

SOWELL MANAGEMENT SERVICES

a Registered Investment Adviser

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This brochure provides information about the qualifications and business practices of Sowell Management Services (hereinafter “Sowell Management Services” or the “Firm”). If you have any questions about the contents of this brochure, please contact the Firm at this telephone number listed above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Additional information about the Firm is available on the SEC’s website at www.adviserinfo.sec.gov. The Firm is a registered investment adviser. Registration does not imply any level of skill or training.

Item 2. Material Changes

In this Item, Sowell Management Services is required to discuss any material changes that have been made to the brochure since the last annual amendment dated March 17, 2015. Sowell Management Services has the following material changes to disclose:

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Item 4. Advisory Business

Sowell Management Services is a fee-based investment adviser located in North Little Rock, Arkansas, specializing in investment portfolios for individuals, retirement plans, corporations and institutions using strict investment disciplines. The firm was established in 2001 by Sowell Management, Inc. and Cindy Sowell. Sowell Management Inc. is 100% owned by William Sowell. As of June 22, 2015, Sowell Management Services had \$497,655,026 assets under management, \$485,186,505 of which was managed on a discretionary basis and \$12,468,521 of which was managed on a non-discretionary basis.

Sowell Management Services is committed to helping clients build, manage, and preserve wealth, and to provide assistance to clients to help achieve their stated financial goals.

Sowell Management Services offers a variety of advisory services, which include financial planning, consulting, and investment management services. Prior to Sowell Management Services rendering any of the foregoing advisory services, clients are required to enter into one or more written agreements with Sowell Management Services setting forth the relevant terms and conditions of the advisory relationship (the “Advisory Agreement”).

While this brochure generally describes the business of Sowell Management Services, certain sections also discuss the activities of its Supervised Persons, which refer to the Firm’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), employees or any other person who provides investment advice on Sowell Management Services’s behalf and is subject to the Firm’s supervision or control.

Financial Planning and Consulting Services

The Firm’s investment management services may include the analysis of a client’s situation and assistance in identifying and implementing appropriate financial planning and investment management techniques to help meet specific financial objectives.

Sowell Management Services’ financial planning and consulting services may include any or all of the following functions:

- Determination of appropriate income planning strategies for both pre- and post-retirement.
- Review of existing and proposed investment asset mixes.
- Calculation of pre-retirement savings and investing needs.
- Assessment of overall financial position including net worth, cash flow, and debt.
- Comprehensive analysis of IRA-related issues.
- Estimates of federal estate taxes and a suggested plan of action to help meet estate planning objectives.
- Review and determination of life and disability insurance needs.
- Suggestions for minimizing federal and state income tax obligations.
- Development of investment strategies consistent with business ownership succession and transition planning.

In performing these services, Sowell Management Services is not required to verify any information received from the client or from the client’s other professionals (e.g., attorneys, accountants, etc.) and is expressly authorized to rely on such information. Sowell Management Services may recommend clients

engage the Firm for additional related services, its Supervised Persons in their individual capacities as insurance agents or registered representatives of a broker-dealer and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if clients engage Sowell Management Services or its affiliates to provide additional services for compensation. Clients retain absolute discretion over all decisions regarding implementation and are under no obligation to act upon any of the recommendations made by Sowell Management Services under a financial planning or consulting engagement. Clients are advised that it remains their responsibility to promptly notify the Firm of any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising Sowell Management Services's recommendations and/or services.

Investment Management Services

Sowell Management Services manages client investment portfolios on a discretionary or non-discretionary basis. Sowell Management Services primarily allocates client assets among various mutual funds, exchange-traded funds ("ETFs"), and individual debt and equity securities in accordance with their stated investment objectives.

Where appropriate, the Firm may also provide advice about any type of legacy position or other investment held in client portfolios. Clients may engage Sowell Management Services to manage and/or advise on certain investment products that are not maintained at their primary custodian, such as variable life insurance and annuity contracts and assets held in employer sponsored retirement plans and qualified tuition plans (i.e., 529 plans). In these situations, Sowell Management Services directs or recommends the allocation of client assets among the various investment options available with the product. These assets are generally maintained at the underwriting insurance company or the custodian designated by the product's provider.

Sowell Management Services begins its investment management services by using a confidential Risk Assessment Questionnaire ("RAQ") that provides questions regarding a client's time horizon, long-term goals and expectations, and short term risk attitudes. The RAQ will help clients identify their most comfortable style of management and provide the client with a list of Sowell Management Services Portfolios. The RAQ is used by the Firm as the primary reference for managing client portfolios. Clients may also indicate any special instructions or limits in managing assets.

Through continuous monitoring of asset class segments' return and risk factors, the Firm may change portfolio asset mixes in an effort to help meet objectives. The specific percentages allocated to each asset class may vary due to the nature of asset performance and/or the strategy selected. It is the Firm's intent to maintain a risk exposure commensurate with each client's objectives by using the various investment portfolio choices available under the strategy selected by that client.

