

# **KCS Wealth Advisory**

(CRD # 169846)

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## **Form ADV, Part 2A Brochure**

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This brochure provides information about the qualifications and business practices of KCS Wealth Advisory. If you have any questions about the contents of this brochure, please contact us at (310) 734-4740 or [info@kcswealth.com](mailto:info@kcswealth.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Any reference to or use of the terms “registered investment adviser” or “registered,” does not imply that KCS Wealth Advisory or any person associated with KCS Wealth Advisory has achieved a certain level of skill or training. Additional information about KCS Wealth Advisory is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2 - MATERIAL CHANGES

The purpose of this page is to inform you of any material changes since the previous annual update to this brochure. If you are receiving this brochure for the first time this section may not be relevant to you.

KCS Wealth Advisory is a newly registering investment adviser. This brochure is KCS Wealth Advisory's first brochure and therefore we have not made any material changes. We review and update this brochure at least annually to confirm that it remains current. In the future, this item will discuss only specific material changes that we made to the brochure and provide you with a summary of such changes. Future summaries will also reference the date of the last annual update of this brochure.

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## ITEM 4 - ADVISORY BUSINESS

### Description of Advisory Firm

KCS Wealth Advisory, LLC dba KCS Wealth Advisory (“KCS,” “we,” “our,” or “us”), is a privately owned limited liability company headquartered in Los Angeles, CA. Dr. Kenneth B. Waltzer originally founded KCS’ predecessor firm, Kenfield Capital Strategies, in 2004. In 2013, Dr. Waltzer merged practices with Laura Gilman to form KCS Wealth Advisory.

### Advisory Services Offered

KCS offers the following services to advisory clients:

#### Investment Management Services

KCS offers investment supervisory services on a discretionary basis. We also offer non-discretionary management services to individual participants of retirement plans. KCS manages money based on each client’s financial needs and desires, with attention to how KCS-managed accounts fit into the client’s overall financial plan. We seek to maximize returns for a given level of risk based on the asset classes used and each client’s needs and risk tolerance.

KCS primarily utilizes the following investment types when making purchases in new discretionary client accounts:

1. Equity securities, including stocks and foreign securities listed on US exchanges (ADRs) or foreign exchanges (ordinaries)
2. Fixed income securities, including corporate and government bonds, and certificates of deposit (CDs)
3. Securities with equity and debt characteristics, including convertible bonds, preferred stocks or other preferred securities
4. Municipal securities
5. Mutual funds and exchange traded funds (ETFs)
6. Exchange traded notes (ETNs)
7. Closed-end funds
8. U.S. government securities
9. Money market funds and cash
10. Options contracts on securities
11. Real estate investment trusts (REIT)
12. Master limited partnerships (MLPs)
13. Treasury inflation-protected securities (TIPS)
14. Inflation-indexed bonds

Weightings in each investment type will vary based on the type of portfolio the client selects and whether the account is taxable or non-taxable. KCS may also occasionally utilize additional types of investments if they are appropriate to address the individual needs, goals, and objectives of the client or



in response to client inquiry. KCS may offer investment advice on any investment held by the client at the start of the advisory relationship.

We describe the material investment risks for many of the securities that we utilize under the heading ***Specific Security Risks*** in ***Item 8*** below. We discuss our discretionary authority below under ***Item 16 - Investment Discretion***. For more information about the restrictions clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this item below. We describe the fees charged for investment management services below under ***Item 5 - Fees and Compensation***.

### *Financial Planning Services*

KCS offers a range of financial planning services, from broad planning to custom planning focused on specific areas requested by the client.

As part of the financial planning process, KCS collects information about the client's financial situation and needs, which may include: net worth, income, expenses, taxes, investments, retirement plans, life insurance, disability insurance, health insurance, long term care insurance, business agreements, divorce papers, pre-nuptial agreements, estate documents, and any other documents that pertain to their overall financial picture. In addition, KCS asks the client about their future goals and objectives. KCS then develops a written personalized plan including specific recommendations in all applicable areas.

KCS may also work with the client to provide advice regarding a particular aspect of the client's financial situation. Areas of focus might include:

1. Preparing for or living in retirement
2. Investment strategies
3. Estate planning strategies
4. Income tax planning
5. Stock option analysis and planning
6. Insurance: life, disability, medical, long-term care insurance
7. Family savings and cash flow planning
8. Education planning and funding
9. Charitable gifting
10. Debt management
11. Employee benefit usage
12. Other, as determined between KCS and the client

A conflict exists between our interests and the interests of our clients when we make financial planning recommendations that may include other services we offer. Clients are under no obligation to act upon our recommendations. If a client elects to act on any of our recommendations, the client is under no obligation to effect the transaction through KCS. Our financial planning services do not include preparation of any kind of income tax, gift, or estate tax returns nor preparation of any legal documents, including wills or trusts. We describe fees charged for financial planning services below under ***Item 5 - Fees and Compensation***.

### Pension Consulting Services

Pension consulting services include: assisting clients in choosing the best type of pension plan for their businesses; recommending TPAs and actuaries when necessary; providing participant education; helping clients choose investment options, including default investment options; reviewing the plan annually with the administrator/client.

The costs for these services are included in our investment management fees and not charged separately.

### Limitations on Investments

In some circumstances, KCS's advice may be limited to certain types of securities.

#### *Limitation by Plan Sponsor/Employer*

In the event KCS is managing assets within a retirement plan such as 401(k), 403(b), ORP or other employer plan, KCS is limited to those investment providers and investment options chosen by the plan administrator. Similarly, when we provide services to participants in an employer-sponsored plan, the participant may be limited to investing in securities included in the plan's investment options. Therefore, KCS can only make recommendations to the client from among the available options, and will not recommend or invest the client's account in other securities, even if there may be better options elsewhere.

#### *Limitation by Issuer*

In the event KCS is managing assets within an annuity, KCS is limited to those investment options made available by the insurance company.

#### *Mutual Fund Limitations*

KCS generally limits mutual fund selections to no load funds or load-waived equivalents.

#### *Limitation by Client*

KCS may also limit advice based on certain client-imposed restrictions. For more information about the restrictions clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this Item below.

## **Tailored Services and Client Imposed Restrictions**

KCS manages client accounts based on the investment strategy the client chooses, as discussed below under ***Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss***. KCS applies the selected strategy for each client, based on the client's individual circumstances and financial situation. We make investment decisions for clients based on information the client supplies about their financial situation, goals, and risk tolerance. Our investment selections may not be suitable if the client does not provide us with accurate and complete information. It is the client's responsibility to keep KCS informed of any changes to their investment objectives or restrictions.

Clients may also request other restrictions on the account, such as when a client needs to keep a minimum level of cash in the account or does not want KCS to buy or sell certain specific securities or security types in the account. KCS reserves the right to not accept and/or terminate management of a client's account if we feel that the client-imposed restrictions would limit or prevent us from meeting or maintaining the client's investment strategy.

## Wrap Fee Programs

KCS does not manage accounts as part of a wrap or bundled fee program.

## Assets Under Management

KCS manages client assets in both discretionary and non-discretionary accounts on a continuous and regular basis. As a newly registering firm, KCS does not have reportable assets under management.

## ITEM 5 - FEES AND COMPENSATION

### Fee Schedule

#### Investment Management Services

KCS charges advisory fees for investment management services. KCS's advisory fees are charged based on a percentage of the client's total assets under management, per the following schedule:

<u>Assets Under Management</u>	<u>Investment Management Only</u>	<u>Investment Management and Financial Planning</u>
First \$ 1 million	1.500%	1.750%
Next \$ 1 million	1.250%	1.500%
Next \$ 3 million	1.125%	1.250%
Next \$ 5 million	1.000%	1.125%
Over \$ 10 million	0.900%	1.000%

At our discretion, we may apply a lower fee rate than specified above to securities with separate fees or costs (such as mutual funds or annuities), or for portfolios with large allocations of fixed income securities. Some existing accounts may be under different fee schedules honoring prior agreements (see also **Minimum Fee** below). KCS may aggregate client accounts that have family relationships with each other for purposes of calculating the advisory fee rate applicable to each client. Our standard fee schedule may be negotiable. We also manage some family and related accounts without charge. Lower fees for comparable services may be available from other sources.

#### Financial Planning Services

Clients may pay fees for financial planning services in one of three methods:

1. As a percentage of assets under management as part of a combined advisory fee that includes investment management (see fee schedule above); or
2. At an hourly rate of \$375.

Financial planning rates may be negotiable depending on the nature and complexity of each client's circumstances. For hourly arrangements, we will provide an estimate of the total hours required at the start of the relationship.

Some accounts may be under different fee schedules honoring prior agreements. KCS may also provide services at a reduced rate or free of charge for certain clients (such as family members).

### Pension Consulting Services

<u>Total Assets Managed</u>	<u>Annual % of Total Assets</u>	
	Equity & Balanced Accts.	Fixed Income Accts.
First \$1 million	1.500%	0.750%
Next \$1 million	1.250%	0.650%
Next \$3 million	1.125%	0.600%
Next \$5 million	1.000%	0.500%
Over \$10 million	0.900%	0.450%

At our discretion, we may, in calculating the Advisory Fee, apply a lower fee rate than specified in the above fee schedule to securities with separate fees or costs (such as mutual funds or annuities). The Advisory Fee may be negotiable under certain circumstances. Lower fees for comparable services may be available from other sources.

### Minimum Fee

All accounts are subject to a minimum annual fee of \$5,000. At the end of the year, if the regular management fees KCS has received calculated based on assets under management is less than our minimum advisory fee, we will add the difference to the client's last quarterly billing to reach our minimum fee. However, we may make exceptions at our discretion. Additionally, we may waive the minimum fee requirement for clients with smaller portfolios based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, account composition, related accounts, and pre-existing client relationships. KCS generally aggregates the portfolios of family members to meet the minimum fee requirement.

## **Billing Method**

### Investment Management Services

KCS's advisory fees are payable quarterly in arrears based on the client's average daily balance during the prior calendar quarter. The first payment is due after the first full or partial quarter under management; the date used to calculate the duration of the initial quarter is the contract signing date. The formula used for to calculate Average Daily Balance is as follows: The value of each asset is calculated for each day of the billing period using daily closing prices. Weekends use Friday prices, and holidays use the price from the prior market day. For assets that are not priced daily, the most recent prices are used. Each asset's values are then added together for each day of the billing period and divided by the number of days that the asset's value was more than zero to obtain an average daily asset value. The average daily asset values are then summed and divided by the number of days in the billing period to obtain an Average Daily Balance for the portfolio.

For advisory fee calculation purposes, a calendar quarter is a period beginning on January 1, April 1, July 1, or October 1 and ending on the day before the next quarter. A day is any calendar day including weekends and holidays. For new accounts, the number of days remaining in the quarter is the number of calendar days following the date a new account is funded.

At our discretion, we may make pro-rations for additions or withdrawals greater than \$20,000 during a quarter. In these instances, we will calculate the fee based on the average daily account balance during the preceding quarter. KCS also bills under different methods honoring prior agreements, most commonly end-of-quarter balance.

