

# Chicago Wealth Management, Inc.

Two North Riverside Plaza, Suite 1620

Chicago, IL 60606

(312) 376-8350

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

March 27, 2015

**This brochure provides information about the qualifications and business practices of Chicago Wealth Management, Inc. If you have any questions about the contents of this brochure, please contact us at (312) 376-8350. 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.**

**Chicago Wealth Management, Inc. is an SEC registered investment adviser; however this registration does not imply a certain level of skill or training.**

**Additional information about Chicago Wealth Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2 – Material Changes**

1. Since our last amendment filing on March 25, 2014 there has been a material change to the ownership structure of Chicago Wealth Management, Inc. The ownership structure is now as follows:

75% - Jeffrey G. Cribbs

25% - Nicholas J. Thompson

## **Table of Contents:**

|  | <u>Page</u> |
|--|-------------|
| Item 2 – Material Changes.....   | i           |
| Item 3 – Table of Contents.....  | ii          |
| Item 4 – Advisory Business.....  | 1           |
| Item 5 – Fees and Compensation.....  | 3           |
| Item 6 – Performance-Based Fees and Side-by-Side Management.....   | 4           |
| Item 7 – Types of Clients.....   | 4           |
| Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....                                | 4           |
| Item 9 – Disciplinary Information.....   | 6           |
| Item 10 – Other Financial Industry Activities or Interest in Client Transactions.....                    | 6           |
| Item 11 – Code of Ethics, Participation or Interest in Client Transactions and<br>Personal Trading ..... | 7           |
| Item 12 – Brokerage Practices.....   | 8           |
| Item 13 – Review of Accounts.....  | 10          |
| Item 14 – Client Referrals and Other Compensation.....   | 11          |
| Item 15 – Custody.....   | 11          |
| Item 16 – Investment Discretion.....   | 11          |
| Item 17 – Voting Client Securities.....  | 12          |
| Item 18 – Financial Information.....   | 12          |

#### **Item 4 – Advisory Business**

- A. Chicago Wealth Management, Inc. (hereafter referred to as “CWM” or “firm”) is an SEC registered investment management firm which has been operating since November of 2002. The ownership structure of the firm is as follows:

- Jeffrey G. Cribbs – 75% ownership
- Nicholas J. Thompson – 25% ownership

B. *Investment Management & Financial Planning*

CWM provides investment management and financial planning services primarily to high net worth and high income individuals, non-profits, and institutions. We offer investment advice for a fee based on a percentage of assets under management, or occasionally for a fixed fee. We use a tactical investment strategy to help inform allocation decisions, with a primary focus on maximizing absolute long-term return while minimizing large portfolio losses. CWM provides advice on the following: exchange listed equity securities, exchange traded funds, mutual funds, corporate debt, CD's, municipal securities, no-load variable life and annuity policies, section 529 savings plans, US government securities, and securities options contracts.

As part of the services offered, CWM provides advice on the following:

1. Investment Planning
2. Retirement Planning
3. College Education Planning
4. Distribution Planning
5. Spending Policy and Planning

We address the following planning issues, referring to appropriate professionals as needed:

1. Income Tax
2. Fringe Benefit/Employee Benefit Planning
3. Insurance Planning
4. Estate Planning
5. Charitable Gift Planning

All CWM client accounts are maintained at a primary custodian. We typically use the services of Charles Schwab and Fidelity to maintain client accounts. There are some situations where using these custodians is not possible or most advantageous for the client, resulting in CWM also maintaining accounts at the following custodians: Ameritas, American Funds – College America, Bright Directions College Saving, TD Ameritrade, MG Direct, and TIAA-Cref. All custodians listed above are hereafter referred to as “Qualified Custodians”.

