

**Hennion & Walsh Asset Management, Inc.**  
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**Hennion & Walsh Asset Management, Inc.**  
**Brochure**  
**Dated 01/05/2015**

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**This brochure provides information about the qualifications and business practices of Hennion & Walsh Asset Management, Inc. (the “Registrant”). If you have any questions about the contents of this brochure, please contact us at (973) 299-8989 or [al.vermitsky@hennionandwalsh.com](mailto:al.vermitsky@hennionandwalsh.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.**

**Additional information about Hennion & Walsh Asset Management, Inc. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**References herein to Hennion & Walsh Asset Management, Inc. as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.**

## **Item 2           Material Changes**

This Brochure dated January 5, 2015 reflects our annual update of our brochure and does not contain any material changes over the January 2014 brochure.

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#### **Item 4            Advisory Business**

- A. The Registrant is a corporation formed in the State of New Jersey. The Registrant became registered as an Investment Adviser Firm in April 4, 2003. The Registrant is owned, in equal part, by Richard Hennion and William Walsh.
- B. As discussed below, the Registrant's investment advisory services include the provision of investment management services to individuals, the offering of various investment programs, consulting services of sponsors of participant directed retirement plans. The Registrant also serves as the portfolio supervisor to affiliated unit investment trusts.

#### **INVESTMENT ADVISORY SERVICES**

The client can determine to engage the Registrant to provide discretionary investment or non-discretionary investment advisory services on a wrap fee basis. (*See* discussion below). If a client determines to engage the Registrant on a wrap fee basis the client will pay a single fee for bundled services (i.e. investment advisory, brokerage, custody). The services included in a wrap fee agreement will depend upon each client's particular need.

#### **PRIVATE INVESTMENT MANAGEMENT WRAP PROGRAM**

The Registrant provides investment management services on a wrap fee basis in accordance with the Registrant's wrap fee program, referred to as the Private Investment Management Program (the "PIM"). The services offered under, and the corresponding terms and conditions pertaining to, the PIM are discussed in the Wrap Fee Program Brochure a copy of which is presented to all prospective Program participants.

Through the PIM, the Registrant is able to offer participants discretionary investment management services, for a single specified annual wrap fee, inclusive of trade execution, custody, reporting, and investment management fees. The current annual Program fee ranges from negotiable to 1.50%, depending upon the amount and type of assets held by the client in the PIM.

The terms and conditions for client participation in the PIM are set forth in detail in the Wrap Fee Program Brochure, which is presented to all prospective Program participants in accordance with the disclosure requirements of Part 2A Appendix 1 of Form ADV. The Wrap Fee Program Brochure is incorporated into this Brochure by reference. All prospective PIM participants should read both the Registrant's Brochure and the Wrap Fee Program Brochure, and ask any corresponding questions that they may have, prior to participation in the PIM. First Clearing Corporation ("*First Clearing*"), a FINRA member broker-dealer, shall serve as the custodian for Program accounts.

**Please Note:** As indicated in the Wrap Fee Program Brochure, participation in the Program may cost more or less than purchasing such services separately. As also indicated in the Wrap Fee Program Brochure, the annual fee charged by Registrant for participation in the PIM may be higher or lower than those charged by other sponsors of comparable wrap fee programs.

\*The minimum Account size for PIM program clients is generally \$50,000.

#### **MASTERS PROGRAM**

The Masters Program is a discretionary management program involving a select group of investment managers ("Sub-Account Managers") meeting certain qualification standards set by *First Clearing* and approved by the Registrant. All Sub-Account Managers enter into appropriate, standard-form sub-advisory contracts with Wells Fargo Advisors obligating each Sub-Account Manager to perform its respective duties in accordance with the requirements of the Masters Program. The Registrant selects one or more Sub-Account Managers to be responsible, on a discretionary basis, for the investment and reinvestment of all or a portion of the Masters Program assets. The Registrant has discretion as to the management of the Masters Program including the appointment of Sub-Account Managers. Subject to limitations described in the client's responses to the Registrant's Client Profile form, or any other appropriate suitability analysis obtained by the Registrant from the client (including reasonable restrictions on the investment and reinvestment of Masters Program account assets), selected Sub-Account Managers shall have discretion to manage the investments of each Masters Program client account under the oversight of the Registrant without prior consultation with the client. The Registrant may, in its own discretion, or at the request of the client, replace and/or terminate any Masters Program Sub-Account Manager. Unless otherwise specified, all securities will be held by, and all Masters Program account transactions will be effected through *First Clearing*.