Sowell Management Services is compliant with the Global Investment Performance Standards (GIPS®) and has prepared and presented Annual Disclosure Presentations in compliance with the GIPS standards.

Sowell Management Services has been independently verified. For latest verification information, please contact the Firm, or refer to the Firm's website (www.sowellmanagement.com) for further information. GIPS Standards were designed to provide assurance for investors who want reliable performance metrics based on the principles of fair representation and full disclosure. Verification assesses adherence to comprehensive and rigorous rules governing input data, calculation, methodology, composite construction, disclosures, and presentation and reporting. GIPS Standards are Global and evolves to address issues that arise in the dynamic investment industry.

Sowell Management Services tailors its advisory services to meet the needs of its individual clients and seeks to ensure, on a continuous basis, that client portfolios are managed in a manner consistent with those needs and objectives. Sowell Management Services consults with clients on an initial and ongoing basis to assess their specific risk tolerance, time horizon, liquidity constraints and other related factors relevant to the management of their portfolios. When acting as a sub-advisor for other registered investment advisers, the Firm relies upon this information to be provided by that investment adviser and the Firm does not work directly with the individual client. Clients are advised to promptly notify Sowell Management Services if there are changes in their financial situation or if they wish to place any limitations on the management of their portfolios. Clients may impose reasonable restrictions or mandates on the management of their accounts if Sowell Management Services determines, in its sole discretion, the conditions would not materially impact the performance of a management strategy or prove overly burdensome to the Firm's management efforts.

Use of Independent Managers

Sowell Management Services may select certain Independent Managers to actively manage a portion of its clients' assets. The specific terms and conditions under which a client engages an Independent Manager may be set forth in a separate written agreement with the designated Independent Manager. In addition to this brochure, clients may also receive the written disclosure documents of the respective Independent Managers engaged to manage their assets.

Sowell Management Services evaluates a variety of information about Independent Managers, which may include the Independent Managers' public disclosure documents, materials supplied by the Independent Managers themselves and other third-party analyses it believes are reputable. To the extent possible, the Firm seeks to assess the Independent Managers' investment strategies, past performance and risk results in relation to its clients' individual portfolio allocations and risk exposure. Sowell Management Services also takes into consideration each Independent Manager's management style, returns, reputation, financial strength, reporting, pricing and research capabilities, among other factors.

Sowell Management Services continues to provide services relative to the discretionary or non-discretionary selection of the Independent Managers. On an ongoing basis, the Firm monitors the performance of those accounts being managed by Independent Managers. Sowell Management Services

seeks to ensure the Independent Managers' strategies and target allocations remain aligned with its clients' investment objectives and overall best interests.

Retirement Plan Advisory Services

Retirement Plan Advisory Services consists of helping employer plan sponsors to establish, monitor and review their company's retirement plan. As the needs of the plan sponsor dictate, areas of advising could include: investment selection and monitoring, plan structure, and participant education.

Sowell Management Services offers management of 401(k), 457, and 403(b) accounts both on a plan level and on the individual participant level. On the plan level the Firm manages the investment line-up making changes as necessary as well as providing risk based investment models for the participants. On the individual participant level the Firm manages risk based models using the current investment lineup based on risk tolerance of the individual investor.

Plan Level

Sowell Management Services will establish the plan's needs and objectives through an initial meeting to collect data, review plan information, and assist in developing or updating the plan's provisions. Ongoing services may include recommendations regarding the selection and review of unaffiliated mutual funds that, in the Firm's judgment, are suitable for plan assets to be invested. The Firm periodically review the investment options selected and makes recommendations to keep or replace plan investment options as appropriate. Sowell Management Services performs a comprehensive review of potential service providers or vendors and will assist with converting from incumbent service providers to a new service provider if appropriate.

Sowell Management Services will provide quarterly recommendations for the plan's investment allocation. Upon receipt the Firm will review the investment options and provide positions for accounts in accordance with the management style chosen by the client. The analysis with specific fund positions will be sent to the client along. Clients are responsible for making the fund changes within the account.

Participant Level

The Firm can also be engaged to provide financial education to plan participants. The scope of education provided to participants will not constitute "investment advice" within the meaning of ERISA and participant education will relate to general principles for investing and information about the investment options currently in the plan. Sowell Management Services may also participate in initial enrollment meetings and periodic workshops and enrollment meetings for new participants.

Item 5. Fees and Compensation

Sowell Management Services offers services on a fee basis, which may include fixed and/or hourly fees, as well as fees based upon assets under management. Additionally, certain of the Firm's Supervised Persons, in their individual capacities, may offer securities brokerage services and/or insurance products under a separate commission-based arrangement.

Financial Planning and Consulting Fees

Sowell Management Services generally charges a fixed and/or hourly fee for providing financial planning and consulting services under a stand-alone engagement. These fees are negotiable, but will be up to \$5,000 on a fixed fee basis and/or from \$150 to \$500 on an hourly basis, depending upon the scope and complexity of the services and the professional rendering the financial planning and/or the consulting services. If the client engages the Firm for additional investment advisory services, Sowell Management Services may offset all or a portion of its fees for those services based upon the amount paid for the financial planning and/or consulting services.