*Qualified Retirement Plan Consulting and Investment Management*

CWM provides consulting and investment management for a variety of small business qualified retirement plans. These include 401(k), profit sharing, defined benefit, and cash balance plans. Following an initial consultation and an advisory agreement between the plan's trustee and CWM, CWM serves as the investment manager for the plan's assets. CWM takes on the role of a 3(38) investment manager as defined by ERISA, assuming all fiduciary responsibilities due to the investment discretion granted in this capacity. CWM's ability to serve qualified retirement plan clients is typically achieved through partnering with the following separate parties:

- Third Party Administrator – plan design consultation and management of all plan documents, administration, tax reporting, compliance filings, and applicable plan discrimination testing. CWM

chooses administrators based on cost and needs of the plan, which depending on plan size and design makes some administrators more attractive for certain plans than others. CWM partners with the Karel-Gordon & Associates, Ubiquity Retirement Savings., Charles Schwab, Fidelity, and other selected independent TPA's (Third Party Administrators) to serve as administrators for its qualified retirement plan clients.

- Record Keeper – The record keeping firm is responsible for providing and maintaining a secure website for access by plan sponsors, advisors, and plan participants. The website will provide the ability to run various reports pertaining to plan balances, allocations, transactions, fees, etc. The record keeper partners with the Qualified Custodian to provide CWM with a platform to choose and monitor investments for a plan's fund list and managed allocation portfolios.
- Qualified Custodian – Depending on the cost, plan design, and chosen administrator, CWM primarily uses Charles Schwab, Fidelity, TD Ameritrade or Matrix for qualified custodians, and retains the ability to choose other custodians if most beneficial for the client. While the administrator and record keeper maintains the records and reporting, the actual assets are held at one of these custodians. Hereafter, all of these are included in the definition of "Qualified Custodians" described earlier in Item 4.B. Qualified Custodians are chosen based on the best available pricing and service for clients, preference of administrators and flexibility offered in investment choices. CWM directs the Qualified Custodian to deduct investment management fees from plan assets according to the fee schedule in Item 5.

CWM chooses a fund list and builds model portfolios for investment by plan participants. These include a Growth, Moderate, and Conservative allocation portfolio, as well as a more actively managed CWM Portfolio which closely follows CWM's tactical allocation investment strategy. More detail about CWM's investment strategy is provided in Item 8. CWM only has the ability to choose funds to include on the list or in the individual model portfolios on a plan level, and does not maintain discretion to direct which investments individuals hold in their accounts unless that individual has a separate Advisory Agreement with CWM. Participants have the option to invest their account in any of the model portfolios, choose their own investment allocation from the fund list, or leave all contributions in a money market account. CWM monitors both the individual funds included on the fund list as well as the managed portfolios on a regular periodic basis, with a comprehensive, documented review taking place no less frequently than quarterly.

#### *Sub-Advisory Clients*

CWM maintains the ability to select and hire third party registered investment advisors for the management or co-management of certain client accounts. CWM will not receive any additional compensation from these selected advisors and avoids any conflict of interests associated with this type of business relationship.

- C. A CWM advisor has an initial consultation meeting with any prospective client before entering into an advisory agreement. There is no charge for this meeting. During this consultation, CWM gathers data from the client regarding current financial situation, spending and saving goals, tax information, insurance coverage, and estate planning issues. The client and CWM will decide on engaging in an agreement for comprehensive financial planning or a more limited engagement including investment management. In the case of retirement plan consultation, key issues to be examined are the type of plan and design, current contributions, non-discrimination issues, and plan fees. This information is reviewed by CWM and impacts recommendations made to the client.

#### *Qualified Plan Rollovers*

CWM often has clients with balances in retirement plans from a former employer that are eligible for rollover. The fact that these retirement plans are eligible but not required to be rolled over to an IRA or other investment vehicle that is managed by CWM creates a potential conflict of interest. To mitigate this potential conflict, CWM will

provide the client with a detailed description of the rules regarding qualified plan rollovers upon termination from an employer as well as an analysis of the costs (including underlying investment expense ratios, administrative fees, investment management fees) and potential benefits associated with both leaving the assets in the qualified plan or moving them to a new investment vehicle.