\*Asset level requirements vary per manager but are typically \$100,000. At present, there is typically a \$150,000 minimum overall portfolio size for entry into the Masters Program.

## **ASSET ADVISOR**

Asset Advisor is a full service non-discretionary investment advisory program that includes advisory services and custodial costs in a single asset based fee. The Registrant offers this program through an agreement with our clearing agent First Clearing LLC.

Clients have the ability to invest in a variety of investment products including stocks, bonds, mutual funds and options. Clients may make their own investment decisions and conduct transactions on an unsolicited basis or work with a firm advisory representative to help choose investments best suited for their needs. Investment decisions made by the advisory representative are generally based on a variety of factors including client's investment objectives, risk tolerance liquidity needs and time frame.

Investment advice offered under Asset Advisor is tailored to the individual's needs, as determined by the client and the advisor.

### **Other Fees**

In addition to the program fees, the client also may incur charges including a) any dealer markups, odd lot differentials and transfer taxes b) margin interest c) operational fees and charges.

Our clearing agent, First Clearing and HWAM share in a portion of this fee for services provided.

## **RETIREMENT SAVINGS PROGRAM ("HORIZONS 401(K)")**

The Registrant also offers managed accounts within a Retirement Savings Plan (the “Plan”) for companies. The program, referred to as Horizons 401(k), offers Plan participants asset allocation based portfolios and selected mutual funds for self-directed investing. The Registrant generally performs the following services within the Horizons 401(k) Program:

1) Develop Model Portfolios; 2) Manage Model Portfolios; 3) Recommend changes in the portfolio weightings for each model on a quarterly basis; 4) Recommend mutual funds for use as investment options to plan participants who choose the self-directed investment option; and 5) Provide quarterly performance reports which will be made available to the Plan Sponsor by Registrant.

At the present time, Horizons 401(k)’s model portfolios consist of the following:

- 1) Low Risk Model
- 2) Conservative Model
- 3) Moderate Model
- 4) Growth Model
- 5) Enhanced Growth Model

The Registrant will only have responsibility for investment advisory services related to the Plan but may, at the request of the Plan, recommend a Third Party Administrator to perform any necessary compliance and recordkeeping duties. **Please Note:** It is ultimately the responsibility of the Plan’s Sponsor to select the Third Party Administrator to be utilized. If the Plan engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the Plan agrees to seek recourse exclusively from and against the engaged professional.

#### **Managed Account Program**

Hennion & Walsh Asset Management Inc. maintains a relationship with a family of accounts that are held at Northern Trust. Securities are held in custody at Northern Trust. The account is charged a fee that is exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. This program is not open to new investors.

#### **MISCELLANEOUS**

**Non-Investment Consulting/Implementation Services.** To the extent requested by the client, the Registrant may provide consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. Neither the Registrant, nor any of its representatives, serves as an attorney or accountant, and no portion of the Registrant’s services should be construed as same. To the extent requested by a client, the Registrant may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.), including representatives of the Registrant in their separate registered/licensed capacities as discussed below. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from the Registrant. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note:** Each client is advised that it remains the client’s responsibility to promptly notify the Registrant if there is ever any change in client’s financial situation or investment objectives for the purpose of reviewing/evaluating/revising Registrant’s previous recommendations and/or services.

**Please Note (Wrap/Managed Account programs):** In the event that Registrant is engaged to provide investment management services as part of an unaffiliated wrap-fee program, Registrant will be unable to negotiate commissions and/or transaction costs. Under a wrap program, the wrap program sponsor arranges for the investor participant to receive investment advisory services, the execution of securities brokerage transactions, custody and reporting services for a single specified fee. Participation in a wrap program may cost the participant more or less than purchasing such services separately. In the event that Registrant is engaged to provide investment management services as part of an unaffiliated managed account program, Registrant will likewise be unable to negotiate commissions and/or transaction costs. If the program is offered on a non-wrap basis, the program sponsor will determine the broker-dealer through which transactions must be effected, and the amount of transaction fees and/or commissions to be charged to the participant investor accounts.