The terms and conditions of the financial planning and/or consulting engagement are set forth in the Advisory Agreement and Sowell Management Services generally requires one-half of the fee (estimated hourly or fixed) payable upon execution of the Advisory Agreement. The outstanding balance is generally due upon delivery of the financial plan or completion of the agreed upon services. Typically, a plan is completed within two weeks and will be presented to the client within 90 days of the contract date, provided that the Firm is provided with all necessary information. If the work is not completed in such a time, the Firm may refund fees on a prorated basis. If the client cancels the the financial planning engagement within the first week of signing the agreement, the Firm will refund 50% of the fee. The Firm does not take receipt of \$1,200 or more in prepaid fees in excess of six months in advance of services rendered.

Investment Management Fees

Sowell Management Services offers investment management services for an annual fee based on the amount of assets under the Firm's management. This management fee generally varies up to 2.5% per annum, depending upon the size and composition of a client's portfolio, the type of services rendered and the investment adviser representative providing the advice and managing the client relationship. The fact that the investment adviser representative working with the client can determine the advisory fee may result in clients with similar circumstances paying different fees to the Firm.

The annual fee is typically prorated and charged quarterly, in advance, based upon the market value of the assets being managed by Sowell Management Services on the last day of the previous billing period.

If assets in excess of \$10,000 are deposited into or withdrawn from an account after the inception of a billing period, the fee payable with respect to such assets is adjusted in the next billing cycle to reflect the interim change in portfolio value. For the initial period of an engagement, the fee is calculated on a *pro rata* basis. In the event the advisory agreement is terminated, the fee for the final billing period is prorated through the effective date of the termination and the outstanding or unearned portion of the fee is charged or refunded to the client, as appropriate.

Additionally, for asset management services the Firm provides with respect to certain client holdings (e.g., held-away assets, accommodation accounts, alternative investments, etc.), Sowell Management Services may negotiate a fee rate that differs from the range set forth above.

Sub-Advisory or Tri-Party Fees

As discussed above, there will be occasions where Sowell Management Services acts as a sub-adviser to other registered investment advisers. In those circumstances, the other investment adviser maintains the primary client relationship, and the Firm merely manages the assets based upon the parameters provided by that investment adviser. Sowell Management Services charges 25 to 50 basis points (0.25% to 0.50%) of assets under management for such services.

Fee Discretion

Sowell Management Services may, in its sole discretion, negotiate to charge a lesser fee based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing/legacy client relationship, account retention and pro bono activities.

Additional Fees and Expenses

In addition to the advisory fees paid to Sowell Management Services, clients may also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions (collectively “Financial Institutions”). These additional charges may include securities brokerage commissions, transaction fees, custodial fees, fees charged by the Independent Managers, margin costs, charges imposed directly by a mutual fund or ETF in a client’s account, as disclosed in the fund’s prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. The Firm’s brokerage practices are described at length in Item 12, below.

Direct Fee Debit

Clients generally provide Sowell Management Services and/or certain Independent Managers with the authority to directly debit their accounts for payment of the investment advisory fees. The Financial Institutions that act as the qualified custodian for client accounts, from which the Firm retains the authority to directly deduct fees, have agreed to send statements to clients not less than quarterly detailing all account transactions, including any amounts paid to Sowell Management Services. Alternatively, clients may elect to have Sowell Management Services send a separate invoice for direct payment.

Use of Margin

Sowell Management Services may be authorized to use margin in the management of the client's investment portfolio. In these cases the fee payable will be assessed net of margin such that the market value of the client's account and corresponding fee payable by the client to Sowell Management Services will not be increased.

Account Additions and Withdrawals

Clients may make additions to and withdrawals from their account at any time, subject to Sowell Management Services's right to terminate an account. Additions may be in cash or securities provided that the Firm reserves the right to liquidate any transferred securities or declines to accept particular securities into a client's account. Clients may withdraw account assets on notice to Sowell Management Services, subject to the usual and customary securities settlement procedures. However, the Firm generally designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Sowell Management Services may consult with its clients about the options and implications of transferring securities. Clients are advised that when transferred securities are liquidated, they may be subject to transaction fees, short-term redemption fees, fees assessed at the mutual fund level (e.g., contingent deferred sales charges) and/or tax ramifications.

Commissions and Sales Charges for Recommendations of Securities

Clients can engage certain persons associated with Sowell Management Services (but not the Firm directly) to render securities brokerage services under a separate commission-based arrangement. Clients are under no obligation to engage such persons and may choose brokers or agents not affiliated with Sowell Management Services.