- D. CWM does not participate in wrap fee programs for any of its clients.
- E. As of 12/31/2014, CWM has RAUM (Regulatory Assets under Management) of \$126,086,997 as defined by the SEC. This calculation of assets under management was derived using the method required for Item 5.F in ADV Form Part 1A. This amount is the total value of all securities portfolios for which CWM provides continuous and regular supervisory or management services as of 12/31/2014. Securities portfolios are defined as being made up of at least 50% securities (including cash and equivalents).

## **Item 5 – Fees and Compensation**

- A. CWM is primarily compensated for advisory services based on a percentage of assets under management according to the following fee schedules:

### *Investment Management & Financial Planning Clients*

| Client Asset Under Management | Annual Fee (% of assets managed) |
|-------------------------------|----------------------------------|
| \$0-\$500,000                 | 1.25%                            |
| \$500,001-\$2,500,000         | 1.00%                            |
| \$2,500,001 - \$5,000,000     | 0.60%                            |
| \$5,000,001 and above         | Negotiable                       |

There are occasions when CWM charges fixed fees for financial planning or consulting services. However, CWM will not require or solicit payment of fees in excess of \$1200 more than 6 months in advance of services rendered. Certain Legacy Clients may be under previous fee schedule arrangements, which remain in effect until updated.

### *Qualified Retirement Plan*

| Plan Asset Under Management | *Annual Fee (% of assets managed) |
|-----------------------------|-----------------------------------|
| \$0-\$250,000               | 1.00%                             |
| \$250,001-\$1,000,000       | 0.80%                             |
| Above \$1,000,000           | 0.60%                             |

Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees. Legacy clients may be billed on previous fee schedules.

### *Sub-Advisory Clients*

Clients managed by sub advisors will be billed according to the same fee schedule as typical investment management clients, with fees deducted in the same manner. Fees are remitted to the selected sub-advisor

according to the sub-advisory agreement in place between the two firms, but clients are not charged any additional fees for having a third party investment manager sub-advise on their account.

- B. The client provides written authorization permitting fees to be paid directly from the client's account held by the custodian. This authorization is given on the custodian's account application. CWM does not have access to client funds for the payment of fees without this consent. CWM directs its custodians to deduct fees directly from client accounts, and then remit those fees back to CWM. Management fees are charged on a quarterly basis and billed in arrears.
- C. Clients may be charged underlying fees such as custodian fees, mutual fund expenses, and trading costs. These are shown on the statement the client receives on a monthly basis from their Qualified Custodian. Brokerage and transaction costs are disclosed in more detail in item 12.
- D. CWM does not typically charge clients any pre-paid fees. All fees are generally charged based on quarter-end assets under management. In the event of a termination of the client's advisory agreement, any pre-paid fees are pro-rated to the date of termination and any unearned portion thereof is refunded to the client.
- E. Neither CWM nor any of its employees accept compensation for the sale of securities or other investment products to clients. This includes asset based sales charges and service fees based on the sale of mutual funds.

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

CWM does not accept performance-based fees on any client accounts.

#### **Item 7 – Types of Clients**

CWM provides investment advice to the following types of clients: individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

CWM requires a minimum net worth of \$1.5 million or income exceeding \$200,000 per year to establish a new advisory account, however these minimums may be waived at the sole discretion of CWM. CWM may also continue to service existing accounts for clients that fall below these minimums.

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

- A. CWM's strategy can most generally be summarized as global tactical asset allocation, with a focus on avoiding large, devastating portfolio losses. CWM uses asset allocation across a broad range of domestic, international and sector asset classes to build portfolios. CWM's asset allocation procedure shares some characteristics with widely practiced Modern Portfolio Theory, while incorporating other methodologies as well. Mutual funds, low cost index funds, or Exchange Traded Funds (ETFs) are typically used to develop client portfolios. On occasion, CWM may use margin transactions or options writing for specific client circumstances such as managing a concentrated stock position, managing taxes, or for issues related to cash flow. Any benefit or risks are discussed with clients before being implemented.