**Sub-Advisory Arrangements.** The Registrant may engage sub-advisors for the purpose of assisting the Registrant with the management of its client accounts. The sub-advisor(s) shall have discretionary authority for the day-to-day management of the assets that are allocated to it by the Registrant. The sub-advisor shall continue in such capacity until such arrangement is terminated or modified by the Registrant. The Registrant shall pay a portion of the investment advisory fee received for these allocated assets to the sub-advisor for its sub-advisory services. The Registrant's Chief Compliance Officer, Al Vermitsky, remains available to address any questions concerning the Registrant's sub-advisory arrangements.

**Trade Error Policy.** Registrant shall reimburse accounts for losses resulting from the Registrant's trade errors, but shall not credit accounts for such errors resulting in market gains. The gains and losses are reconciled within the Registrant's custodian firm account and Registrant retains the net gains and losses.

**Client Obligations.** In performing its services, Registrant shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify the Registrant if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Registrant's previous recommendations and/or services.

**Disclosure Statement.** A copy of the Registrant's written Brochure as set forth on Part 2A of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement*. Any client who has not received a copy of Registrant's written Brochure at least 48 hours prior to executing the *Investment Advisory Agreement* shall have five business days subsequent to executing the agreement to terminate the Registrant's services without penalty.

- C. The Registrant shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, the Registrant shall allocate and/or recommend that the client allocate investment assets

consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on the Registrant's services.

- D. Registrant only provides investment management on a wrap fee basis. However, as stated above, if a client determines to engage the Registrant on a wrap fee basis the client will pay a single fee for bundled services (i.e. investment advisory, brokerage, custody) (*See* Item 4.B). The services included in a wrap fee agreement will depend upon each client's particular need. **Please Note:** When managing a client's account on a wrap fee basis, the Registrant shall receive as payment for its investment advisory services, the balance of the wrap fee after all other costs incorporated into the wrap fee have been deducted.
- E. As of December 31, 2014 the Registrant had \$138,229,579.95 in assets under management on a discretionary basis and \$9,709,037.37 on a non-discretionary basis.

## **Item 5 Fees and Compensation**

- A. The client can determine to engage the Registrant to provide discretionary investment advisory services on a wrap *fee* basis or non-discretionary investment advisory services on a fee based service.

### **PRIVATE INVESTMENT MANAGEMENT WRAP PROGRAM FEES**

If a client determines to engage the Registrant to provide investment management services on a wrap fee basis in accordance with the Registrant's wrap fee program, the services offered under, and the corresponding terms and conditions pertaining to, the PIM are discussed in the Wrap Fee Program Brochure, a copy of which is presented to all prospective PIM participants. Under the PIM, the Registrant is able to offer participants discretionary investment management services, for a single specified annual Program Fee, inclusive of trade execution, custody, reporting, and investment management fees.

\*The minimum Account size for PIM program clients is generally \$50,000.

**PIM Program Fees.** For the services provided under the PIM, clients will be charged the Program Fee that is both for investment advice and brokerage commissions in accordance with the PIM Program Fee Schedule below. Program Fees may be negotiable under certain circumstances. The Program Fee is paid quarterly to Registrant based on the value of the assets in the Program. If a client holds one or more mutual funds in his/her/its PIM Program account, as a mutual fund shareholder, the client will bear a proportionate share of each of those funds' management fees, Rule 12b-1 (distribution) fees, shareholder servicing fees, and other charges and expenses (applicable periodically during the holding period and/or at the time the Agreement is terminated), as permitted by law. These charges, fees, and expenses will vary and are described in the applicable funds' prospectuses, and may include short-term trading fees.

#### **PIM Program Fee Schedule**

<u>Asset Level</u>	<u>Annual Client Fee</u>
First \$250,000	1.50%
Next \$250,000	1.40%
Next \$500,000	1.25%

Next \$4,000,000	1.00%
Over \$5,000,000	0.75%

### **MASTERS PROGRAM**

The Masters Program is an unaffiliated discretionary management wrap program involving a select group of investment managers ("Sub-Account Managers") meeting certain qualification standards set by the *First Clearing* and approved by the Registrant. The Registrant has discretion as to the management of the Masters Program, including the appointment of Sub-Account Managers.