Under this arrangement, the Firm's Supervised Persons, in their individual capacities as registered representatives of The Leaders Group ("Commission Broker-Dealer"), may provide securities brokerage services and implement securities transactions under a separate commission based arrangement. Supervised

Persons may be entitled to a portion of the brokerage commissions paid to Commission Broker-Dealer, as well as a share of any ongoing distribution or service (trail) fees from the sale of mutual funds. Sowell Management Services may also recommend no-load or load-waived funds, where no sales charges are assessed. Prior to effecting any transactions, clients are required to enter into a separate account agreement with Commission Broker-Dealer.

A conflict of interest exists to the extent that Sowell Management Services recommends the purchase or sale of securities where its Supervised Persons receive commissions or other additional compensation as a result of the Firm's recommendation. The Firm has procedures in place to ensure that any recommendations made by such Supervised Persons are in the best interest of clients. For certain accounts covered by the Employee Retirement Income Security Act of 1974 ("ERISA") and such others that Sowell Management Services, in its sole discretion, deems appropriate, Sowell Management Services may provide its investment advisory services on a fee-offset basis. In this scenario, Sowell Management Services may offset its fees by an amount equal to the aggregate commissions and 12b-1 fees earned by the Firm's Supervised Persons in their individual capacities as registered representatives of Commission Broker-Dealer.

Item 6. Performance-Based Fees and Side-by-Side Management

Sowell Management Services does not provide any services for a performance-based fee (i.e., a fee based on a share of capital gains or capital appreciation of a client's assets).

Item 7. Types of Clients

Sowell Management Services offers services to individuals, banks or thrift institutions, pension and profit sharing plans, trusts, estates, foundations, charitable organizations, corporations and business entities.

Minimum Account Value

Sowell Management Services generally imposes a minimum portfolio value of \$50,000. Sowell Management Services may, in its sole discretion, accept clients with smaller portfolios based upon certain criteria, including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and pro bono activities. Sowell Management Services only accepts clients with less than the minimum portfolio size if the Firm determines the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. Sowell Management Services may aggregate the portfolios of family members to meet the minimum portfolio size.

Certain Independent Managers may, however, impose more restrictive account requirements and billing practices from the Firm. In these instances, Sowell Management Services may alter its corresponding account requirements and/or billing practices to accommodate those of the Independent Managers.

In addition, the Firm generally imposes a minimum quarterly fee of \$25 per account. This is not aggregated for the entire client relationship so clients with multiple accounts are subject to this minimum for each account. This minimum fee may cause clients with smaller and/or numerous accounts to incur an effective fee rate that is higher than the Firm's stated fee schedule.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis & Investment Strategies

Sowell Management Services employs multiple styles, managers, strategies and methodologies. We utilize our very own internal research and hand pick other managers and methodologies to formulate a broad range of investment solutions.

The process begins with identifying different management styles which consist of but are not limited to the following: i) Strategic; ii) Tactical Allocations; iii) Adaptive; iv) Liquid Alternative; v. Individual Equity; vi) Customized. Under each management style, we define different solution types where we hand pick multiple managers, strategies and methodologies.

Strategic Allocations

The Firm defines Strategic Allocations as long-term core asset allocations that utilize a strategic approach to allocation changes.

- **Objective Based** – These are portfolios designed by time horizon, risk level and asset allocation targets.
- **Global Macro** – These are based on normalized asset allocation targets but are unconstrained and can hold high levels of cash. Historical trend-forecasting is done for macroeconomic indicators and is used to evaluate the relative attractiveness of equities versus fixed income.
- **Long Term Risk Management** – A long-term approach is taken, so it is not designed for avoiding short term risk. It is designed to maintain long positions during positive stock market environments and mitigate risk during severe market declines. The Long Term Risk Management employs an incremental approach to adjusting portfolio exposure with 4 models being utilized to control a set percentage of the exposure. These four systems look at the technical health of sub-industries, the health of leading economic indicators, supply/demand volume and risk/reward.

Tactical Allocation

The Firm defines Tactical Allocations as a more actively managed approach that rebalances allocations to take advantage of opportunities in the market.

- **Stock/Bond** – Employs a screening process based on Valuation, Economic, and Market Factors to determine a 6-month future return forecast. Based on these return and risk forecasts, we construct the index portfolios out of public indices. If strong returns are expected, The Firm typically allocates to 100% stocks. Some of the solutions available may use leverage.
- **Global** – A broad based asset allocation to different asset classes which may include domestic, international, emerging markets, currencies, commodities, fixed income or alternative investments. Asset

classes may be equally weighted or weighted based on relative strength. The individual weighting within each asset class will depend on the overall trend of the market as well as the relative strength of the asset class to the overall market or money market.

- *Risk Parity* – Actively managed asset allocation that utilizes multiple strategies such as daily risk targets that when exceeded, trigger a rebalance in the portfolio. The focus is on the volatility targets measured by standard deviation of four major asset classes which include U.S. stocks, U.S. commercial real estate, commodities, and U.S. intermediate-term bonds. It also looks at the relative strength leader in each asset class based on a modified efficient frontier with a shorter look back period as well as an algorithm to determine the size of the position. Each position can adjust incrementally as market conditions change which provides the ability to move to very high cash levels depending on asset class correlations.
- *High Yield* – Actively managed high yield bond strategy that maintains an invested position in the high yield market via ETF or mutual funds during positive market environments and reduces exposure during negative market environments. Employs an intermediate-term trend and momentum approach with a strict stop loss system.