Our research indicates that there is persistency effect to asset class returns. The return of an asset class in period (t+1) is related to the return in period (t). For example if an unmanaged equity asset class index fund

outperformed other equity asset classes in period 1, there is a tendency for that asset class to continue to do well in period 2.

We have internally developed research models that overweight certain asset classes based on this persistency effect. Within equity asset classes, there are often substantial variations between the best and worst asset class in any given year. This return differential combined with persistency effects point toward concentrating investments in certain asset classes through the use of indexed ETFs. We couple these effects with risk control techniques using Simple Moving Averages and look back periods (ranking asset classes by their previous 9 to 15 month returns). This combination provides the framework of our investment research models, which inform decisions to adjust portfolio concentrations between multiple equity and fixed income asset classes. The most important risk control technique of our investment research is realized when moving a portfolios' investment concentration from equities to fixed income or vice versa. CWM's research has shown that avoiding large maximum losses in portfolios is the critical element in increasing long term growth and improving sustainable distribution rates. Our research tends to indicate improved long-term risk-adjusted performance compared to more traditional static asset allocation and rebalancing techniques practiced by many advisors. However, short-term risk can be higher when our models are fully invested in equities.

Recommendations to sell individual issues may be made to properly diversify or reallocate a client's portfolio to fit CWM's investment strategies. In these situations, tax consequences are taken into effect and CWM may use alternate money managers to incorporate existing large holdings in the portfolio to better balance diversification needs with minimizing taxes. Similar strategies are used to develop strategies for employer provided stock options.

Performance relative to other managers with similar objectives is the primary method of evaluating effectiveness when active managers are used. CWM will review common market indices such as the S&P 500, the Wilshire 5000, MSCI EAFE, Russell 1000, Russell 2000, and Barclays US Aggregate Bond when evaluating and comparing portfolio performance to equity markets. CWM may also use relevant benchmarks as performance comparisons, with full disclosure to the client as to the construction of these benchmarks as well as the appropriateness of using them for evaluation. In addition to comparison to appropriate benchmarks, CWM incorporates client objectives into reviews of performance.

- B. CWM does not represent, warranty, or imply that securities investments are guaranteed or that it will successfully identify market peaks or troughs or completely insulate clients from losses due to market corrections or declines. Investing in securities always carries some level of risk that clients should be prepared to bear. We ask that you work with us to help us understand your tolerance for risk.

We encourage more risk averse clients to have a substantial portion of assets left in separate accounts containing "safer" assets. These assets include savings accounts, CD's, money markets, shorter-term treasuries, shorter-term and highly rated bonds, and tax free municipal bonds. They are generally applicable to clients that have objectives of short-term cash needs, principal protection, or are simply averse to short term volatility. These separate accounts can be held through CWM's qualified custodians or at other institutions, but remain separate from a client's investment accounts.

CWM's investment models use broadly traded, liquid ETF's and mutual funds to gain exposure to certain asset classes. When CWM's portfolio managers decide to make a change in asset class exposure, CWM uses block trades of ETF's to rebalance client portfolios to the new allocations. Our research models typically indicate portfolio rebalancing an average of two times a year, although this can vary from year to year and based on market conditions. Because CWM is not partaking in frequent trading clients are not subject to additional risks that frequent trading may normally entail such as increased brokerage, transaction, or tax costs. Prior to a block trade, CWM reviews all accounts which are included and creates a pre-allocation statement indicating how many shares should be allocated to each account. This pre-allocation statement specifying the participating accounts and planned allocation is required prior to any allocated order or block trade. Should the actual



allocation differ from the allocation statement, such trade may only be authorized with the approval of a qualified principal of CWM.

CWM manages client accounts at two main custodians (Charles Schwab and Fidelity), and when doing block trades, two separate block trade orders are created, one for each custodian based on the pre-allocation statement. The order that the block trades are executed is rotated between the two custodians, with this order being recorded at each trade.