**Masters Program.** The standard fee schedule for both the Masters Program is provided below.

#### **Equity and Balanced Accounts:**

<u>Asset Level</u>	<u>Annual Client Fee</u>
First \$ 250,000	2.00%
Next \$250,000	1.90%
Next \$500,000	1.75%
Next \$ 4,000,000	1.50%
Over \$5,000,000	1.25%

#### **Fixed Income Accounts:**

<u>Asset Level</u>	<u>Annual Client Fee</u>
First \$ 250,000	1.75%
Next \$250,000	1.65%
Next 500,000	1.50%
Next \$ 4,000,000	1.25%
Over \$5,000,000	1.00%

\*Asset level requirements vary per Sub-Account Manager but are typically \$100,000. At present, there is typically a \$150,000 minimum overall portfolio size for entry into either the Masters program or the Network Program.

The Registrant may receive rebates on funds deposited in money market accounts held on the managed money platform.

### **ASSET ADVISOR**

For the services provided under the Asset Advisor, clients will be charged the Program Fee that is both for investment advice and brokerage commissions in accordance with the Asset Advisor Program Fee Schedule.

Program Fees may be negotiable under certain circumstances.

The standard fee schedule for the Asset Advisor program is provided below.



<u>Asset Level</u>	<u>Annual Client Fee</u>
First \$ 250,000	3.00%
Next \$750,000	2.50%
Over \$1,000,000	2.00%

### **RETIREMENT SAVINGS PROGRAM ("HORIZONS 401(K)")**

The Registrant offers managed accounts within a Retirement Savings Plan (the "Plan") for companies. The program, referred to as Horizons 401(k), offers Plan participants asset allocation based portfolios and selected mutual funds for self-directed investing.

The standard fee schedule as it relates to investment advisory services related to Horizons 401(k) are listed below. Fees will be paid in arrears on a quarterly basis on the current value of the assets in the Plan within 60 days of the end of the quarter.

#### **Mutual Funds Menu:**

<u>Asset Level</u>	<u>Annual Client Fee</u>
\$0-\$250,000	1.40%
\$250,001-\$500,000	1.30%
\$500,001-\$1,000,000	1.15%
\$1,000,001-\$5,000,000	0.90%
\$5,000,001-\$15,000,000	0.70%
\$15,000,001-\$25,000,000	0.70%
\$25,000,001+	0.55%

#### **Asset Allocation Models:**

<u>Asset Level</u>	<u>Annual Client Fee</u>
\$0-\$250,000	1.50%
\$250,001-\$500,000	1.40%
\$500,001-\$1,000,000	1.25%
\$1,000,001-\$5,000,000	1.00%
\$5,000,001-\$15,000,000	0.75%
\$15,000,001-\$25,000,000	0.70%
\$25,000,001+	0.65%

- B. Clients may elect to have the Registrant's advisory fees deducted from their custodial account. Both *H&W's Investment Advisory Agreement* and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of the Registrant's investment advisory fee and to directly remit that management fee to the Registrant in compliance with regulatory procedures. In the limited event that the Registrant bills the client directly, payment is due upon receipt of the Registrant's invoice. The Registrant shall generally deduct fees and/or bill clients quarterly in advance

(participants in the Horizons 401(k) Program shall be billed quarterly in arrears), based upon the market value of the assets on the last business day of the previous quarter.

- C. Participants in the PIM wrap fee program or the Masters Program are required to custody their assets at *First Clearing*. Horizon 401(k) custodian is selected by the Administrator. Broker-dealers such as *First Clearing* and/or *H&W* charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to Registrant's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses). Participants in the PIM, Asset Advisor or Masters Wrap fee programs will not incur brokerage commissions and/or transaction fees in addition to the PIM, Masters or Network Program Fees.
- D. Registrant's annual investment advisory fee shall generally be prorated and paid quarterly, in advance, (participants in the Horizons 401(k) Program shall be billed quarterly in arrears), based upon the market value of the assets on the last business day of the previous quarter. As disclosed above, the Registrant generally requires that participants in the PIM wrap fee program have a minimum asset level of \$50,000 for investment advisory services. The Registrant generally requires that participants in the Masters Programs have a minimum asset level of \$150,000 for investment advisory services. The Registrant, in its sole discretion, may charge a lesser investment management fee and/or waive or reduce its minimum fee or asset requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.). Registrant's employees will generally pay a lesser investment management fee.