Clients customarily have advisory fees withdrawn directly from their custodian account. With client authorization, KCS will automatically withdraw our advisory fee from the client's account held by an independent custodian. Typically, the custodian withdraws advisory fees from the client's account during the first month of each quarter based on our instruction. All clients will receive brokerage statements from the custodian no less frequently than quarterly. The custodian statement will show the deduction of the advisory fee for those clients who authorize the advisory fees to be withdrawn directly from their custodian account.

KCS will send a statement to each client who authorizes KCS to withdrawal fees directly from the custodian. The statement will show the amount of the fee, the value of the client's assets upon which we based the fee, and the specific manner in which we calculated the fee. It is the client's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

Clients with ERISA accounts may choose to have fees billed after the rendering of services. KCS will send an invoice to all clients who choose not to have advisory fees withdrawn directly from their custodian account. The invoice is payable within 30 days and will include the fee calculation and amount due. We may allow similar arrangements for non-ERISA accounts on rare occasions at our discretion.

### *Financial Planning Services*

For hourly payment arrangements, one-half of the total estimated fees are due and payable at the time the client executes the agreement. The remainder of the fee is due upon presentation of the financial plan. For financial plans combined with ongoing management services, fees are billed quarterly in arrears as described above. Fees for financial plan reviews are included in the rate paid by investment management clients. Financial plan clients with hourly arrangements pay the review fees as stated in the client's financial planning agreement.

## **Other Fees and Expenses**

KCS's fees do not include custodian fees. Clients pay all brokerage commissions, stock transfer fees, and/or other similar charges incurred in connection with transactions in accounts, from the assets in the account. These charges are in addition to the fees client pays to KCS. See ***Item 12 - Brokerage Practices*** below for more information.

In addition, any mutual fund shares held in a client's account may be subject to deferred sales charges, 12b-1 fees, early redemption fees, and other fund-related expenses. The fund's prospectus fully describes the fees and expenses. All fees paid to KCS for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds. Mutual funds pay advisory fees to their managers, which are indirectly charged to all holders of the mutual fund shares.

## **Termination**

### **Investment Management Services**

Either party may terminate the advisory agreement upon thirty (30) days written notice to the other party. The client may terminate the agreement by writing KCS at our office. Upon termination of the agreement, any earned, unpaid advisory fees will be due and payable. The client will receive an invoice showing the advisory fees due for services rendered and not yet paid.

Terminations will not affect liabilities or obligations from transactions initiated in client accounts prior to termination. In the event the client terminates the investment advisory agreement, KCS will not liquidate any securities in the account unless instructed by the client to do so. In the event of client's death, KCS will continue management of the account until we are notified of client's death and given alternative instructions by an authorized party.

### **Financial Planning Services**

Either party may terminate a financial planning engagement at any time upon written notice to the other party. If the client elects to terminate the agreement prior to completion of the assignment, KCS will provide an invoice for services provided through the date of termination. We will refund any fees paid in advance by the client that exceed the amount due for services performed up to the termination date.

## **Other Compensation**

KCS does not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds. Clients have the option to purchase investment products that KCS recommends through any broker or agent they desire.

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

KCS does not charge performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

## **ITEM 7 - TYPES OF CLIENTS**

KCS offers discretionary investment advisory and financial planning services to individuals, high net worth individuals, trusts and estates, and non-discretionary services to individual participants of retirement plans. In addition, we offer advisory services to pension and profit sharing plans, charitable organizations, and businesses.

## Account Requirements

Generally, KCS requires clients to maintain a minimum account size of \$500,000. If the account(s)' value falls below the \$500,000 minimum (or other agreed minimum) as a result of client's withdrawing cash or securities, the client will, upon receipt of written notice from KCS, have a period of 60 calendar days to deposit additional assets sufficient to restore the overall asset value of the account(s) to the minimum. If the minimum is not restored within 60 calendar days, KCS reserves the right to terminate the Agreement. We may combine family accounts to meet the account size minimum. KCS may reduce or waive the account minimum requirements at our discretion.

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

### Methods of Analysis and Investment Strategies

#### General Investment Strategies

KCS selects categories of investments based on the clients' attitudes about risk and their need for capital appreciation or income. Different instruments involve different levels of exposure to risk. Within each investment category, KCS selects individual securities with characteristics that are most consistent with the client's objectives. We deal with any client restrictions on an account-by-account basis.

Since KCS treats each client account uniquely, client portfolios with a similar investment objectives and asset allocation goals may own different securities. Timing and tax factors also influence KCS's investment decisions. Clients who buy or sell exchange-listed securities on the same day may receive different prices.

#### Investment Portfolios

KCS offers eight different portfolio styles for managing discretionary client accounts:

1. Capital Preservation
2. Conservative Income
3. Balanced Income
4. Balanced
5. Balanced Growth
6. Growth
7. Aggressive Growth
8. Leveraged Growth

Within each style, there are additional allocation variances for taxable and non-taxable accounts. Additionally, KCS offers a non-taxable defined benefit plan portfolio style. We structure all accounts in an effort to maximize returns for a given level of risk based on the asset classes used and each client's needs and risk tolerance. KCS generally uses diversification in an effort to optimize the risk and potential return of a portfolio. Further, we utilize multiple asset classes, investment styles, market capitalizations, sectors, and regions to provide diversification. Each portfolio composition is determined in accordance

with the clients' investment objectives, risk tolerance, and time horizon. We utilize both passive and active investment management strategies in an effort to optimize portfolios.

Each portfolio maintains a target asset allocation. Generally, KCS reviews each portfolio at least quarterly to evaluate the extent to which the actual allocation matches the target allocation. Where we consider the variance excessive, KCS takes appropriate actions (buys and sells) in order to bring the actual allocation within acceptable range of the target allocation. We refer to this process as "re-balancing." Since we believe that all investments are subject to cycles, this process of re-balancing offers a systematic process to help us sell when investment categories have been in favor and to buy when they have been out of favor.

### *Methods of Analysis for Selecting Securities*

KCS may use fundamental, cyclical, and/or technical analysis in the selection of individual equity securities. Additionally, KCS may use specific strategies or resources in the method of analysis and selection of mutual funds and fixed income securities.

#### *Fundamental Analysis*

Fundamental analysis typically involves analysis of corporate financial statements, management presentations, specialized research publications, and general news sources.

#### *Cyclical Analysis*

Cyclical analysis involves the analysis of business cycles to find favorable conditions for buying and/or selling a security.

#### *Technical Analysis*

The effectiveness of technical analysis depends upon the accurate forecasting of major price moves or trends in the securities traded by KCS. However, there is no assurance of accurate forecasts or that trends will develop in the markets we follow. In the past, there have been periods without discernible trends and similar periods will presumably occur in the future. Even where major trends develop, outside factors like government intervention could potentially shorten them.

Furthermore, one limitation of technical analysis is that it requires price movement data, which can translate into price trends sufficient to dictate a market entry or exit decision. In a trendless or erratic market, a technical method may fail to identify trends requiring action. In addition, technical methods may overreact to minor price movements, establishing positions contrary to overall price trends, which may result in losses. Finally, a technical trading method may under perform other trading methods when fundamental factors dominate price moves within a given market.

The calculations that underlie KCS's system, methods, and strategies involve many variables, including determinants from information generated by computers and/or charts. The use of a computer in collating information or in developing and operating a trading method does not assure the success of the method because a computer is merely an aid in compiling and organizing trade information. Accordingly, no assurance is given that the decisions based on computer-generated information will produce profits for a client's account.



### *Mutual Funds*

In analyzing mutual funds, we review key characteristics such as historical performance, consistency of returns, risk level, and size of fund. In addition, KCS may analyze fund managers, annual reports, and any competitive advantages. We use public and private research sources, fund reporting, and fund conference calls. Expense ratio and other costs are also significant factors in fund selection.

### *Debt Securities (Fixed Income)*

KCS relies on credit rating agencies such as Standard & Poor's and Moody's to help determine the financial strength of issuing creditors. We also use prospectuses and other relevant information from bond underwriters to help in analysis and selection of fixed income securities. KCS considers the financial strength of the issuer, call provisions, liquidity factors, and bond insurance in selecting bonds for purchase. For less liquid securities, KCS may solicit bids from several underwriters (i.e. brokerages) in an effort to obtain the most attractive yield on purchase.

### *Specific Investment Strategies for Managing Portfolios*

KCS may use Modern Portfolio Theory, the Fama/French Three-Factor Model, tactical asset allocation, long-term holding, short-selling, options, defensive, hedging, leverage, and/or inverse/enhanced market strategies in the construction and management of client portfolios.

### *Modern Portfolio Theory (MPT) & Fama/French*

KCS uses the Modern Portfolio Theory, which has a basic concept of using diversification in an effort to help optimize the risk and potential return of a portfolio. The goal of Fama/French is to implement the latest academic research into clients' portfolios while using MPT. KCS uses the Fama/French Three-Factor Model and mean-variance analysis, among other methods, when analyzing mutual funds to set the parameters of the asset classes.

### *Tactical Asset Allocation*

KCS may use a tactical asset allocation strategy in the shorter term to deviate from a client's long-term strategic asset allocation target in an effort to take advantage of what we perceive as market pricing anomalies or strong market sectors or to avoid perceived weak sectors. Once KCS achieves the desired short-term opportunities or perceives that opportunities have passed, we generally return a client's portfolio to the original strategic asset mix. There is no guarantee that this strategy will be successful and we make no promises or warranties as to the accuracy of our market analysis.

### *Long-term Holding*

KCS does not generally purchase securities for clients with the intent to sell the securities within 30 days of purchase, as KCS does not use short-term trading as an investment strategy. However, there may be times when KCS will sell a security for a client when the client has held the position for less than 30 days. KCS does not attempt to time short-term market swings. Short term buying and selling of securities is typically limited to those cases where a purchase has resulted in an unanticipated gain or loss in which we believe that a subsequent sale is in the best interest of the client.

### *Short-Selling*

KCS may use short sales to partially hedge other investments in a client's account or to seek increased returns. A client would realize a profit from a short position, if the value of the underlying security sold

“short” is lower when the borrowed security is replaced (“covered”) and would realize a loss if the security’s value is higher when covered. The loss from a short sale that is not covered by a similar security could theoretically be unlimited depending on how much the security sold short increases in value. Clients may specifically request KCS to limit or avoid the use of short sales with their accounts.

The use of this strategy may increase the recognition (for income tax purposes) of gains and losses and increase other expenses (such as brokerage charges) compared to accounts that do not use these techniques.

### *General Option Strategies*

KCS may use option strategies with accounts that, after discussion with the client of the risks and benefits of options, have been given options trading approval. The option strategies may include covered calls, uncovered calls or puts, straddles, collars or other strategies with defined downside risk. KCS may use covered and uncovered options (puts or calls) on major market indexes or individual stocks in an effort to enhance portfolio income or manage portfolio risk.

Clients should read the option disclosure document, “Characteristics and Risks of Standardized Options,” which can be obtained from any exchange on which options are traded, by calling 1-888-OPTIONS, or by contacting KCS.

### *Collar Strategy*

A collar is an options trading strategy that is constructed by holding shares of an underlying security while simultaneously buying protective puts and selling call options against that holding.

### *Covered Call Strategy*

A covered call is an option strategy whereby the investor holds a position in a stock and writes (sells) call options on that same stock in an attempt to generate increased income from the stock. KCS often employs covered calls when an investor has a short-term neutral view on the stock, and for this reason holds the stock long, and simultaneously has a short position via the option to generate income from the option premium.