All client accounts participating in a block trade receive an average share price based on the average share price received at the custodian where their account is held. Transaction costs are dependent on each investor's account the custodian where it is held. Block trades are executed in line with CWM's duty to seek best execution.

When making block trades of ETF's, CWM must use limit pricing. If the trade is over 10% of the ETF's daily volume, the limit price is based on an algorithm to determine the limit price. For trades over 10% of the ETF's average daily volume, CWM is in contact with the ETF product sponsor to determine how to best execute the trade. Once the trade is filled, the average price is checked against the submitted limit.

CWM's securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. CWM is alert that data may be incorrect and there may be risk that our analysis may be compromised by inaccurate or misleading information.

#### **Item 9 – Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Our firm and our management personnel have no reportable disciplinary events to disclose.

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

- A. No CWM employees are registered or have an application pending to register as a broker-dealer or registered representative of a broker-dealer.
- B. No CWM employees are 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.
- C. Outlined below are the relationships or arrangements that the following categories of related persons have that are material to CWM's advisory business or to its clients:
  - 1. *Insurance Company or Agency:* CWM Insurance Services, Inc. Jeffrey Cribbs maintains his insurance license for the state of Illinois and created CWM Insurance Services, Inc. in order to provide an efficient option to help clients solve potential life and disability insurance needs. CWM Insurance Services partners with Crump Life Insurance who acts as an independent broker in providing policy options. All revenue from insurance policies is paid to CWM Insurance Services and not to CWM. Clients of CWM that are referred to CWM Insurance services receive information about the relationship between the two firms, and the amount of insurance commissions to be received by CWM Insurance Services. Information about CWM Insurance Services is also included in the ADV Part 2.B supplement for Jeffrey Cribbs.

- D. CWM may select third party registered investment advisors or sub-advisors to manage or co-manage client portfolios; however, CWM will not receive any compensation from those selected managers. Properly executed sub-advisory agreements will be in place with all sub-advisors that CWM engages. CWM does not have any material conflicts of interest involving any business relationship of this nature.

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

- A. In the course of CWM's service to clients, several situations can arise that represent actual or potential conflicts of interest. To address this, we have established the following policies and procedures for implementing CWM's Code of Ethics, to ensure our compliance with regulatory obligations and providing our clients and potential clients with full and fair disclosure of such conflicts of interest. In general, this code maintains standards for financial advisors that have been established by the CFP Board and regulations of the SEC.

#### *Basic Principles*

- No principal or employee of CWM may put his or her own interest above the interest of an advisory client. CWM has a fiduciary responsibility to all clients, owing them the highest duty of loyalty and can only provide recommendations that are in the best interest of the client.
- Each principal or employee's personal or professional investment activities must be consistent with this code and avoid any conflicts of interests between themselves and the client that may infringe upon their fiduciary responsibility. This includes taking advantage of timing of transactions or insider trading. See items 11.C and 11.D for more detail.
- CWM maintains a strict level of confidentiality of a client's portfolios and activity. Principals and employees are strictly prohibited from disclosing or distributing client information to anyone other than client unless specifically authorized by that particular client. CWM maintains a Privacy Policy that clearly outlines procedures in regards to the confidentiality of client information.
- No principal or employee may take part in misappropriation, borrowing, stealing, or conversion of customer funds, or in any activity that could be considered fraudulent in nature.

Please contact Nick Thompson at (312) 376-8349 to obtain a complete copy of CWM's Code of Ethics.

- B. CWM and its employees often invest in the same securities that it recommends to clients in personal trading accounts. CWM does not have ownership or any special interest in these securities, even though the possibility of these conflicts does exist. CWM's personal trading activities are reviewed quarterly. The review is done by a CWM employee who examines all personal accounts of all employees. Securities that are held in these personal accounts are checked for transaction timing and amount held.
- C. In reference to item B, many of those securities are bought in employees' personal accounts at a similar time to when they are bought in a client's account. CWM has a strict policy that all trading interests of CWM's clients prevail over any employee or related person's interest. No trades placed in employees' personal accounts receive favorable timing or are considered trading ahead, and no employee partakes in any type of insider trading activity, either for client transactions or their own.