Adaptive

The Firm defines Adaptive as active, risk-managed strategies designed to automatically adapt to changing market environments.

- *Active Risk Manager* – An active, risk-managed, absolute-return program for the U.S. stock market which invests in Index ETFs. Incorporates different managers and investment strategies for each market environment. A computer model decides which manager and strategy will be used and when exactly they will be used. The model has 3 signals and each signal has a trending mode and a mean reverting mode which will drive the allocation.
- *Allocation* – An allocation strategy that is allocated to the top 3 strategies or asset classes based on an algorithmic selection engine that is reallocated every week. The strategies used incorporate risk management, but even these strategies can be removed if they themselves reach a predetermined risk or volatility level, it is eliminated from the mix.

Liquid Alternatives

The Firm defines Liquid Alternatives as investment management strategies focusing on asset classes other than stocks, bonds and cash.

- *Income* – Targets an income above the rate of inflation with potential for capital appreciation by drawing on a set of globally diversified assets. It is designed to achieve a broad asset allocation to different income producing asset classes while incorporating tactical allocation only to the asset classes that are strengthening. The individual weighting of each asset class will depend on the relative strength of the asset class to the money market. The asset classes include: core fixed income, master limited partnerships, dividend stocks, precious metals, REITs, preferred stocks and currencies. The target volatility is one-half of the S&P 500.

- *Diversified* – Looking for alternative investments that provide low correlation to both the stock and bond markets using multiple asset classes which include but are not limited to the following: Global Tactical Asset Allocation, Buy-Write, Long/Short Equity, Long/Short Credit, Merger/ Arbitrage, Natural Resource Equity, Commodities, Managed Futures, Emerging Markets Debt, Global Real Estate, TIPS, Global Macro, Long/Short Currency, Global Equity, Global Bonds and/or S&P Put Strategy. It applies a proprietary Risk Management System and has the ability to utilize leverage in portions of the portfolio. It is constructed based upon developing trends in alternatives, bonds and stocks based upon market trends, momentum, overbought/sold cycles, sentiment, and overall economic condition.

Individual Equity

The Firm defines Individual Equity as portfolios consisting of stocks.

- *Large-Cap* – Seek growth of capital by investing at least 90% in common stocks with improving fundamentals based on growth criteria and/or whose stock is undervalued by the market based on value criteria. Utilizes a multiple strategy approach which include value, income, and earnings momentum.
- *Multi-Cap* – Looks at stocks with a wide range of market capitalizations and looks to own stocks in each sector. Some of the strategies may look to limit the exposure to any one industry. There are strategies that are focused on more income and dividends which are geared toward stocks with less volatility and looks for companies with high expected dividend yields as well as long track records of earnings growth, dividend growth, and low price betas. We also look at stocks with high reported cash flow ratios and high earnings estimate revisions. Other strategies rank stocks in each sector and strives to own those stocks based on a proprietary rating system.
- *Small/Mid Cap* – Seek growth of capital by investing in small and mid-cap companies that having improving fundamentals (based on growth criteria) and/or whose stock is undervalued by the market (based on value criteria). Utilizes a multiple strategy approach which include value, income, and earnings momentum.
- *Factor-Based* -

Customized

The Firm defines customized as combinations of investing programs designed to fit an investors objectives and risk tolerance.

- *Objective Based* - These are portfolios designed by time horizon, risk level and asset allocation targets. This is achieved through using any of the Individual Equity portfolios available for the equity portion and customizing the Fixed Income.
- *Fixed Income* – This is on a client by client basis depending upon the analysis of the client's current holdings and the objective of the client.

- *Hedged Equity* – An actively managed, growth-oriented program that utilizes diversification by employing multiple managers, multiple strategies, and multiple methodologies. Hedged Equity utilizes two offensive equity strategies and two defensive active risk management strategies known as the Active Risk Manager and the Tactical Swing Trading Strategy.

Risk of Loss

Market Risks

Investing involves risk, including the potential loss of principal, and all investors should be guided accordingly. The profitability of a significant portion of Sowell Management Services's recommendations and/or investment decisions may depend to a great extent upon correctly assessing the future course of price movements of stocks, bonds and other asset classes. There can be no assurance that Sowell Management Services will be able to predict those price movements accurately or capitalize on any such assumptions.

Mutual Funds and ETFs

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (*e.g.*, sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to actual NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed based ETFs and potentially more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 20,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

Use of Independent Managers

As stated above, Sowell Management Services may select certain Independent Managers to manage a portion of its clients' assets. In these situations, Sowell Management Services continues to conduct ongoing due diligence of such managers, but such recommendations rely to a great extent on the Independent Managers' ability to successfully implement their investment strategies. In addition, Sowell Management Services generally may not have the ability to supervise the Independent Managers on a day-to-day basis.