KCS manages accounts using this investment strategy in an attempt to hedge risk and increase return by the sale of covered calls against the positions in the account. An investor should consider that the risk level in these accounts is somewhat reduced by the sale of the calls, but the upside potential of the account is also limited by the sale of the call. Under certain circumstances, KCS may use other option strategies based on:

1. the investment objectives and risk tolerance of the client;
2. disclosures to and discussions with the client; and
3. as specifically agreed upon with the client.

### *Defensive Strategies*

If KCS anticipates poor near-term prospects for equity markets, we may adopt a defensive strategy for clients’ accounts by investing substantially in fixed income securities and/or money market instruments, by purchasing put options on indexes, securities or index funds, through short sales of securities, index

options or index funds, and/or via other derivative hedging techniques. There can be no guarantee that the use of derivatives and other defensive techniques would be successful in avoiding losses. In addition, we would use these defensive strategies for a client's account only to the extent not prohibited by the governing management agreement and applicable law. Clients may specifically request KCS to limit or avoid the use of these defensive techniques with their accounts.

### *Hedging*

KCS may recommend a variety of hedging strategies, including variable forward sales contracts and collars, when such strategies are in the client's best interest. For example, hedging strategies may be in the client's best interest in cases when a client holds a significant interest in restricted or low tax basis stock.

### *Leverage*

KCS may use leverage to in an effort to increase portfolio returns, typically using call options on common stocks or stock indexes, and employing leveraged ETFs. The amount of leverage employed, and the precise techniques used, are determined based on each client's risk tolerance and overall financial situation, as well as current and anticipated future market conditions. While the use of leverage can increase returns, it can also magnify losses. Clients may specifically request that KCS limit or avoid the use of some or all types of leverage in their accounts.

The above investment techniques may involve the use of derivative securities, including options, in an effort to increase portfolio return. Securities are considered derivatives when their value is determined by or derived from the performance of an underlying asset or index. A client's account would lose the premium and transaction costs related to the purchase of an unexercised option that expires worthless.

The price movements of derivatives may be more volatile than the price movements of other securities, and therefore may result in more than ordinary investment risk. Many of these investments may not enjoy as much liquidity as other securities, although KCS seeks to invest in liquid derivative contracts to the extent possible and consistent with our investment strategy.

The use of the strategies discussed above may increase the recognition (for income tax purposes) of gains and losses and increase other expenses (such as brokerage charges) compared to accounts that do not use these techniques.

### *Inverse/Enhanced Market*

KCS may also use leveraged long and short mutual funds and/or exchange traded funds that are designed to perform in either an:

1. Inverse relationship to certain market indices (at a rate of one or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; or

2. Enhanced relationship to certain market indices (at a rate of one or more times the actual result of the corresponding index) as an investment strategy and/or in an effort to increase gains in an advancing market.

## **Investing Involves Risk**

Prior to entering into an agreement with KCS, the client should carefully consider:

1. That investing in securities involves risk of loss which clients should be prepared to bear;
2. That securities markets experience varying degrees of volatility;
3. That over time the client's assets may fluctuate and at any time be worth more or less than the amount invested; and
4. That clients should only commit assets that they feel are available for investment on a long-term basis.

## **Specific Security Risks**

### *General Risks of Owning Securities*

The prices of securities held in client accounts and the income they generate may decline in response to certain events taking place around the world. These include events directly involving the issuers of securities held as underlying assets of mutual funds in a client's account, conditions affecting the general economy, and overall market changes. Other contributing factors include local, regional, or global political, social, or economic instability and governmental or governmental agency responses to economic conditions. Finally, currency, interest rate, and commodity price fluctuations may also affect security prices and income.

### *Equity Securities*

Equity securities represent an ownership position in a company. Equity securities typically consist of common stocks. The prices of equity securities fluctuate based on, among other things, events specific to their issuers and market, economic and other conditions. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

There may be little trading in the secondary market for particular equity securities, which may adversely affect the ability to dispose of those equity securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of equity securities.

### *Small Capitalization Equity Securities*

Investing in smaller companies may pose additional risks as it is often more difficult to dispose of small company stocks, more difficult to obtain information about smaller companies, and the prices of their stocks may be more volatile than stocks of larger, more established companies. Clients should have a long-term perspective and, for example, be able to tolerate potentially sharp declines in value.

## Debt Securities (Bonds)

Issuers use debt securities to borrow money. Generally, issuers pay investors periodic interest and repay the amount borrowed either periodically during the life of the security and/or at maturity. Alternatively, investors can purchase other debt securities, such as zero coupon bonds, which do not pay current interest, but rather are priced at a discount from their face values and their values accrete over time to face value at maturity. The market prices of debt securities fluctuate depending on such factors as interest rates, credit quality, and maturity. In general, market prices of debt securities decline when interest rates rise and increase when interest rates fall. The longer the time to a bond's maturity, the greater its interest rate risk.

Certain additional risk factors relating to debt securities include:

### Reinvestment Risk

When interest rates are declining, investors have to reinvest their interest income and any return of principal, whether scheduled or unscheduled, at lower prevailing rates.

### Inflation Risk

Inflation causes tomorrow's dollar to be worth less than today's; in other words, it reduces the purchasing power of a bond investor's future interest payments and principal, collectively known as "cash flows." Inflation also leads to higher interest rates, which in turn leads to lower bond prices.

### Interest Rate and Market Risk

Debt securities may be sensitive to economic changes, political and corporate developments, and interest rate changes. Investors can also expect periods of economic change and uncertainty, which can result in increased volatility of market prices and yields of certain debt securities. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

### Call Risk

Debt securities may contain redemption or call provisions entitling their issuers to redeem them at a specified price on a date prior to maturity. If an issuer exercises these provisions in a lower interest rate market, the account would have to replace the security with a lower yielding security, resulting in decreased income to investors.

Usually, a bond is called at or close to par value. This subjects investors that paid a premium for their bond to a risk of lost principal. In reality, prices of callable bonds are unlikely to move much above the call price if lower interest rates make the bond likely to be called.

### Credit Risk

If the issuer of a debt security defaults on its obligations to pay interest or principal or is the subject of bankruptcy proceedings, the account may incur losses or expenses in seeking recovery of amounts owed to it.

### Liquidity and Valuation Risk

There may be little trading in the secondary market for particular debt securities, which may affect adversely the account's ability to value accurately or dispose of such debt securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of debt securities.

It may be possible to reduce the risks described above through diversification of the client's portfolio and by credit analysis of each issuer, as well as by monitoring broad economic trends and corporate and legislative developments, but there can be no assurance that we will be successful in doing so. Credit ratings for debt securities provided by rating agencies reflect an evaluation of the safety of principal and interest payments, not market value risk. The rating of an issuer is a rating agency's view of past and future potential developments related to the issuer and may not necessarily reflect actual outcomes. There can be a lag between the time of developments relating to an issuer and the time a rating is assigned and updated.

Bond rating agencies may assign modifiers (such as +/-) to ratings categories to signify the relative position of a credit within the rating category. Unless we state otherwise, clients should include any security within that category without considering the modifier when reading their investment policies based on ratings categories.

### Exchange-Traded Funds (ETFs)

An ETF is a type of Investment Company (usually, an open-end fund or unit investment trust) containing a basket of stocks. Typically, the objective of an ETF is to achieve returns similar to a particular market index, including sector indexes. An ETF is similar to an index fund in that it will primarily invest in securities of companies that are included in a selected market. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETFs trade throughout the day on an exchange. Like stock mutual funds, the prices of the underlying securities and the overall market may affect ETF prices. Similarly, factors affecting a particular industry segment may affect ETF prices that track that particular sector.

ETFs traditionally have been index funds, but in 2008, the U.S. Securities and Exchange Commission began to authorize the creation of actively managed ETFs.

### Exchange-Traded Notes (ETNs)

An ETN is a senior, unsecured, unsubordinated debt security by an underwriting bank whose primary objective is to achieve the same return as a particular market index. Similar to other debt securities, the credit of the issuer is the only backing for ETNs, which have a maturity date. Although performance is contractually tied to whatever index the ETN is intended to track, ETNs do not have any assets, other than a claim against their issuer for payment according to the terms of the contract. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETNs trade throughout the day on an exchange. ETNs, as debt instruments, are subject to risk of default by the issuing bank as counter party. This is the major design difference between ETFs and ETNs: ETFs are only subject to market risk whereas ETNs are subject to both market risk and the risk of default by the issuing financial institution.

### Mutual Funds (Open-end Investment Company)

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The portfolio of the fund consists of the combined holdings it owns. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. The price that investors pay for mutual fund shares is the fund's per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase (such as sales loads).

The benefits of investing through mutual funds include:

#### Professionally Managed

Mutual funds are professionally managed by investment advisers who research, select, and monitor the performance of the securities the fund purchases.

#### Diversification

Mutual funds typically have the benefit of diversification, which is an investing strategy that generally sums up as "Don't put all your eggs in one basket." Spreading investments across a wide range of companies and industry sectors can help lower the risk if a company or sector fails. Some investors find it easier to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.

#### Affordability

Some mutual funds accommodate investors who do not have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.

#### Liquidity

At any time, mutual fund investors can readily redeem their shares at the current NAV, less any fees and charges assessed on redemption.

Mutual funds also have features that some investors might view as disadvantages:

#### Costs Despite Negative Returns

Investors must pay sales charges, 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. This includes instances where the fund went on to perform poorly after purchasing shares.

#### Lack of Control

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

#### Price Uncertainty

With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or your investment adviser. Investors 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 an investor purchases or redeems shares will typically depend on the fund's NAV, which the fund might not calculate until many hours after the investor placed the order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

### *Different Types of Funds*

When it comes to investing in mutual funds, investors have literally thousands of choices. Most mutual funds fall into one of three main categories; money market funds, bond funds (also called "fixed income" funds), and stock funds (also called "equity" funds). Each type has different features and different risks and rewards. Generally, the higher the potential return, the higher the risk of loss.

#### *Money Market Funds*

Money market funds have relatively low risks, compared to other mutual funds (and most other investments). By law, they can invest in only certain high quality, short-term investments issued by the U.S. Government, U.S. corporations, and state and local governments. Money market funds try to keep their net asset value (NAV), which represents the value of one share in a fund, at a stable \$1.00 per share. However, the NAV may fall below \$1.00 if the fund's investments perform poorly. Investor losses have been rare, but they are possible. Money market funds pay dividends that generally reflect short-term interest rates, and historically the returns for money market funds have been lower than for either bond or stock funds.

#### *Bond Funds*

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields. Unlike money market funds, the SEC's rules do not restrict bond funds to high quality or short-term investments. Because there are many different types of bonds, bond funds can vary dramatically in their risks and rewards.

#### *TIPS Funds*

Treasury Inflation Protected Securities (TIPS) are inflation-indexed securities structured to remove inflation risk.

Some of the risks associated with bond funds include:

#### *Credit Risk*

There is a possibility that companies or other issuers may fail to pay their debts (including the debt owed to holders of their bonds). Consequently, this affects mutual funds that hold these bonds. Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury Bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.

#### *Interest Rate Risk*

There is a risk that the market value of the bonds will go down when interest rates go up. Because of this, investors can lose money in any bond fund, including those that invest only in insured bonds or U.S. Treasury Bonds. Funds that invest in longer-term bonds tend to have higher interest rate risk.