CWM typically makes block trades in client accounts at the beginning of every month or mid-month (if there is going to be a trade). If it is likely that CWM is making a block trade and has identified the securities to be traded, employees of CWM have a blackout period regarding these securities. This period is 3 business days prior to the planned block trade and applies to all personal accounts and employees are not allowed to trade (buy or sell) the securities that are part of the block trade. Employees also may not sell the security which was bought or buy the security which was sold in the block trade for at least one business day following.

## **Item 12 – Brokerage Practices**

- A. The following factors need to be described as consideration for CWM’s selection and recommendation of broker-dealers for client transaction, and determining the reasonableness of their compensation. CWM recommends its Qualified Custodians for the maintenance of client accounts. Compensation to CWM is a fee paid by the client and deducted directly from client accounts held at one of these Qualified Custodians on a quarterly basis.
1. CWM’s Qualified Custodians may make other products and services available to CWM. Some of these products and services assist CWM in managing and administering client accounts. These include institutional brokerage services – custody, trading, reporting, software, and support services, many of which are not available to retail customers of these custodians. Qualified custodians selected by CWM also make available services intended to help CWM manage and further develop business enterprises. In addition, these custodians may discount or waive fees that it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to CWM.

### *Services That May Benefit You*

Qualified Custodian 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 these Qualified Custodians include some which CWM may not otherwise have access to or that would require a significantly higher minimum investment by its clients. These services generally benefit client all accounts.

### *Service That May Not Directly Benefit You*

Qualified Custodians also make available other products and services that benefit CWM, but may not directly benefit a client’s account. These products and services assist CWM in managing and administering client accounts. They include software and other technology that:

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

### *Service That Generally Benefit Only Us*

Qualified Custodians also offers other services intended to help CWM manage and further develop our business enterprise. These services include:

- Educational conferences and events.
- Consulting on technology, compliance, legal, and business needs.
- Publications and conferences on practice management and business succession.

Some of these services or benefits offered by CWM’s Qualified Custodians could be considered “soft dollar benefits” and thereby be seen as creating conflicts of interest in terms of CWM’s selection of brokers/custodians for client transactions. CWM believes that the selection of its Qualified Custodians and corresponding brokerage services is in the best interest of its clients for the best value in custody services and most favorable pricing in transactions, and not for the benefits to CWM for working with those custodians.

- a. CWM does not use client brokerage commissions to obtain research or other products and services.

