies are designed for long-term investing. Therefore, Portformulas may not be an ideal investment option if your goal is short-term trading.

Each Portformula is reviewed monthly to ensure that the selection criteria is being applied properly and to rebalance accounts as necessary. Because all client accounts within a particular Portformula will hold the same securities, we do not conduct individual reviews on each account.

Portformulas does not provide regular written reports – you will have access to your account, online, 24 hours a day, seven days a week. This online access will allow you to see your account's specific holdings, your account value, and relevant tax information.

## **Client Referrals and Other Compensation**

### **Client Referrals**

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Portformulas enters into agreements with brokerage, investment advisory or insurance firms which permit us to enter into solicitor agreements with the firm's salespeople. We may also enter into solicitor agreements with individuals, corporations, or partnerships. We pay referral fees to individuals who solicit clients for our firm. If the individual solicitor is an investment adviser representative of an investment adviser, we pay the referral fees to the investment adviser who keeps a portion of the fees and then pays the remainder of the referral fees to the individual.

### **Other Compensation**

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From time to time, and in our firm's discretion, we may provide additional compensation to solicitors, including but not limited to reimbursing solicitors for marketing expenses. This means solicitors may have a temporary conflict of interest resulting from the additional incentive to recommend our firm. However, under no circumstances will this affect the fees you pay for portfolio and supervisory services, nor will it affect our investment recommendations. Under normal compensation procedures, you pay a fee for portfolio and supervisory services based on assets under management. Our firm keeps a portion of that fee as compensation for our services, and gives the remainder to the soliciting firm, who then pays the soliciting representative. Should we choose to provide additional compensation to our solicitors, our firm would simply take less and give more of the fee we receive to the soliciting firm.

As disclosed, above, Portformulas participates in TD Ameritrade's institutional customer program and, accordingly, we may recommend TD Ameritrade to you and other clients for custody and brokerage services. There is no direct link between our participation in the program and the investment advice we give to our clients, although we do receive some economic benefits by participating in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Portformulas' needs; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Portformulas by third party vendors.

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

### **Financial Information**

There are currently no financial issues or conditions that are reasonably likely to impair our firm's ability to meet our contractual obligations.

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