### Prepayment Risk

Issuers may choose to pay off debt earlier than the stated maturity date on a bond. For example, if interest rates fall, a bond issuer may decide to “retire” its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

### *Stock Funds*

Although a stock fund’s value can rise and fall quickly (and dramatically) over the short term, historically stocks have performed better over the long term than other types of investments. This is true for corporate bonds, government bonds, and treasury securities. Overall “market risk” poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons—such as the overall strength of the economy or demand for particular products or services. Not all stock funds are the same. For example:

#### Small Cap Funds

Funds that invest in stocks of small companies involve additional risks. Smaller companies typically have higher risk of failure, and are not as established as larger blue-chip companies are. Historically, smaller-company stocks have experienced a greater degree of market volatility than the overall market average.

#### Index Funds

Index funds aim to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, by investing in all—or perhaps a representative sample—of the companies included in an index.

#### International Funds

International investments are subject to additional risks, including currency fluctuation, political instability, and potential illiquid markets.

#### Emerging Market Funds

Funds that invest in foreign securities of smaller, less-developed countries involve special additional risks. These risks include, but are not limited to currency risk, political risk and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

### *Alternative Investment Funds*

Alternative investments fall outside the three traditional asset types (stocks, bonds, and cash). Alternative investments include hedge funds, managed futures, real estate, commodities and derivatives contracts. Alternative investments funds are favored mainly because their returns have a low correlation with those of standard asset classes. Because of this, many large institutional funds such as pensions and private endowments have begun to allocate a small portion of their portfolios to alternative investments such as hedge funds.

### *Managed Futures Funds*

A Managed Futures Mutual Fund invests in other funds. These underlying funds will typically employ various actively managed futures strategies that will trade various derivative instruments including

options, futures, forwards, or spot contracts. Further, each of these derivative instruments may be tied to commodities, financial indices and instruments, foreign currencies, or equity indices.

Managed futures strategies involve substantial risks that differ from traditional mutual funds. Each underlying fund is subject to specific risks, depending on the nature of the fund. These risks could include liquidity risk, sector risk, and foreign currency risk, as well as risks associated with fixed income securities, commodities and other derivatives. The strategy of investing in underlying funds could affect the timing, amount, and character of distributions to you and therefore may increase the amount of taxes you pay.

### *Tax Consequences of Mutual Funds*

When investors buy and hold an individual stock or bond, the investor must pay income tax each year on the dividends or interest the investor receives. However, the investor will not have to pay any capital gains tax until the investor actually sells and makes a profit. Mutual funds are different. When an investor buys and holds mutual fund shares, the investor will owe income tax on any ordinary dividends in the year the investor receives or reinvests them. Moreover, in addition to owing taxes on any personal capital gains when the investor sells shares, the investor may have to pay taxes each year on the fund's capital gains. That is because the law requires mutual funds to distribute capital gains to shareholders if they sell securities for a profit that cannot be offset by a loss.

### Closed-end Funds

Closed-end funds do not continually offer their shares for sale. Rather, they sell a fixed number of shares at an initial offering, after which the shares typically trade on a secondary market, such as the New York Stock Exchange or the NASDAQ Stock Market. Risk factors pertaining to closed-end funds vary from fund to fund. In addition to the risks of investing in mutual funds above, closed-end funds may be subject to the following:

#### Valuation Risk

Common shares may trade above (a premium) or below (a discount) the net asset value (NAV) of the trust/fund's portfolio. At times, discounts could widen or premiums could shrink, and could either dilute positive performance or compound negative performance. There is no assurance that discounted funds will appreciate to their NAV.

#### Fluctuating Dividends in Actively Managed Portfolios

The composition of the trust/fund's portfolio could change, which, all else being equal, could cause a reduction in dividends paid to common shares. Certain closed-end funds invest in common stocks. There is no guarantee of dividends from these common stocks. Fluctuations in dividend levels over time, up and down, are to be expected.

### Options

An option is the right either to buy or sell a specified amount or value of a particular underlying interest at a fixed exercise price by exercising the option before its specified expiration date. An option that gives a right to buy is a call option. An option that gives a right to sell is a put option. Calls and puts are distinct types of options and the buying or selling of one type does not involve the other.

Options may involve certain costs and risks such as liquidity, interest rate, market, credit, and the risk that a position could not be closed when most favorable. KCS does not invest in “naked” options, which can cause the investor to lose more than the amount invested. KCS may sell “covered” options, which can produce income for the client’s account. Selling covered call options may place a limit on upside gains, while selling put options may result in the purchase of a security at a price higher than the current market price.

### *Obligations Backed by the "Full Faith and Credit" of the U.S. Government*

U.S. government obligations include the following types of securities:

#### U.S. Treasury Securities

U.S. Treasury securities include direct obligations of the U.S. Treasury, such as Treasury bills, notes, and bonds. For these securities, the U.S. government unconditionally guarantees the payment of principal and interest, resulting in the highest possible credit quality. Fluctuations in interest rates subject U.S. Treasury securities to variations in market value. However, they are paid in full when held to maturity.

#### Federal Agency Securities

Certain U.S. government agencies and government-sponsored entities guarantee the timely payment of principal and interest with the backing of the full faith and credit of the U.S. government. Such agencies and entities include The Federal Financing Bank (FFB), the Government National Mortgage Association (Ginnie Mae), the Veterans Administration (VA), the Federal Housing Administration (FHA), the Export-Import Bank (Exim Bank), the Overseas Private Investment Corporation (OPIC), the Commodity Credit Corporation (CCC) and the Small Business Administration (SBA).

#### Other Federal Agency Obligations

Additional federal agency securities neither are direct obligations of, nor guaranteed by, the U.S. government. These obligations include securities issued by certain U.S. government agencies and government-sponsored entities. However, they generally involve some form of federal sponsorship: some operate under a government charter; specific types of collateral back some; the issuer’s right to borrow from the Treasury supports some; and only the credit of the issuing government agency or entity supports others. These agencies and entities include, but are not limited to the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and the Tennessee Valley Authority and Federal Farm Credit Bank System.

On September 7, 2008, Freddie Mac and Fannie Mae were placed into conservatorship by their new regulator, the Federal Housing Finance Agency. Simultaneously, the U.S. Treasury made a commitment of indefinite duration to maintain the positive net worth of both firms.

### *Certificates of Deposit (CDs)*

KCS may recommend the purchase of certificates of deposit (CDs) when clients are searching for relatively low-risk investments. A CD is a special type of deposit account with a bank or thrift institution that typically offers a higher rate of interest than a regular savings account. CDs have set maturity dates

and, as with other deposits held at FDIC member institutions, feature federal deposit insurance up to \$250,000.

### Municipal Bonds

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Municipal bonds pay a lower rate of return than most other types of bonds. However, because of a municipal bond's tax-favored status, investors should compare the relative after-tax return to the after-tax return of other bonds, depending on the investor's tax bracket. Investing in municipal bonds carries the same general risks as investing in bonds in general. Those risks include interest rate risk, reinvestment risk, inflation risk, market risk, call or redemption risk, credit risk, and liquidity and valuation risk. Investing in municipal bonds carries risk unique to these types of bonds, which may include:

#### Legislative Risk

Legislative risk includes the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income.

#### Tax-Bracket Changes

Municipal bonds generate tax-free income, and therefore pay lower interest rates than taxable bonds. Investors who anticipate a significant drop in their marginal income-tax rate may benefit from the higher yield available from taxable bonds.

#### Liquidity Risk

The risk that investors may have difficulty finding a buyer when they want to sell and may be forced to sell at a significant discount to market value. Liquidity risk is greater for thinly traded securities such as lower-rated bonds, bonds that were part of a small issue, bonds that have recently had their credit rating downgraded or bonds sold by an infrequent issuer. Municipal bonds may be less liquid than other bonds.

#### Credit Risk

Credit risk includes the risk that a borrower will be unable to make interest or principal payments when they are due and therefore default. To reduce investor concern, insurance policies that guarantee repayment in the event of default back many municipal bonds.

#### Alternative Minimum Tax (AMT)

KCS invests in a variety of fixed income securities for clients. For those accounts seeking preservation of capital and current income exempt from taxation, where possible, we do not invest in municipal bonds subject to the Alternative Minimum Tax ("AMT") if doing so would significantly decrease the after-tax return available to the client.

#### General Obligation vs. Revenue Bonds

Typically, investors consider General Obligation bonds to be safer than Revenue bonds since the full faith and credit of the issuer backs the interest and principal payments. With revenue bonds, the interest and principal are dependent upon the revenues paid by users of the facility or service. Frequently the issuers of revenue bonds are either private sector corporations (e.g. hospitals) or entities

that exist, often in local monopoly form, to provide a public service (e.g. power utilities or public transportation authorities). Consequently, the thought is that the consumer spending that provides the funding or income stream for revenue bond issuers may be more vulnerable to changes in consumer tastes or a general economic downturn compared to a state or city's ability to raise taxes to pay for its General Obligation commitments.

### *Municipal Bonds of a Particular State*

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Securities issued by California municipalities are more susceptible to factors adversely affecting issuers of California securities. For example, in the past, California voters have passed amendments to the state's constitution and other measures that limit the taxing and spending authority of California governmental entities, and future voter initiatives may adversely affect California municipal bonds.

### *Treasury Inflation Protected Securities (TIPS)*

Treasury Inflation Protected Securities (TIPS) are inflation-indexed securities structured to remove inflation risk. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, the investor receives the adjusted principal or original principal, whichever is greater. TIPS pay interest twice a year, at a fixed rate. The rate is applied to the adjusted principal; so, like the principal, interest payments rise with inflation and fall with deflation.

### *Inflation-indexed Bonds*

KCS may invest for client accounts in inflation-indexed bonds issued by governments, their agencies or instrumentalities and corporations. The principal amount of an inflation-indexed bond adjusts to changes in the level of the consumer price index. In the case of U.S. Treasury inflation-indexed bonds, the U.S. Government guarantees the repayment of the original bond principal upon maturity (as adjusted for inflation). Therefore, the principal amount of such bonds cannot fall below par even during a period of deflation. However, the current market value of these bonds is not guaranteed and will fluctuate, reflecting the rise and fall of yields.

In certain jurisdictions outside the United States, the repayment of the original bond principal upon the maturity of an inflation-indexed bond is not guaranteed. This causes the amount of the bond repaid at maturity to be less than par. The interest rate for inflation-indexed bonds is fixed at issuance as a percentage of this adjustable principal. Accordingly, the actual interest income may both rise and fall as the principal amount of the bonds adjusts in response to movements of the consumer price index. For example, typically interest income would rise during a period of inflation and fall during a period of deflation.

### *Securities with Equity and Debt Characteristics*

Some securities have a combination of equity and debt characteristics. These securities may at times behave more like equity than debt or vice versa. Some types of convertible bonds, preferred stocks or other preferred securities automatically convert into common stocks or other securities at a stated

conversion ratio and some may be subject to redemption at the option of the issuer at a predetermined price. These securities, prior to conversion, may pay a fixed rate of interest or a dividend. Because convertible securities have both debt and equity characteristics, their values vary in response to many factors, including the values of the securities into which they are convertible, general market and economic conditions, and convertible market valuations, as well as changes in interest rates, credit spreads and the credit quality of the issuer.