- b. CWM is independently owned and unaffiliated with any of its selected Qualified Custodians. These custodians are chosen strictly because they provide the best service, brokerage, custody fees, trading commissions, etc. for clients; CWM makes these brokerage decisions with the highest priority placed on what is best and least expensive for its clients. Typically, our brokerage costs are immaterial to client portfolios.
  - c. CWM does not cause clients to pay commissions higher than those charged by other broker-dealers in return for soft dollar benefits – any client may utilize broker/dealers of their choice at any time.
  - d. Benefits potentially classified as soft dollar benefits for reporting, account administration, trading and fee automation, etc. are used for the benefit of all clients, or at least all clients for which the particular services function is applicable for management.
  - e. CWM does not receive any products or services acquired by client brokerage commissions.
  - f. CWM attempts to minimize the total cost for all brokerage services paid by the client. Because of CWM's trading strategies (with limited trading and rebalancing), it is not an attractive client to many brokers and may find difficulty obtaining these services other than through its Qualified Custodians. This may cause a situation that the recommended broker charges a higher fee for a particular type of service, such as commission rates, than can be obtained from another broker. However, CWM uses custodians/brokers for clients that provide the most advantages for clients for holding assets and executing transactions when considering: combination of custody and trade execution, capability to execute, clear and settle trades, capability to facilitate transfers to and from accounts, breadth of available investment products, quality of service, prices for those services, reputation and overall financial strength. Clients may utilize the broker/dealer of their choice and have no obligation to purchase or sell securities through such broker as CWM recommends.
2. CWM does not select or recommend broker-dealers for any clients based on client referrals from that broker-dealer or any third party.
3. Directed Brokerage
- a. In CWM's experience, its Qualified Custodians provide excellent service with reasonable trading commission and custody fees. In certain circumstances such as specialized assets, qualified plans or other situations where those custodians are not a viable alternative, recommendations by CWM take into account a number of factors including; custodial fees for holding client securities, commission rates, quality of execution and record keeping and reporting capabilities. When recommending a broker, CWM always attempts to minimize the total cost of all brokerage services paid by the client.
  - b. Some clients instruct CWM to use one or more particular brokers for the transactions in their accounts. Clients who may want to direct the firm to use a particular broker should understand that this may prevent CWM from aggregating orders with other clients or from effectively negotiating brokerage compensation on their behalf. This arrangement may also prevent CWM from obtaining the most favorable net price and execution. Thus, when directing brokerage business, clients should consider whether the commission expenses, execution, clearance, and settlement capabilities they obtain through their broker are adequately favorable in comparison to those that CWM would otherwise obtain for its clients.
- B. CWM's investment models use ETF's and mutual funds to gain exposure to certain asset classes. When CWM's models indicate a change in asset class exposure, CWM uses block trades of ETF's to rebalance client portfolios to the new allocations. CWM's models typically indicate portfolio rebalancing an average of two times a year. The primary reasons that CWM will use block trades is the ability to achieve more favorable pricing, the automation and ease of trading the position for multiple clients, and the ability to reduce commissions paid by clients on trades.

Prior to the block trade, CWM reviews all accounts which are included and creates a pre-allocation statement indicating how many shares should be allocated to each account. This pre-allocation statement specifying the participating accounts and planned allocation is required prior to any allocated order or block trade. Should the actual allocation differ from the allocation statement, such trade may only be authorized with the approval of a qualified principal of CWM.

CWM manages client accounts at two main custodians (Charles Schwab and Fidelity) that will partake in block trades, and when doing block trades, two separate block trade orders are created, one for each custodian based on the pre-allocation statement. The order that the block trades are executed is rotated between the two custodians, with this order being recorded at each trade.

All client accounts participating in a block trade receive an average share price based on the average share price received at the custodian where their account is held. Transaction costs are dependent on each investor's account the custodian where it is held. Block trade is executed in line with CWM's duty to seek best execution.

When making block trades of ETF's, CWM must use limit pricing. If the trade is over 10% of the ETF's daily volume, the limit price is based on an algorithm to determine the limit price. For trades over 10% of the ETF's average daily volume, CWM is in contact with the ETF product sponsor to determine how to best execute the trade. Once the trade is filled, the average price is checked against the submitted limit.

### **Item 13 – Review of Accounts**

- A. Accounts are typically reviewed monthly for transactions and activity. In addition, client accounts are monitored daily for deposits and withdrawals to determine if purchases or sales need to be made. Investment performance is monitored daily using CWM's internal reporting software. Performance is compared to common market indices such as the S&P 500, the Wilshire 5000, MSCI EAFE, Russell 1000, Russell 2000, and Barclays US Aggregate Bond, etc. CWM may also use relevant benchmarks as performance comparisons, with full disclosure to the client as to the construction of these benchmarks as well as the appropriateness of using them for evaluation. All daily updated account information is made available to clients through secure login on CWM's website.

CWM uses ETF's or mutual funds to invest in broadly traded asset classes in client portfolios. These investments are monitored for costs, liquidity and how close they track their underlying asset class. On a monthly basis, if a signal is generated to make a change by CWM's proprietary investment model, accounts are rebalanced to updated allocations. The most critical element of rebalancing is realized when moving investment concentration from equities to fixed income, or vice versa. Portfolios generally have a targeted allocation to equities of 30% or 70%, with the balance allocated to fixed income. Deposits/Withdrawals from accounts may provide additional opportunities for rebalancing.