Options

Options allow investors to buy or sell a security at a contracted "strike" price at or within a specific period of time. Clients may pay or collect a premium for buying or selling an option. Investors transact in options to either hedge (i.e., limit) losses in an attempt to reduce risk or to speculate on the performance of the underlying securities. Options transactions contain a number of inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not increase/decrease to the level of the respective strike price. Holders of options contracts are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

Management through Similarly Managed "Model" Accounts

Sowell Management Services manages certain accounts through the use of similarly managed "model" portfolios, whereby the Firm allocates all or a portion of its clients' assets among various mutual funds and/or securities on a discretionary basis using one or more of its proprietary investment strategies. In managing assets through the use of models, the Firm remains in compliance with the safe harbor provisions of Rule 3a-4 of the Investment Company Act of 1940.

The strategy used to manage a model portfolio may involve an above average portfolio turnover that could negatively impact clients' net after tax gains. While the Firm seeks to ensure that clients' assets are managed in a manner consistent with their individual financial situations and investment objectives, securities transactions effected pursuant to a model investment strategy are usually done without regard to a client's individual tax ramifications. Clients should contact the Firm if they experience a change in their financial situation or if they want to impose reasonable restrictions on the management of their accounts.

Use of Margin

While the use of margin borrowing can substantially improve returns, it may also increase overall portfolio risk. Margin transactions are generally effected using capital borrowed from a Financial Institution, which is secured by a client's holdings. Under certain circumstances, a lending Financial Institution may demand an increase in the underlying collateral. If the client is unable to provide the additional collateral, the Financial Institution may liquidate account assets to satisfy the client's outstanding obligations, which could have extremely adverse consequences. In addition, fluctuations in the amount of a client's borrowings and

the corresponding interest rates may have a significant effect on the profitability and stability of a client's portfolio.

Industry Risk

The portfolio's investments could be concentrated within one industry or group of industries. Any factors detrimental to the performance of such industries will disproportionately impact client portfolios. Investments focused in a particular industry are subject to greater risk and are more greatly impacted by market volatility than less concentrated investments.

Non-U.S. Securities Risk

Non-U.S. securities are subject to the risks of foreign currency fluctuations, generally higher volatility and lower liquidity than U.S. securities, less developed securities markets and economic systems and political and economic instability.

Emerging Markets Risk

To the extent that a portfolio is invested in issuers located in emerging markets, the risk may be heightened by political changes and changes in taxation or currency controls that could adversely affect the values of these investments. Emerging markets have been more volatile than the markets of developed countries with more mature economies.

Currency Risk

The value of a portfolio's investments may fall as a result of changes in exchange rates.

Interest Rate Risk

The value of fixed income securities rises or falls based on the underlying interest rate environment. If rates rise, the value of most fixed income securities could go down.

Credit Risk

Most fixed income instruments are dependent on the underlying credit of the issuer. If the Firm is wrong about the underlying financial strength of an issuer, it may purchase securities where the issuer is unable to meet its obligations. If this happens, client portfolios could sustain an unrealized or realized loss.

Inflation Risk

Most fixed income instruments will sustain losses if inflation increases or the market anticipates increases in inflation. If the economy enters a period of moderate or heavy inflation, the value of clients' fixed income securities could go down.

Item 9. Disciplinary Information

In 2009, the State of Arkansas found that William Sowell mistakenly allowed his Investment Advisor Representative registration to lapse while continuing to engage in investment advisor activities. The State required Mr. Sowell to pay a fine and waived the exam requirement. Mr. Sowell is now properly registered in the State of Arkansas.

Item 10. Other Financial Industry Activities and Affiliations

This item requires investment advisers to disclose certain financial industry activities and affiliations. The Firm does not have any other financial industry activities or affiliations that need to be disclosed.

Registered Representatives of a Broker/Dealer

Certain of the Firm's Supervised Persons are registered representatives of Commission Broker-Dealer and may provide clients with securities brokerage services under a separate commission-based arrangement. This arrangement is described at length in Item 5.

Licensed Insurance Agents

A number of the Firm's Supervised Persons are licensed insurance agents and may offer certain insurance products on a fully-disclosed commissionable basis. A conflict of interest exists to the extent that Sowell Management Services recommends the purchase of insurance products where its Supervised Persons may be entitled to insurance commissions or other additional compensation. The Firm does not share in any compensation earned by the Supervised Persons in this capacity and when not recommended as part of a financial plan or investment consulting service, the Firm may not supervise such recommendations.

Turnkey Asset Management Program Services

As discussed above, the Firm may provide advisory services to clients that are primarily service by another registered investment adviser or through solicitor relationships. In addition to the advisory services provided to clients of those advisers, the Firm may also provide other back office and administrative services to those registered investment advisers (together with the advisory services "TAMP Services"). Advisers pay Sowell Management Services a fee for these TAMP Services. The fee charged to the advisers may be passed on to clients directly or through the advisory fees paid by the client to their primary adviser.