The *Investment Advisory Agreement* between the *H&W* and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination of a client relationship involving either the PIM wrap fee program or the Masters Program, the Registrant shall refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter. Upon termination of a client relationship involving the Horizon 401(k) Program, the Registrant shall bill the account for the pro-rated portion of the unpaid advisory fee based upon the number of days that services were provided during the billing quarter.

- E. **Commission Transactions.** In the event that the client desires, the client can engage certain of the Registrant's representatives, in their individual capacities as registered representatives of Hennion & Walsh, Inc. ("*H&W*"), an affiliated FINRA member broker-dealer, to implement investment recommendations on a commission basis. In the event the client chooses to purchase investment products through *H&W*, *H&W* will charge brokerage commissions to effect securities transactions, a portion of which commissions *H&W* shall pay to Registrant's representatives, as applicable. The brokerage commissions charged by *H&W* may be higher or lower than those charged by other broker-dealers. *H&W* and *H&W* representatives may receive 12b-1 trailing commission compensation from a mutual fund company.

1. **Conflict of Interest:** The recommendation that a client purchase a commission

product from *H&W* presents a ***material conflict of interest***, as the receipt of commissions may provide an incentive to recommend investment products based on commissions to be received, rather than on a particular client's needs. No client is under any obligation to purchase any commission products from *H&W*. **The Registrant's Chief Compliance Officer, Al Vermitsky, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

2. **Please Note:** Clients may purchase investment products recommended by Registrant through other non-affiliated broker dealers or agents.
3. The Registrant does not receive more than 50% of its revenue from advisory clients as a result of commissions or other compensation for the sale of investment products the Registrant recommends to its clients.
4. When Registrant's representatives sell an investment product on a commission basis, the Registrant does not charge an advisory fee in addition to the commissions paid by the client for such product. When providing services on an advisory fee basis, the Registrant's representatives do not also receive commission compensation for such advisory services. **However**, a client may engage the Registrant to provide investment management services on an advisory fee basis and separate from such advisory services purchase an investment product from Registrant's representatives on a separate commission basis.

## **Item 6            Performance-Based Fees and Side-by-Side Management**

Neither the Registrant nor any supervised person of the Registrant accepts performance-based fees.

## **Item 7            Types of Clients**

The Registrant's clients shall generally include individuals, business entities, trusts, estates, charitable organizations, investment companies and pension and profit sharing plans. As disclosed above, the Registrant generally requires that participants in the PIM wrap fee program have a minimum asset level of \$50,000 for investment advisory services. The Registrant generally requires that participants in the Masters Programs have a minimum asset level of \$150,000 for investment advisory services. The Registrant, in its sole discretion, may charge a lesser investment management fee and/or waive or reduce its minimum fee or asset requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

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

- A. The Registrant shall utilize the following methods of security analysis:
  - **Fundamental** - (analysis performed on historical and present data, with the goal of making financial forecasts)

- Technical – (analysis performed on historical and present data, focusing on price and trade volume, to forecast the direction of prices)

The Registrant shall utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Trading (securities sold within thirty (30) days)

**Please Note: Investment Risk.** Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by the Registrant) will be profitable or equal any specific performance level(s).

- B. The Registrant's methods of analysis and investment strategies do not present any significant or unusual risks.

However, every method of analysis has its own inherent risks. To perform an accurate market analysis the Registrant must have access to current/new market information. The Registrant has no control over the dissemination rate of market information; therefore, unbeknownst to the Registrant, certain analyses may be compiled with outdated market information, severely limiting the value of the Registrant's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

The Registrant's primary investment strategies - Long Term Purchases, Short Term Purchases, and Trading - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period involves a very short investment time period but will incur higher transaction costs when compared to a short term investment strategy and substantially higher transaction costs than a longer term investment strategy.

- C. Currently, the Registrant primarily allocates client investment assets among various individual equity (stocks), debt (bonds), and fixed income securities, mutual funds, exchange traded funds, exchange traded notes and/or Unit Investment Trusts, on a discretionary basis in accordance with the client's designated investment objective(s).

## Item 9            Disciplinary Information

- A. Neither the Registrant nor any management person has ever been the subject of a criminal or civil proceeding.
- B. Neither the Registrant nor any management person has ever been the subject of a proceeding before the SEC or any other federal regulatory agency.