Client reviews are performed by the following individuals (with job titles):

- Jeffrey G. Cribbs, President & Managing Principal
- Nicholas J. Thompson, Manager – Principal & Portfolio Manager

Reviews may be made individually or collectively by multiple individuals. In the cases of clients where sub-advisory agreements are in place, the designated sub-advisor will be involved in the primary review along with one of CWM's investment advisory representatives.

- B. Certain factors may prompt the review of a client account on something other than a periodic basis. This could include a drastic change in a client's financial or other life situation, portfolio recommendation, or a modification to CWM's investment allocation.

## *Reports*

CWM issues written correspondence to clients in the form of quarterly newsletters and other frequent market commentaries when a market impacting event has occurred or a change to portfolio allocations is forthcoming. Clients have access to a performance and holdings report online or through mail by request. These reports are updated daily. Reports, newsletters, and other commentary are provided through a secure online portal separately for each client, or by mail upon request.

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

- A. CWM receives an economic benefit from Qualified Custodians in the form of the support products and services made available for maintaining an account with those custodians. These products and services, how they pertain to CWM and potential related conflicts of interest are described in more detail in item 12. The availability to CWM of its Qualified Custodian's products and services is not based on CWM giving particular investment advice or buying particular securities for clients.
- B. CWM can enter into arrangements where it offers compensation with an individual who is not a supervised person who provides client referrals. These arrangements can either be purely on a referral basis or explicit solicitation agreements. As of 12/31/2014 CWM currently has no solicitation agreements in place.

### **Item 15 – Custody**

CWM has custody of client assets only as far as it has the discretion to deduct management fees directly from client account maintained at one of its Qualified Custodians. All client accounts are maintained with a qualified custodian – CWM does not offer any cash management service or management of accounts not held at one of these custodians.

Clients receive a monthly account statement from their Qualified Custodian by mail or electronically. These monthly statements show the account balance and asset detail. All transactions which occurred during the month are also reported, including fees paid on a quarterly basis to CWM. CWM makes available (via secure login/password) client account information on its website, including holdings, balances, performance, and comparisons to applicable indices and benchmarks. Clients can request reports showing similar portfolio data be sent to them on a periodic basis. CWM recommends to clients that any account information sent from our internal reporting software or posted to our website be compared to the statement they receive from their Qualified Custodian. CWM internally reports information as accurately as possibly, but due to timing differences in dividends, fees, etc. there may be some small discrepancies. The Qualified Custodian statement should be considered accurate in the event of any differences in the two statements.

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

CWM generally has full discretionary authority to manage securities on behalf of clients, but in rare cases may hold a client account on a non-discretionary basis. CWM enters into an advisory agreement with a client which describes the nature of the relationship, including this discretionary authority over securities transactions. Clients are required to complete and sign an account application with one of CWM's qualified custodians on which they clearly designate granting CWM discretionary authority over the account – including trading authorization, fee deduction, and asset disbursement. These forms have to be in place and approved by the custodian before any transactions can be placed in the account by CWM on behalf of a client.

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

- A. CWM generally does not vote proxies on behalf of advisory clients. CWM's Proxy voting policies are maintained within its policies and procedures manual, and is available to any client upon request. Records of past proxies voted and the actions taken are also recorded and available to any client upon request. Please contact Nick Thompson at (312) 376-8349 to obtain any of CWM's proxy voting records.

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

- A. CWM does not require or solicit prepayment of more than \$1200 in fees per client, six months or more in advance.
- B. While CWM does maintain discretionary authority over client securities, and custody only to the point of deducting fees from client accounts and management of the Fund, these factors do not cause any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.
- C. CWM has not been the subject of a bankruptcy petition at any time during the past ten years.