Item 11. Code of Ethics

Sowell Management Services has adopted a code of ethics in compliance with applicable securities laws (“Code of Ethics”) that sets forth the standards of conduct expected of its Supervised Persons. Sowell Management Services’s Code of Ethics contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its Supervised Persons and the trading by the same of securities ahead of clients in order to take advantage of pending orders.

The Code of Ethics also requires certain of Sowell Management Services’s personnel to report their personal securities holdings and transactions and obtain pre-approval of certain investments (*e.g.*, initial public offerings, limited offerings). However, the Firm’s Supervised Persons are permitted to buy or sell securities that it also recommends to clients if done in a fair and equitable manner that is consistent with the Firm’s policies and procedures. This Code of Ethics has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by certain personnel to be completed without any appreciable impact on the markets of such securities. Therefore, under limited circumstances, exceptions may be made to the policies stated below.

When the Firm is engaging in or considering a transaction in any security on behalf of a client, no Supervised Person will access to this information may knowingly effect for themselves or for their immediate family (*i.e.*, spouse, minor children and adults living in the same household) a transaction in that security unless:

- the transaction has been completed;
- the transaction for the Supervised Person is completed as part of a batch trade with clients; or
- a decision has been made not to engage in the transaction for the client.

These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Sowell Management Services to request a copy of its Code of Ethics.

Item 12. Brokerage Practices

Recommendation of Broker/Dealers for Client Transactions

Sowell Management Services generally recommends that clients utilize the custody, brokerage and clearing services of Fidelity Institutional Wealth Services (“Fidelity”), Pershing Advisor Solutions (“Pershing”), TD AMERITRADE Institutional, a division of TD AMERITRADE, Inc. (“TD Ameritrade”), or Schwab Advisor Services™ (“Schwab” and together with Fidelity, TD Ameritrade and Pershing, the “Custodians”) for investment management accounts.

Factors which Sowell Management Services considers in recommending the Custodians or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. The Custodians may enable the Firm to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by the Custodians may be higher or lower than those charged by other Financial Institutions.

The commissions paid by Sowell Management Services’s clients to the Custodians comply with the Firm’s duty to obtain “best execution.” Clients may pay commissions that are higher than another qualified Financial Institution might charge to effect the same transaction where Sowell Management Services determines that the commissions are 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 Financial Institution’s services, including among others, the value of research provided, execution capability, commission rates and responsiveness. Sowell Management Services seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other broker-dealers with whom the Firm and its custodians have entered into agreements for prime brokerage clearing services. Should an account make use of prime brokerage, the Client may be required to sign an additional agreement, and additional fees are likely to be charged.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker/dealers in return for investment research products and/or services which assist Sowell Management Services in its investment decision-making process. Such research generally will be used to service all of the Firm’s clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client’s portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Sowell Management Services does not have to produce or pay for the products or services.

Sowell Management Services periodically and systematically reviews its policies and procedures regarding its recommendation of Financial Institutions in light of its duty to obtain best execution.

Software and Support Provided by Financial Institutions

Sowell Management Services may receive without cost from the Custodians computer software and related systems support, which allow Sowell Management Services to better monitor client accounts maintained at the Custodians. Sowell Management Services may receive the software and related support without cost because the Firm renders investment management services to clients that maintain assets at the Custodians. The software and support is not provided in connection with securities transactions of clients (i.e., not “soft dollars”). The software and related systems support may benefit Sowell Management Services, but not its clients directly. In fulfilling its duties to its clients, Sowell Management Services endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Sowell Management Services’s receipt of economic benefits from a broker/dealer creates a conflict of interest since these benefits may influence the Firm’s choice of broker/dealer over another that does not furnish similar software, systems support or services.

Specifically, Sowell Management Services may receive the following benefits from the Custodians:

- Receipt of duplicate client confirmations and bundled duplicate statements;
- Access to a trading desk that exclusively services its institutional traders;
- Access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and
- Access to an electronic communication network for client order entry and account information.

The Firm participates in the institutional customer program offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA, an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisers services which include custody of securities, trade execution, clearance and settlement of transactions. Sowell Management Services receives some benefits from TD Ameritrade through its participation in the program. There is no direct link between Sowell Management Services’s participation in TD Ameritrade’s institutional customer program and the investment advice it gives to its clients, although Sowell Management Services receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. Additionally, Sowell Management Services may receive the following benefits from TD Ameritrade through its registered investment adviser division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Registered Investment Adviser participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information. The Firm also has the ability deduct advisory fees directly from client accounts; access to an electronic

communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to the Firm by third party vendors. TD Ameritrade may fund business consulting and professional services received by Sowell Management Services's related persons.

Some of the products and services made available by TD Ameritrade through the program may benefit Sowell Management Services but not its client. These products or services may assist Sowell Management Services in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Sowell Management Services manage and further develop its business enterprise. The benefits received by Sowell Management Services's participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade.