These securities may include hybrid securities, which also have equity and debt characteristics. Such securities are normally at the bottom of an issuer's debt capital structure. As such, they may be more sensitive to economic changes than more senior debt securities. Investors may also view these securities as more equity-like by the market when the issuer or its parent company experience financial problems.

The prices and yields of nonconvertible preferred securities or preferred stocks generally move with changes in interest rates and the issuer's credit quality, similar to the factors affecting debt securities. Nonconvertible preferred securities may be treated as debt for account investment limit purposes.

### *Convertible Securities*

Convertible securities generally offer lower interest or dividend yields than non-convertible fixed-income securities of similar credit quality because of the potential for capital appreciation. The market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, a convertible security's market value also tends to reflect the market price of the common stock of the issuing company, particularly when that stock price is greater than the convertible security's "conversion price." The conversion price is defined as the predetermined price or exchange ratio at which the convertible security can be converted or exchanged for the underlying common stock.

### *Real Estate Investment Trusts*

Securities issued by real estate investment trusts (REITs) primarily invest in real estate or real estate-related loans. Equity REITs own real estate properties, while mortgage REITs hold construction, development and/or long-term mortgage loans. Changes in the value of the underlying property of the trusts, the creditworthiness of the issuer, property taxes, interest rates, tax laws, and regulatory requirements, such as those relating to the environment all can affect the values of REITs. Both types of REITs are dependent upon management skill, the cash flows generated by their holdings, the real estate market in general, and the possibility of failing to qualify for any applicable pass-through tax treatment or failing to maintain any applicable exemptive status afforded under relevant laws.

### *Investing Outside the U.S.*

Investing outside the United States may involve additional risks of foreign investing. These risks may include currency controls and fluctuating currency values, and different accounting, auditing, financial reporting, disclosure, and regulatory and legal standards and practices. Additional factors may include changing local, regional, and global economic, political, and social conditions. Further, expropriation, changes in tax policy, greater market volatility, different securities market structures, and higher transaction costs can be contributors. Finally, various administrative difficulties, such as delays in

clearing and settling portfolio transactions or in receiving payment of dividends can also lead to additional risk.

### American Depositary Receipts (ADRs)

An ADR is a security that trades on United States exchanges but represents a specified number of shares in a foreign corporation. Investors buy and sell ADRs on American markets just like regular stocks. Some banks and brokerage firms issue/sponsor ADRs. ADRs are subject to additional risks of investing in foreign securities, including, but not limited to, less complete financial information available about foreign issuers, less market liquidity, more market volatility, and political instability. In addition, currency exchange-rate fluctuations affect the U.S. dollar-value of foreign holdings.

Some ADRs and ordinary shares of foreign securities pay dividends, and many foreign countries impose dividend withholding taxes up to 30%. Depending on a custodian's ability to reclaim any withheld foreign taxes on dividends, taxable accounts may be able to recoup a portion of these taxes by use of the foreign tax credit. However, tax-exempt accounts, to the extent they pay any foreign withholding taxes, may not be able to utilize the foreign tax credit. Therefore, investors may be unable to recover any foreign taxes withheld on dividends of foreign securities or ADRs.

### Cash and Cash Equivalents

The account may hold cash or invest in cash equivalents. Cash equivalents include:

1. commercial paper (for example, short-term notes with maturities typically up to 12 months in length issued by corporations, governmental bodies or bank/corporation sponsored conduits (asset-backed commercial paper));
2. short-term bank obligations (for example, certificates of deposit, bankers' acceptances (time drafts on a commercial bank where the bank accepts an irrevocable obligation to pay at maturity)) or bank notes;
3. savings association and savings bank obligations (for example, bank notes and certificates of deposit issued by savings banks or savings associations);
4. securities of the U.S. government, its agencies or instrumentalities that mature, or may be redeemed, in one year or less; and
5. corporate bonds and notes that mature, or that may be redeemed, in one year or less.

Cash and cash equivalents are the most liquid of investments. Cash and cash equivalents are considered very low-risk investments meaning, there is little risk of losing the principal investment. Typically, low risk also means low return and the interest an investor can earn on this type of investment is low relative to other types of investing vehicles.

### Master Limited Partnerships (MLPs)

MLPs are publicly traded partnerships that trade mainly on the New York Stock Exchange and/or the NASDAQ, the same as stocks. With a few exceptions, MLPs hold and operate assets related to the transportation and storage of energy (certain MLPs may have commodity risk). Most publicly traded

companies are corporations. Corporate earnings are usually taxed twice. The business entity is taxed on any money it makes and then shareholders are taxed on the earnings the company distributes to them.

In the 1980s, Congress allowed public trading of certain types of companies as partnerships instead of as corporations. The main advantage a partnership has over a corporation is that partnerships are “pass through” entities for tax purposes. This means that the company does not pay any tax on its earnings. Distributions are still taxed, but this avoids the problem of double taxation that most publicly traded companies face. Congress requires that any company designated as an MLP has to produce 90% of its earnings from “qualified resources” (natural resources and real estate). Most MLPs are involved in energy infrastructure, i.e. things like pipelines. MLPs are required to pay annual distributions to limited partners. A contract establishes the payments, so distributions are predictable. Otherwise, the shareholders could find the company in breach of contract.

In addition to general business risks, MLPs bear these risks:

#### **Risk of Regulation or Change**

The government could step in and change the rules of the game. That can always happen. Since one of the main advantages of these securities is their tax advantages, this poses a considerable risk for an investor.

#### **Interest Rate Risk**

It is commonly thought that these types of investments do better when interest rates are low, making their yield higher in relation to the safest investments, such as Treasury bills and securities that are guaranteed by the U.S. government. Consequently, MLPs may perform better during periods of declining or relative low interest rates and more poorly during periods of rising or high interest rates.

#### **Tax Risk**

MLPs are pass-through entities, passing earnings through to the limited partners. Investors must be aware that there are potentially significant tax implications of investing in MLPs and they should consult with their tax advisor before investing in these securities.

## **Financial Planning**

The financial planning tools KCS uses to create financial plans for clients rely on various assumptions, such as estimates of inflation, risk, economic conditions, and rates of return on security asset classes. All return assumptions use asset class returns, not returns of actual investments, and do not include fees or expenses that clients would pay if they invested in specific products.

Financial planning software is only a tool used to help guide KCS and the client in developing an appropriate plan, and we cannot guarantee that clients will achieve the results shown in the plan. Results will vary based on the information provided by the client regarding the client’s assets, risk tolerance, and personal information. Changes to the program’s underlying assumptions or differences in actual personal, economic, or market outcomes may result in materially different results for the client. Clients should carefully consider the assumptions and limitations of the financial planning software as



disclosed on the financial planning reports and should discuss the results of the plan with a qualified investment professional before making any changes in their investment or financial planning program.

If the financial plan includes recommendations for investing in securities, you should understand that investing in securities involves risk of loss, and you should be prepared to bear that risk.

## **ITEM 9 - DISCIPLINARY INFORMATION**

KCS and our personnel seek to maintain the highest level of business professionalism, integrity, and ethics. KCS does not have any disciplinary information to disclose.

## **ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **Affiliated Investment Adviser**

KCS is affiliated with Kenfield Capital Strategies, a California-registered investment adviser. KCS and Kenfield Capital Strategies share the same principal place of business, Supervised Persons, solicitors, and are under joint ownership and control. Dr. Ken Waltzer is the sole shareholder of Kenfield Capital Strategies. KCS was formed to accommodate the merger of Kenfield Capital Strategies and the practice of Laura Gilman. Until the merger is complete, Dr. Waltzer and Ms. Gilman will continue to service clients of their respective practices.

While Supervised Persons and solicitors of KCS perform like duties for Kenfield Capital Strategies, we do not perceive any conflict created by these activities, as all clients affected will receive the same services from each firm until the merger is complete and Kenfield Capital Strategies withdraws from registration.

### **Registered Representative of Unaffiliated Broker-Dealer/Adviser**

Laura Gilman is also a registered securities representative and investment advisory representative of Independent Financial Group, LLC ("IFG"), a non-affiliated dually registered broker-dealer and investment advisory firm and a member of the Financial Industry Regulation Authority ("FINRA"). She spends approximately 45% of her time in providing services to clients of IFG. Ms. Gilman also receives compensation, commissions, and/or trailing 12b-1 fees from IFG for services provided to IFG's brokerage and/or investment advisory clients. This presents a conflict of interest because the Associated Person may have an incentive to recommend IFG for executing securities transactions or securities for which they receive additional compensation.

Ms. Gilman does not receive commissions or other transaction-based compensation in addition to the advisory fees KCS receives for fee-based account management.

Dr. Ken Waltzer is also a registered securities representative of IFG. However, this role is administrative only and he does not provide brokerage services or receive commissions from the sale of any product to clients of IFG or KCS.

## **Agent/Broker of Unaffiliated Insurance Agency**

Laura Gilman is licensed as an insurance agent, offering health, life, and variable life/variable annuity insurance products (CA license # 0E61376). Ms. Gilman spends approximately 5% of her time on insurance-related activities. While KCS does not receive any commissions for insurance recommendations, Ms. Gilman receives commissions on the sale of insurance products. This presents a conflict of interest because she may have an incentive to recommend insurance products as a result of the commission. In all cases, Ms. Gilman will fully disclose any insurance commissions to the client. The insurance commissions are separate from and in addition to any fees that KCS receives for advisory/financial planning services. Clients are under no obligation to act on any insurance recommendations or place any transactions through Laura Gilman if they decide to follow her recommendations.

### **Other Activities**

KCS and its management persons are not registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities. KCS and its Supervised Persons do not recommend or select other investment advisers for our clients.

## **ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

KCS believes that we owe clients the highest level of trust and fair dealing. As part of our fiduciary duty, we place the interests of our clients ahead of the interests of the firm and our personnel. KCS's personnel are required to conduct themselves with integrity at all times and follow the principles and policies detailed in our Code of Ethics.

KCS's Code of Ethics attempts to address specific conflicts of interest that either we have identified or that could likely arise. KCS's personnel are required to follow clear guidelines from the Code of Ethics in areas such as gifts and entertainment, other business activities, prohibitions of insider trading, and adherence to applicable state and federal securities laws. Additionally, individuals who make investment decisions/securities recommendations to clients, or who have access to nonpublic information regarding any clients' purchase or sale of securities, are subject to personal trading policies governed by the Code of Ethics (see below).

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

### **Personal Trading Practices**

KCS and our personnel may purchase or sell securities for themselves, regardless of whether the transaction would be appropriate for a client's account. KCS and our personnel may purchase or sell securities for themselves that we also utilize for clients. This includes related securities (e.g., warrants, options, or futures). This presents a potential conflict of interest as we may have an incentive to take investment opportunities from clients for our own benefit, favor our personal trades over client

transactions when allocating trades, or to use the information about the transactions we intend to make for clients to our personal benefit by trading ahead of clients.