## Item 10          Other Financial Industry Activities and Affiliations

- A. As disclosed above in Item 5.E, certain of Registrant's representatives are also registered representatives of Hennion & Walsh, Inc. ("*H&W*"), an affiliated FINRA member broker-dealer.
- B. Neither the Registrant, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C.
  - 1. **Registered Representatives of an Affiliated Broker-Dealer: *H&W*.** As disclosed above in Item 5.E, certain of Registrant's representatives, are registered representatives of *H&W*, an affiliated FINRA member broker-dealer. Clients may choose to engage Registrant's representatives in their individual capacities as registered representatives of *H&W*, to implement investment recommendations on a commission basis.
    - **Conflict of Interest:** The recommendation by Registrant's representatives that a client purchase a securities commission product presents a *material conflict of interest*, as the receipt of commissions may provide an incentive to recommend investment products based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any commission products from Registrant's affiliate and/or representatives. Clients are reminded that they may purchase securities products recommended by the Registrant through other non-affiliated broker-dealers. **The Registrant's Chief Compliance Officer, Al Vermitsky, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**
  - 2. **Portfolio Supervisor to Unit Investment Trusts ("UIT").** The Registrant serves as the portfolio supervisor to unit investment trusts sponsored by *H&W*, its affiliated member broker-dealer. The terms and conditions of each UIT shall be set forth in its corresponding offering and governing documents. The Registrant's role is generally limited to the oversight of the underlying portfolio of UIT assets. *H&W*, in its separate registered capacity, shall be responsible for the creation, sale and administration of each UIT. *H&W* typically selects underlying UIT portfolios; however, the Registrant may select certain UIT portfolios and/or provide investment advice to *H&W* or otherwise assist in connection with such portfolio selection. In

addition, third party investment advisers may select certain UIT portfolios and/or provide investment advice to *H&W* and/or the Registrant or otherwise assist in the connection with such portfolio selection. **The Registrant's Chief Compliance Officer, Al Vermitsky, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

8. **Licensed Insurance Agents.** Registrant's representatives, in their individual capacities, are licensed insurance agents, and may recommend the purchase of certain insurance-related products on a commission basis. As referenced in Item 4 B above, clients can engage certain of Registrant's representatives to effect insurance transactions on a commission basis.

- **Conflict of Interest:** The recommendation by Registrant's representatives that a client purchase an insurance commission product presents a *conflict of interest*, as the receipt of commissions may provide an incentive to recommend insurance products based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any commission products from Registrant's representatives. Clients are reminded that they may purchase insurance products recommended by Registrant through other non-affiliated insurance agents. **The Registrant's Chief Compliance Officer, Al Vermitsky, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

- D. The Registrant does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

## **Item 11            Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

- A. The Registrant maintains an investment policy relative to personal securities transactions. This investment policy is part of Registrant's overall Code of Ethics, which serves to establish a standard of business conduct for all of Registrant's Representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, the Registrant also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by the Registrant or any person associated with the Registrant.

- B. Neither the Registrant nor any related person of Registrant recommends, buys, or sells for client accounts, securities in which the Registrant or any related person of Registrant has a material financial interest.
- C. The Registrant and/or representatives of the Registrant *may* buy or sell securities that are also recommended to clients. This practice may create a situation where the Registrant and/or representatives of the firm are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if the Registrant did not have adequate policies in place to detect such activities. In

addition, this requirement can help detect insider trading, “front-running” (i.e., personal trades executed prior to those of the Registrant’s clients) and other potentially abusive practices.

The Registrant has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of the Registrant’s “Access Persons.” The Registrant’s securities transaction policy requires that Access Person of the Registrant must provide the Chief Compliance Officer or his/her designee with a written report of the their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person’s current securities holdings at least once each twelve (12) month period thereafter on a date the Registrant selects; provided, however that at any time that the Registrant has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. The Registrant and/or representatives of the Registrant *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where the Registrant and/or representatives of the firm are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11.C, the Registrant has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Registrant’s Access Persons.