Brokerage for Client Referrals

Sowell Management Services does not consider, in selecting or recommending broker/dealers, whether the Firm receives client referrals from the Financial Institutions or other third party.

Directed Brokerage

The client may direct Sowell Management Services in writing to use a particular Financial Institution to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that Financial Institution and the Firm will not seek better execution services or prices from other Financial Institutions or be able to "batch" client transactions for execution through other Financial Institutions with orders for other accounts managed by Sowell Management Services (as described above). As a result, the client may pay higher commissions or other transaction costs, greater spreads or may receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Sowell Management Services may decline a client's request to direct brokerage if, in the Firm's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Trade Aggregation

Transactions for each client generally will be effected independently, unless Sowell Management Services decides to purchase or sell the same securities for several clients at approximately the same time. Sowell Management Services may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Firm's clients differences in prices and commissions or other transaction costs that might not have been obtained had such orders

been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Sowell Management Services's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that the Firm determines to aggregate client orders for the purchase or sale of securities, including securities in which Sowell Management Services's Supervised Persons may invest, the Firm generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Sowell Management Services does not receive any additional compensation or remuneration as a result of the aggregation.

In the event that the Firm determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a de minimis allocation in one or more accounts, the Firm may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Item 13. Review of Accounts

Account Reviews

Sowell Management Services monitors client portfolios on a continuous and ongoing basis while regular account reviews are conducted on at least a quarterly basis. Such reviews are conducted by the Firm's Investment Committee and/or investment adviser representatives. The frequency of reviews will depend upon the complexity of the accounts, the nature of the advisory recommendations, changes in tax or market conditions, as well as other conditions and material changes to the client's situation. All investment advisory clients are encouraged to discuss their needs, goals and objectives with Sowell Management Services and to keep the Firm informed of any changes thereto. The Firm contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and quarterly to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

Account Statements and Reports

Clients are provided with transaction confirmation notices and regular summary account statements directly from the Financial Institutions where their assets are custodied. Clients may also receive written or electronic reports from Sowell Management Services and/or an outside service provider on a quarterly basis, which contain certain account and/or market-related information, such as an inventory of account holdings or account performance. Clients should compare the account statements they receive from their custodian with any documents or reports they receive from Sowell Management Services or an outside service provider.

Item 14. Client Referrals and Other Compensation

Client Referrals

In the event a client is introduced to Sowell Management Services by either an unaffiliated or an affiliated solicitor, the Firm may pay that solicitor a referral fee in accordance with applicable state securities laws. Unless otherwise disclosed, any such referral fee is paid solely from Sowell Management Services's investment management fee and does not result in any additional charge to the client. If the client is introduced to the Firm by an unaffiliated solicitor, the solicitor is required to provide the client with Sowell Management Services's written brochure(s) and a copy of a solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement. Any affiliated solicitor of Sowell Management Services is required to disclose the nature of his or her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of the Firm's written brochure(s) at the time of the solicitation.

Item 15. Custody

The Advisory Agreement and/or the separate agreement with any Financial Institution generally authorize Sowell Management Services and/or the Independent Managers to debit client accounts for payment of the Firm's fees and to directly remit that those funds to the Firm in accordance with applicable custody rules. The Financial Institutions that act as the qualified custodian for client accounts, from which the Firm retains the authority to directly deduct fees, have agreed to send statements to clients not less than quarterly detailing all account transactions, including any amounts paid to Sowell Management Services.

In addition, as discussed in Item 13, Sowell Management Services may also send periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the Financial Institutions and compare them to those received from Sowell Management Services.

Item 16. Investment Discretion

Sowell Management Services may be given the authority to exercise discretion on behalf of clients. Sowell Management Services is considered to exercise investment discretion over a client's account if it can effect and/or direct transactions in client accounts without first seeking their consent. Sowell Management Services is given this authority through a power-of-attorney included in the agreement between Sowell Management Services and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Sowell Management Services takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made;
- The broker-dealer that executes trades (in the case of a prime brokerage relationship); and
- The Independent Managers to be hired or fired.

Item 17. Voting Client Securities

Sowell Management Services may accept the authority to vote a client's securities (i.e., proxies) on their behalf. Currently, the Firm only votes proxies for clients on the LPL Financial Services Platform. When Sowell Management Services accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients.

The Firm has contracted with EC Proxy Voting Service, Inc. to vote all proxies on the LPL Financial Services Platform. Prior to any proxy vote, recommendations are reviewed by one of Sowell Management Services' portfolio managers, with the reasons for any votes that are contrary to EC Proxy Voting Service recommendations being documented. Upon receipt of a request for more information, the Firm will provide clients with a copy of the proxy policy and/or how the Firm voted proxies pursuant to this policy. It is our policy not to otherwise disclose how we voted your proxy to third parties.

Item 18. Financial Information

Sowell Management Services is not required to disclose any financial information due to the following:

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of services rendered;
- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.