Our policies to address these conflicts include the following:

1. The client receives the opportunity to act on investment decisions/recommendations prior to and in preference to accounts of KCS and our personnel.
2. KCS prohibits trading in a manner that takes personal advantage of price movements caused by client transactions.
3. If we wish to purchase or sell the same security as we recommend or take action to purchase or sell for a client, we will not do so until the custodian fills client orders. (except when we are aggregating personal and proprietary trades with client trades as disclosed under ***Aggregation with Client Orders*** below) As a result of this policy, it is possible that clients may receive a better or worse price than KCS or any employee for the same security on the same day as a client or one or more days before or after the client's transaction.
4. KCS requires our personnel to obtain pre-approval for personal trades from the Chief Compliance Officer (CCO). In addition, the CCO personally enters all trade orders for KCS personal accounts.
5. Under certain limited circumstances, we make exceptions to the policies stated above. KCS will maintain records of these trades, including the reasons for any exceptions.

#### *Aggregation with Client Orders*

KCS may aggregate orders for clients in the same securities in an effort to seek best execution, negotiate more favorable commission rates, and/or allocate differences in prices, commissions, and other transaction costs equitably among our clients. These are benefits of aggregating orders that we might not obtain if we placed those orders independently.

KCS may aggregate trades in like securities among client accounts as well as with accounts of KCS and our personnel, if we follow the policies described below. This presents a potential conflict of interest as we may have an incentive to allocate more favorable executions to our own accounts or the accounts of our personnel.

Our policies to address this conflict are as follows:

1. We will disclose our aggregation policies in this brochure;
2. We will not aggregate transactions unless we believe that aggregation is consistent with our duty to seek best execution (which includes the duty to seek best price) for our clients. The trade also needs to be consistent with the terms of our investment advisory agreement with each client that has an account included in the aggregation;

3. We will not favor any account over any other account. This includes accounts of KCS or any of our personnel. Each account in the aggregated order will participate at the average share price for all of our transactions in a given security on a given business day (per custodian). All accounts will pay their individual transaction costs;
4. Before entering an aggregated order, we will prepare a written statement (the "Allocation Statement") specifying the participating accounts and how we intend to allocate the order among those accounts;
5. If the aggregated order is filled entirely, we will allocate shares among clients according to the Allocation Statement; if the order is partially filled, we will allocate it pro-rata according to the Allocation Statement.
6. However, we may allocate the order differently than specified in the Allocation Statement if all client accounts receive fair and equitable treatment. (See also **Item 12 – Brokerage Practices** below.) In this case, we will explain the reasons for a different allocation in writing, which the CCO must approve no later than one hour after the opening of the markets on the trading day following the day the order was executed;
7. If an aggregated order is partially filled and we allocate it differently than the Allocation Statement specifies, no participating account may purchase or sell the security for a reasonable period following the execution of the block trade. This only applies when the participating account sells or receives more shares than it would have if the aggregated order been completely filled;
8. Our books and records will separately reflect each aggregated order and the securities held by, bought, and sold for each client account;
9. Funds and securities of clients participating in an aggregated order will be deposited with one or more qualified custodians. Clients' cash and securities will not be held collectively any longer than is necessary to settle the trade on a delivery versus payment basis. Following settlement, cash or securities held collectively for clients will be delivered out to the qualified custodian as soon as practical;
10. We do not receive additional compensation or remuneration of any kind as a result of aggregating orders; and
11. We will provide individual investment advice and treatment to each client's account.

## Participation or Interest in Client Transactions

The following items represent situations where a conflict of interest may exist between the client and KCS and our personnel:

### Principal Transactions

KCS may occasionally buy securities from client accounts or sell securities to client accounts. One advantage of principal transactions is the ability to narrow spreads on thinly traded positions, potentially receiving more favorable pricing on both sides than the market currently offers. In addition, there exists an opportunity to reduce transaction costs associated with the trade; custodians will sometimes provide discounted fees when facilitating principal transactions. Finally, principal transactions can provide greater liquidity for clients than may have existed otherwise.

We only consider principal transactions when a clear benefit exists to the client and never for the sole benefit of KCS.

Potential conflicts that can exist when conducting principal transactions include the incentive to favor proprietary accounts when establishing pricing or to unload underperforming assets from proprietary portfolios, and other abuses in the absence of full market disclosure. In advance of each principal transaction, KCS provides participating clients with important details of the proposed trade and obtains the client's written consent.

Current ERISA and tax law prohibits principal transactions involving any ERISA-governed and/or other retirement account.

### Cross Transactions

At times, a client may need to sell a security that we think is a good fit for another client's account. In this case, we may internally cross the security from the account of the selling client to the buying client's account. We will only do this when the proposed transaction is in the best interests of both clients. We do not "dump" a security into a client's portfolio just because another client needs to sell, nor do we decide to sell a security from one client's account just because another client needs a similar security. Usually, this situation comes up with fixed income securities where we can get a better deal for both clients by crossing the security instead of going into the open market to complete separate transactions.

The price for a cross transaction will be determined by an independent broker-dealer, and is usually the mid-point between the best bid and offer prices available for the size of the transaction. We will also take into account any additional fees charged to cross the security to ensure that the transaction is still appropriate for both clients.

KCS does not act as broker for any cross transactions effected for clients, and will never receive any commissions or other compensation for these trades (other than our normal advisory fees for managing the accounts). KCS will provide details pertaining to all cross trades to participating clients prior to or promptly following each crossed transaction.

## ITEM 12 - BROKERAGE PRACTICES

### The Custodian and Brokers We Use

#### *Investment Management Services*

Clients must maintain assets in an account at a “qualified custodian,” generally a broker-dealer or bank. For discretionary accounts, we typically require that our clients use Fidelity Institutional Wealth Services, a division of Fidelity Brokerage Services, Inc. (“Fidelity”), registered broker-dealer, Member SIPC, as the qualified custodian. Our prime broker is Fidelity’s clearing firm, National Financial Services LLC (NFS). KCS is independently owned and operated, and unaffiliated with Fidelity and NFS. Fidelity and NFS will hold client assets in a brokerage account, and buy and sell securities when we instruct them to.

While we may require that clients use Fidelity as custodian/broker, client must decide whether to do so and open accounts with Fidelity by entering into account agreements directly with them. Either the client will open the account or we may open the accounts on the client’s behalf with Fidelity. If we open the account, we will notify you in writing of the custodian’s name, address, and the title of the account, promptly when the account is opened and following any changes to this information. The accounts will always be held in the name of the client and never in KCS’s name. Not all advisors require their clients to use a particular broker-dealer or other custodian selected by the advisor. Even though you maintain accounts at Fidelity, we can still use other brokers to execute trades for your account as described below (see ***Client Brokerage and Custody Costs***, below).

#### *How We Select Brokers/Custodians*

We seek to recommend a custodian/broker who will hold client assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

1. Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
2. Capability to execute, clear, and settle trades (buy and sell securities for client accounts)
3. Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
4. Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
5. Availability of investment research and tools that assist us in making investment decisions
6. Quality of services
7. Competitiveness of the price of those services (commission rates, other fees, etc.) and willingness to negotiate the prices
8. Reputation, financial strength, and stability
9. Prior service to KCS and our other clients
10. Availability of other products and services that benefit us, as discussed below (see ***Products and Services Available to Us From Fidelity***)

### *Client Brokerage and Custody Costs*

For our clients' accounts that Fidelity maintains, Fidelity generally does not charge separately for custody services. However, Fidelity receives compensation by charging commissions or other fees on trades that it executes or that settle into clients' Fidelity accounts. We have determined that having Fidelity execute all trades is consistent with our duty to seek "best execution" of client trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see ***How We Select Brokers/Custodians***).

### *Products and Services Available to Us from Fidelity*

Fidelity Institutional Wealth Services is Fidelity's business serving independent investment advisory firms like us. They provide KCS and our clients with access to its institutional brokerage, trading, custody, reporting, and related services, many of which are not typically available to Fidelity retail customers. Fidelity also makes available various support services. Some of those services help us manage or administer our clients' accounts; others help us manage and grow our business. Fidelity's support services generally are available on an unsolicited basis (we don't have to request them) and at no charge to us.

Following is a more detailed description of Fidelity's support services:

#### Services That Benefit Our Clients

Fidelity's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Fidelity include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Fidelity's services described in this paragraph generally benefit our clients and their accounts.

#### Services That May Not Directly Benefit Our Clients

Fidelity also makes available to us other products and services that benefit us but may not directly benefit our clients or their accounts. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Fidelity's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Fidelity. In addition to investment research, Fidelity also makes available software and other technology that:

1. Provide access to client account data (such as duplicate trade confirmations and account statements)
2. Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
3. Provide pricing and other market data
4. Facilitate payment of our fees from our clients' accounts
5. Assist with back-office functions, recordkeeping, and client reporting

#### Services That Generally Benefit Only Us

Fidelity also offers other services intended to help us manage and further develop our business enterprise. These services include:

1. Educational conferences and events
2. Consulting on technology, compliance, legal, and business needs
3. Publications and conferences on practice management and business succession
4. Access to employee benefits providers, human capital consultants, and insurance providers

Fidelity may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Fidelity may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Fidelity may also provide us with other benefits, such as occasional business entertainment of our personnel.

#### Our Interest in Fidelity's Services

The availability of these services from Fidelity benefits us because we do not have to produce or purchase them, and these services are not contingent upon us committing any specific amount of business to Fidelity in trading commissions. We believe that our selection of Fidelity as custodian and broker is in the best interests of our clients. KCS primarily supports our selection of Fidelity by the scope, quality, and price of Fidelity's services (see ***How We Select Brokers/Custodians***, above) and not Fidelity's services that benefit only us.

#### Directed Brokerage

KCS does not typically allow clients to direct KCS to use a specific broker-dealer to execute transactions, as we have vetted Fidelity's brokerage arm and found it to offer our clients best execution at competitive rates. Clients may request us to use a specific broker for trades "trade away" but should be aware that this will result in higher costs to them and possibly inferior execution. Clients must use the broker-dealers that KCS recommends. Not all investment advisers require their clients to trade through specific brokerage firms.

Since we require most of our clients to maintain their accounts with Fidelity, it is also important for clients to consider and compare the significant differences between having assets custodied at another broker-dealer, bank or other custodian prior to opening an account with us. Some of these differences include, but are not limited to: total account costs, trading freedom, transaction fees/commission rates, and security and technology services. By requiring clients to use Fidelity, KCS believes we may be able to more effectively manage the client's portfolio, achieve favorable execution of client transactions, and overall lower the costs to the portfolio.

Clients with 401K or annuity accounts are not required to use Fidelity and may appoint a custodian of their choosing.

### **Aggregation and Allocation of Transactions**

We describe our aggregation practices in detail under ***Item 11 - Aggregation with Client Orders*** above.



## ITEM 13 - REVIEW OF ACCOUNTS

### Managed Account Reviews

We maintain account information for each client in our computer systems locally and remotely, including current securities values, costs, and amount of cash and equivalents. We reconcile account information daily against Fidelity's database. Our Investment Policy Committee reviews computer-based account records regularly, which determines the securities we buy and sell for clients. The Investment Policy Committee makes selections using a combination of quantitative and qualitative factors. Securities sales may be triggered when analysis shows that another security would likely provide superior future performance. The committee also considers, when reviewing an individual account, the client's goals, tax situation, and required yield. Dr. Kenneth B. Waltzer and Laura Gilman, Managing Members, and Adam Bragman, Director of Business Development, are members of the Investment Policy Committee and make all investment decisions.