## **Item 12      Brokerage Practices**

- A. As disclosed above, participants in either the PIM wrap fee program, the Masters Program or Asset Advisor Program are required to custody their assets at *First Clearing*. Prior to engaging Registrant to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with *H&W* setting forth the terms and conditions under which Registrant shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that the Registrant considers in selecting *First Clearing* and/or recommending *H&W* (or any other broker-dealer/custodian to clients) include historical relationship with the Registrant, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Registrant's clients shall comply with the Registrant's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the Registrant determines, in good faith, that the commission/transaction fee is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Registrant will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Registrant's investment management

fee. The Registrant's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

1. Research and Additional Benefits. Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Registrant may receive from *First Clearing* and/or *H&W* (or another broker-dealer/custodian) without cost (and/or at a discount) support services and/or products, certain of which assist the Registrant to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by the Registrant may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Registrant in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that *may* be received may assist the Registrant in managing and administering client accounts. Others do not directly provide such assistance, but rather assist the Registrant to manage and further develop its business enterprise.

Registrant's clients do not pay more for investment transactions effected and/or assets maintained at *First Clearing* and/or *H&W* as a result of this arrangement. There is no corresponding commitment made by the Registrant to *First Clearing* and/or *H&W* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as result of the above arrangement.

**The Registrant's Chief Compliance Officer, Al Vermitsky, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.**

2. The Registrant does not receive referrals from broker-dealers.
3. The Registrant does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements the client will negotiate terms and arrangements for their account with that broker-dealer, and Registrant will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Registrant. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.



**Please Note:** In the event that the client directs Registrant to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Registrant.

**The Registrant's Chief Compliance Officer, Al Vermitsky, remains available to address any questions that a client or prospective client may have regarding the above arrangement.**

- B. To the extent that the Registrant provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless the Registrant decides to purchase or sell the same securities for several clients at approximately the same time. The Registrant may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Registrant's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. The Registrant shall not receive any additional compensation or remuneration as a result of such aggregation.

### **Item 13      Review of Accounts**

- A. For those clients to whom Registrant provides investment supervisory services, account reviews are conducted on an ongoing basis by the Registrant's Principals and representatives. All investment supervisory clients are advised that it remains their responsibility to advise the Registrant of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with the Registrant on an annual basis.
- B. The Registrant *may* conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Registrant may also provide a written periodic report summarizing account activity and performance.

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

- A. As referenced in Item 12.A.1 above, the Registrant may receive an indirect economic benefit from *H&W*. The Registrant, without cost (and/or at a discount), may receive support services and/or products from *H&W*.

Registrant's clients do not pay more for investment transactions effected and/or assets maintained at *H&W* as a result of this arrangement. There is no corresponding commitment made by the Registrant to *H&W* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as result of the above arrangement.

**The Registrant's Chief Compliance Officer, Al Vermitsky, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.**

- B. Neither the Registrant nor any related person compensates any person who is not a supervised person for client referrals.

## **Item 15      Custody**

The Registrant shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Registrant may also provide a written periodic report summarizing account activity and performance.

**Please Note:** To the extent that the Registrant provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by the Registrant with the account statements received from the account custodian. **Please Also Note:** The account custodian does not verify the accuracy of the Registrant's advisory fee calculation.

## **Item 16      Investment Discretion**

The client can determine to engage the Registrant to provide investment advisory services on a discretionary basis. Prior to the Registrant assuming discretionary authority over a client's account, client shall be required to execute an *Investment Advisory Agreement*, naming the Registrant as client's attorney and agent in fact, granting the Registrant full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage the Registrant on a discretionary basis may, at anytime, impose restrictions, **in writing**, on the Registrant's discretionary authority. (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe the Registrant's use of margin, etc.).

## **Item 17      Voting Client Securities**

The Registrant does not vote proxies for clients participating in the PIM program. The Sub-Account Manager shall vote proxies on behalf of participants of the Masters Program, unless otherwise instructed by participants at the time they open their Masters Program account. Registrant has adopted procedures that are designed to ensure that client securities are voted in the best interests of its clients, and to avoid potential conflicts of interest that may arise between Registrant's interests and those of its clients. A copy of Registrant's proxy voting policies and procedures is available upon request.

For those clients that the Registrant shall not be responsible for voting proxies, the Registrant shall forward any proxy solicitations to the client or to the person designated by the client, within a reasonable period of time, any materials or other information with respect to any such proxy solicitations received from the issuer or third party.

## **Item 18      Financial Information**

- A. The Registrant does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. The Registrant is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. The Registrant has not been the subject of a bankruptcy petition.

**ANY QUESTIONS: The Registrant's Chief Compliance Officer, Al Vermitsky, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**