### Financial Plan Reviews

Dr. Kenneth B. Waltzer, Managing Member, and Laura A. Gilman, Managing Member, are jointly responsible for creating and reviewing clients' financial plans. KCS will generally contact clients annually to discuss any changes in the client's circumstances and necessary updates to the financial plan. We also work with clients on an ongoing basis to review the plan as needed or as requested by the client.

### Account Reporting

Each investment management client receives a quarterly written accounting from KCS showing current value and historical cost by asset, cash balance, and percentage allocation among asset classes. KCS does not generally provide any additional reporting on the accounts we manage. Clients are encouraged to contact KCS as often as necessary for information regarding current investment tactics. Upon request, KCS can prepare a written report to satisfy a client's need for specific information. Clients also receive a written statement from the custodian that includes an accounting of all holdings and transactions in their accounts for the reporting period.

## ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

### Fidelity Support Products and Services

We receive an economic benefit from Fidelity in the form of the support products and services it makes available to us and other independent investment advisors whose clients maintain their accounts at Fidelity. These products and services, how they benefit us, and the related conflicts of interest are described above (see **Item 12 – Brokerage Practices**). We do not base particular investment advice, such as buying particular securities for our clients, on the availability of Fidelity's products and services to us.

### Solicitors

Ruth Luban is an affiliated solicitor with KCS and its affiliated investment adviser, Kenfield Capital Strategies.

If an unaffiliated or an affiliated solicitor introduces a client to KCS, we may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements.

If an unaffiliated solicitor introduces a client to KCS, that solicitor will disclose the nature of the solicitor relationship with KCS at the time of the solicitation. In addition, the solicitor will provide each prospective client with a copy of this brochure, and a copy of the written disclosure statement from the solicitor to the client disclosing the terms and conditions of the arrangement between KCS and the solicitor, including the compensation the solicitor will receive from KCS. Any affiliated solicitor of KCS will disclose the nature of the relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of this brochure.

KCS will not refer clients to financial planners and other investment advisers unless they are licensed, registered or exempt from registration as an investment adviser.

### *Outside Compensation*

KCS may refer clients to unaffiliated professionals for specific needs, such as insurance, mortgage brokerage, real estate sales, legal or accounting services. In turn, these professionals may refer clients to KCS for advisory services and/or financial planning needs. We do not have any agreements with individuals or companies that we refer clients to, and we do not receive any compensation for these referrals. However, it could be concluded that KCS is receiving an indirect economic benefit from this practice, as the relationships are mutually beneficial. For example, there could be an incentive for us to recommend services of firms who refer clients to KCS. These referrals do not involve in any way client brokerage or the use of client commissions.

KCS only refers clients to professionals we believe are competent and qualified in their field, but it is ultimately the client's responsibility to evaluate the provider. We may provide the client with a list of professionals that the client can contact, or a single provider, and it is solely the client's decision whether to engage a recommended firm. Clients are under no obligation to purchase any products or services through these professionals, and KCS has no control over the services provided by another firm. Clients who chose to engage these professionals will sign a separate agreement with the other firm. Fees charged by the other firm are separate from and in addition to fees charged by KCS.

If the client desires, KCS will work with these professionals or the client's other advisers (such as an accountant or attorney) to help ensure that the provider understands the client's financial plan/investments and to coordinate services for the client. KCS does not share information with an unaffiliated professional unless first authorized by the client.

## **ITEM 15 - CUSTODY**

KCS does not take physical custody of client funds or securities. For the convenience of the client, we will set up quarterly fee deduction ability from the client's account, when authorized by the client. KCS will not have custody of our clients' funds or securities when the clients authorize us to deduct our management fees directly from the client's account if all of the following requirements are met:

1. Clients' accounts are held by a qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution).
2. Clients will receive statements directly from their qualified custodian at least quarterly. The statements will reflect the client's funds and securities held with the qualified custodian as well as any transactions that occurred in the account, including the deduction of KCS's fee.
3. Each billing period, we send clients a statement showing the value of the client's assets upon which we based the fee, the amount of the fee, and how we calculated the fee.
4. We send the amount of our fee to the custodian.
5. It is the client's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

Clients should carefully review the account statements they receive from the qualified custodian. When clients receive statements from KCS as well as from the qualified custodian, they should compare these two reports carefully. Clients with any questions about their statements should contact us at the address or phone number on the cover of this brochure. Clients who do not receive a statement from their qualified custodian at least quarterly should also notify us.

## ITEM 16 - INVESTMENT DISCRETION

### Discretionary Management

KCS has full discretion to decide the specific security to trade, the quantity, and the timing of transactions for client accounts. KCS will not contact clients before placing trades in their account, but clients will receive confirmations directly from the broker for any trades placed. Clients grant us discretionary authority in the contracts they sign with us. Clients also give us trading authority within their accounts when they sign the custodian paperwork.

Certain client-imposed conditions may limit our discretionary authority, such as where the client prohibits transactions in specific security types. See also ***Tailored Services and Client Imposed Restrictions*** under **Item 4**, above.

### Non-Discretionary Management

When KCS provides management services to individual participants of retirement plans, clients with annuities, and other accounts not custodied at Fidelity, we make recommendations to clients on what securities or products to buy or sell, and it is up to the client to approve our recommendations and place trades in their own accounts.

### Trade Errors

Our policy is to ensure that clients are made whole following a trade error. Specifically, when KCS causes a trade error to occur in a client account that results in a loss, KCS will reimburse the client. If the trade error results in a gain, the client will keep that gain. (Gains and losses from trade errors occurring in KCS's batch account accrue directly to KCS.)

## ITEM 17 - VOTING CLIENT SECURITIES

### Proxy Voting

KCS votes client securities (proxies) on behalf of our clients with discretionary accounts unless the client specifically retains the authority. When KCS accepts such responsibility, we will cast proxy votes in a manner consistent with the best interest of our clients. Absent special circumstances, which we fully describe in our Proxy Voting Policies and Procedures, we will vote all proxies within the guidelines we established and describe in our Proxy Voting Policies and Procedures, as we may amend from time-to-time. At any time, clients may contact us to request information about how we voted their proxies for the securities or to get a copy of our Proxy Voting Policies and Procedures. A brief summary of KCS's Proxy Voting Policies and Procedures is as follows:

The decision of how to vote follows the same criteria we use in managing client accounts; to vote for proposals in such a manner that, in our opinion, will increase shareholder value. In evaluating a particular proxy proposal, KCS takes into consideration, among other items:

1. KCS' determination of how the proxy proposal will impact our clients;
2. The period of time over which shares of the company are expected to be held in the client's portfolio;
3. The size of the position;
4. The costs involved in the proxy proposal; and
5. Management's assertions regarding the proxy proposal.

KCS will generally support management's recommendations on proxy issues, since management's ability is a key factor we consider in selecting equity securities for client portfolios. KCS believes a company's management should generally have the latitude to make decisions related to the company's business operations. However, when KCS believes a company's management is acting in an inconsistent manner with our clients' best interests, we will vote against management's recommendations. In addition, KCS follows specific proxy voting guidelines, which may routinely deviate from management recommendations. Whenever there is conflict between management recommendations and KCS proxy voting guidelines, we vote against management and according to our guidelines.

KCS may not vote all proxies if there is a good reason not to, e.g. the firm would have to hire a translator or make extensive travel to vote foreign proxies, and the cost would outweigh the benefits. Further, we are not responsible for voting proxies relating to certain investments held outside client custodial accounts, such as book entry securities held directly at the issuer. However, we will accommodate client requests to vote such positions in accordance with our Proxy Voting Policy when the client makes all necessary arrangements and authorizations.

KCS may encounter a material conflict in voting client proxies. KCS has a duty to recognize a material conflict and to resolve the conflict before voting the proxy. For purposes of our policies, *material* conflicts of interest are defined as those conflicts that, in the opinion of the Investment Policy Committee or its designate, a reasonable investor would view as important in making a decision

regarding how to vote a proxy. In cases of real or perceived conflicts of interest, KCS may consult with a neutral third party, such as Institutional Shareholder Services, for advice on a particular proxy vote.

### Class Actions

KCS does not instruct or give advice to clients on whether or not to participate as a member of class action lawsuits and will not automatically file claims on the client's behalf. However, if a client notifies us that they wish to participate in a class action, we will provide the client with any transaction information pertaining to the client's account needed for the client to file a proof of claim in a class action.

## ITEM 18 - FINANCIAL INFORMATION

Registered investment advisers are required in this item to provide clients with certain financial information or disclosures about the firm's financial condition. KCS does not require the prepayment of more than \$500 in fees per client, six months or more in advance, and does not foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy proceeding.

## ITEM 19 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS

We have disclosed material conflicts of interest required under Section 260.238(k) of the California Corporate Securities Law of 1968 regarding KCS, our representatives or our employees, which we expect could reasonably impair the rendering of unbiased and objective advice.

### Principal Executive Officers and Management Persons

We list the principal executive officers and management persons of KCS under **Item 4 - Advisory Business**, above. A description of their education and business background is included in the brochure supplement, Form ADV Part 2B, which we provide to clients initially. Clients can also get a copy of the brochure supplement for KCS's officers at any time by contacting us at the address or phone number on the cover page of this brochure.

### Other Business Activities

KCS's sole business is providing investment advice. Please refer to **Item 4 - Other Business Activities** of Dr. Kenneth B. Waltzer's ADV 2B Supplement at the end of this brochure for further information regarding his non-financial industry activities, and to **Item 10 - Other Financial Industry Activities and Affiliations** above, for a description of Dr. Waltzer's, Laura Gilman's, Supervised Persons, and solicitors of KCS' other business activities.

Ruth Luban is an affiliated solicitor with KCS and its affiliated investment adviser, Kenfield Capital Strategies.

### Performance-Based Fees

KCS does not charge performance-based fees or other fees based on a share of capital gains or on capital appreciation of the assets of a client.

## **Legal and Disciplinary Issues**

KCS and our personnel seek to maintain the highest level of business professionalism, integrity, and ethics. Neither KCS nor our management persons have any legal or disciplinary events to disclose.

## **Arrangements with Securities Issuers**

KCS and our personnel have no relationships or arrangements with issuers of securities.

# Form ADV, Part 2B Brochure Supplement

**Dr. Kenneth B. Waltzer** (CRD # 4835120)

**Laura Gilman** (CRD # 4262907)

**Adam Bragman** (CRD # 5787258)

**KCS Wealth Advisory, LLC**  
(CRD # 169846)

11900 W. Olympic Blvd.  
Suite 520  
Los Angeles, CA 90064  
(310) 734-4740

May 30, 2014

This brochure supplement provides information about Dr. Kenneth B. Waltzer, Laura Gilman, and Adam Bragman that supplements the KCS Wealth Advisory brochure. You should have already received a copy of that brochure. Please contact Gayle Fuhr if you did not receive our brochure or if you have any questions about the contents of this supplement.

Additional information about Dr. Kenneth B. Waltzer, Laura Gilman, and Adam Bragman is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Dr. Kenneth B. Waltzer

### ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

**Dr. Kenneth B. Waltzer**, Managing Member, b. 1959

#### *Education:*

- AIF®, Center for Fiduciary Studies, 2005
- CFA, CFA Institute, 2007
- CFP®, Certified Financial Planner Board of Standards, 2012
- BA, Psychology and Social Relations, Harvard College, 1980
- MD, Baylor College of Medicine, 1984
- MPH, Harvard School of Public Health, 1985

#### *Business Background:*

- Co-Founder, Managing Member, CCO, KCS Wealth Advisory, 12/2013 to present
- Founder, President, CCO, Kenfield Capital Strategies, 07/2004 to present
- Co-Founder and Chief Medical Officer, ConvergenceHealth.com, 02/2000 to present
- Registered Representative, Independent Financial Group, LLC, 04/2014 to present
- Coordinator of Preventive Care, Southern California Permanente Medical Group, 06/1990 to 12/1997

#### *Professional Designations*

Dr. Kenneth B. Waltzer holds the following professional designations:

#### *Accredited Investment Fiduciary*

The Accredited Investment Fiduciary (“AIF®”) designation is issued by the Center for Fiduciary Studies. To earn the designation, each AIF® candidate must complete either a web-based or a capstone program, pass a final certification exam, and complete a minimum of 6 hours of continuing education per year. AIF® designees must also sign and agree to abide by a code of ethics. More information regarding the AIF is available at [http://www.fi360.com/main/designations\\_aif.jsp](http://www.fi360.com/main/designations_aif.jsp).

#### *Chartered Financial Analyst*

The Chartered Financial Analyst (“CFA”) designation is sponsored by CFA Institute. To earn a CFA charter, candidates must have four years of qualified investment work experience, become a member of CFA Institute, pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct on an annual basis, apply for membership to a local CFA member society, and complete the CFA Program. The CFA Program is organized into three levels, each culminating in a six-hour exam. The three proctored course exams correspond to three 250-hour self-study levels. Completing the Program takes most candidates between two and five years. More information regarding the CFA is available at <https://www.cfainstitute.org>.



### *Certified Financial Planner*

The CERTIFIED FINANCIAL PLANNER™ and CFP® (collectively, the “CFP® marks”) are professional certification marks granted in the United States by Certified Financial Planner Board of Standards, Inc. (“CFP® Board”). The CFP® certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP® certification. The CFP® is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients.

To earn the credential, each CFP® candidate must have a bachelor’s degree (or higher) from an accredited college or university and three years of full-time personal financial planning experience. In addition, candidates must take the CFP® Certification examination and complete a CFP® -board registered program or hold an accepted designation, degree, or license. Every two years, CFP® certificate holders must complete a minimum of 30 hours of continuing education. More information regarding the CFP® is available at <http://www.cfp.net/default.asp>.

## **ITEM 3 - DISCIPLINARY INFORMATION**

Dr. Kenneth B. Waltzer has no disciplinary history to disclose.

## **ITEM 4 - OTHER BUSINESS ACTIVITIES**

### *ConvergenceHealth.com*

In addition to providing investment advice through KCS, Dr. Kenneth B. Waltzer serves as part-time Chief Medical Officer for ConvergenceHealth.com, which provides web-based preventive care services. He spends approximately 20 hours per month on this activity.

### *Assistance to Startups*

Dr. Kenneth B. Waltzer has provided assistance to startup business opportunities offered by KCS clients, by conducting consultation and/or board services for the projects. In exchange, he was entitled to receive ownership interests in the startup companies for providing assistance. This potentially presents a conflict in that KCS could favor these clients in return for future project opportunities. KCS has adopted policies and relevant controls to treat clients fairly and equitably consistent with our fiduciary duty to all clients. These projects are outside the scope of KCS management services and not available to all clients of KCS.

### *Independent Financial Group, LLC*

Dr. Waltzer is also a registered securities representative of Independent Financial Group, LLC. However, this role is administrative only and he does not provide brokerage services or receive commissions from the sale of any product to clients of IFG or KCS.

### *Kenfield Capital Strategies*

In addition to providing investment advice through KCS, Dr. Kenneth B. Waltzer is also engaged as an investment adviser representative of an affiliated registered investment adviser, Kenfield Capital Strategies. Information regarding this activity is located in ***Item 10 - Other Financial Industry Activities and Affiliations, in Part 2A***, above.

## **ITEM 5 - ADDITIONAL COMPENSATION**

In addition to his regular salary and ownership of KCS, Dr. Kenneth B. Waltzer receives compensation for the services he provides to ConvergenceHealth.com.

## **ITEM 6 - SUPERVISION**

Laura Gilman, Managing Member, supervises the activities of Dr. Kenneth B. Waltzer. She can be reached at (310) 734-4740.

## **ITEM 7 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Dr. Kenneth B. Waltzer has no additional disclosures.

## Laura Gilman

### ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

**Laura Gilman**, Managing Member, b. 1972

#### *Education:*

Laura Gilman received a BA in Economics from Brandeis University in 1994 and an MBA in Finance and Accounting from the New York University Stern School of Business in 1996. She received her CPA designation in New York in 1998 (currently inactive). Laura also has earned a professional designation in Personal Financial Planning (PFP) from the University of California, Los Angeles in 2005.

#### *Business Background:*

Laura Gilman is Co-Founder and Managing Member of KCS Wealth Advisory since 11/2013 to present. She also serves as a Registered Representative for Independent Financial Group, LLC; prior to this, she was a Registered Representative for AIG Financial Services and its predecessor, Sentra Securities. Additionally, she has been the President of LGA Financial, Inc., since 2004. Prior to starting LGA financial, Laura was the Vice President, Strategy and Operations at Loring Ward, Inc. (previously known as Asanté Holdings), a money management firm in Los Angeles California for three (3) years. Previous positions included Senior Auditor at Arthur Anderson in New York City (3 years), Chief Financial Officer for CoMac Partners, Inc. a hedge fund in Greenwich, Connecticut (4 years) and a Vice President / Controller at Digital Coast Partners in Santa Monica CA, a boutique investment bank and venture capital firm (2 years).

#### *Professional Designations*

Laura Gilman holds the following professional designations:

#### *Certified Financial Planner*

The CERTIFIED FINANCIAL PLANNER™ and CFP® (collectively, the “CFP® marks”) are professional certification marks granted in the United States by Certified Financial Planner Board of Standards, Inc. (“CFP® Board”). The CFP® certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP® certification. The CFP® is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients.

To earn the credential, each CFP® candidate must have a bachelor’s degree (or higher) from an accredited college or university and three years of full-time personal financial planning experience. In addition, candidates must take the CFP® Certification examination and complete a CFP® -board registered program or hold an accepted designation, degree, or license. Every two years, CFP® certificate holders must complete a minimum of 30 hours of continuing education. More information regarding the CFP® is available at <http://www.cfp.net/default.asp>.

### ITEM 3 - DISCIPLINARY INFORMATION

Laura Gilman has no disciplinary history to disclose.

### ITEM 4 - OTHER BUSINESS ACTIVITIES

In addition to providing investment advice through KCS, Laura Gilman is also engaged as registered representative of an unaffiliated broker/dealer, investment adviser representative of an unaffiliated registered investment adviser, and licensed agent of an unaffiliated insurance agency. Information regarding these activities is located in ***Item 10 - Other Financial Industry Activities and Affiliations, in Part 2A***, above.

### ITEM 5 - ADDITIONAL COMPENSATION

In addition to her regular salary and ownership of KCS, Laura Gilman receives compensation for additional activities, as described in ***Item 10 - Other Financial Industry Activities and Affiliations, in Part 2A***, above.

### ITEM 6 - SUPERVISION

Dr. Kenneth B. Waltzer is a Managing Member and the CCO of KCS and supervises the activities of Laura Gilman. He can be reached at (310) 734-4740.

### ITEM 7 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Laura Gilman has no additional disclosures.

## Adam Bragman

### ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

**Adam Bragman**, Director of Business Development and Assistant Portfolio Manager, b. 1985

*Education:*

- BA, Economics, University of Texas at Austin, 2007

*Business Background:*

- Director of Business Development and Assistant Portfolio Manager, KCS Wealth Advisory, 12/2013 to present
- Director of Business Development and Assistant Portfolio Manager, Kenfield Capital Strategies, 01/2010 to present
- Assistant, Dava Casoni, 05/2009 to 01/2010
- Assistant, Fifteen Minutes Public Relations, 08/2007 to 05/2009
- Student, 08/2003 to 08/2007

### ITEM 3 - DISCIPLINARY INFORMATION

Adam Bragman has no disciplinary history to disclose.

### ITEM 4 - OTHER BUSINESS ACTIVITIES

In addition to providing investment advice through KCS, Adam Bragman is also engaged as an investment adviser representative of an affiliated registered investment adviser, Kenfield Capital Strategies. Information regarding this activity is located in **Item 10 - Other Financial Industry Activities and Affiliations, in Part 2A**, above.

### ITEM 5 - ADDITIONAL COMPENSATION

Adam Bragman's only compensation comes from his regular salary at KCS.

### ITEM 6 - SUPERVISION

Dr. Kenneth B. Waltzer is the Managing Member and CCO of KCS and supervises all employees. Laura Gilman, Managing Member, may also assist with supervisory responsibilities from time to time. They can both be reached at (310) 734-4740.

### ITEM 7 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Adam Bragman has no additional disclosures.

# Privacy Policy

KCS Wealth Advisory (KCS), an independent investment management and financial planning firm committed to safeguarding the confidential information of its current and former clients. Your privacy is important to us and we hold all your personal and financial information in the strictest confidence.

We collect nonpublic personal information about you from the following sources:

- Information we receive from you on applications or other forms;
- Information about your transactions with us, our affiliates, or others; and
- Information we receive from a consumer reporting agency.

The nonpublic information about our clients that we typically collect and retain includes personal information such as social security number, date of birth, address and health status, and financial information such as security transactions, net worth, income, debts, bank accounts and balances.

In order to protect your nonpublic information, we maintain a secure office and computer environment along with physical, electronic, and procedural safeguards to keep ensure your information is not placed at risk. Our Privacy Policy restricts the use of client information in the following ways:

- We do not sell any information about current or former clients to third parties, nor is it our practice to disclose information to third parties unless requested to do so by a client or, if necessary, in order to process a transaction, service an account, or as required by law. We may share information with outside companies that perform administrative services for us. However, we require strict confidentiality in our agreements with these service providers, and we will make disclosures to non-affiliated third parties only as permitted by law. We do not reserve the right to disclose nonpublic information (NPI).
- We limit employee access to nonpublic information to those who have a business or professional reason for access.
- KCS is subject to audits from our regulators. These audits are required by law and regulation and are designed to protect and enforce the interests of our current and former clients. Consequently, your nonpublic information may be provided to our regulators during these reviews. Governmental and regulatory agencies are bound by law to protect private and confidential information.
- Periodically, KCS may contract with a customer service evaluation firm for a third party survey of your satisfaction with our services. We use this information to determine where we need to improve. For third party surveys, we only disclose your name and phone number or address, and we will give you ample notice so you can opt out of these surveys if you wish. With all such firms, we require a covenant for strict confidentiality.
- Personally identifiable information about you will be maintained during the time you are a client, and for the period thereafter that such records are required to be maintained by federal and state securities laws. After this required period of record retention, all such information will be destroyed.
- KCS is not an insurance agency and does not provide insurance of any type. KCS does not share any information with insurance companies without a request and authorization from our clients.

We are required by law to provide a Privacy Policy notice annually. We will inform you promptly if there are any changes to our policy. Please contact us if you have any questions about this notice.