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STA Wealth Management, LLC is an investment adviser that is registered with the United States Securities and Exchange Commission. STA Wealth Management, LLC also does business under the name of STA Wealth Advisors, LLC. STA Wealth **Advisors, LLC is not** a separately registered entity with the United States Securities and Exchange Commission. Registration does not imply a certain level of skill or training.

**\*Please note that all references to STA Wealth Management, LLC in this brochure includes STA Wealth Advisors, LLC. collectively referred to as "STA".**

This firm brochure provides information about the qualifications and business practices of STA Wealth Management LLC. If you have any questions about the contents of this firm brochure, please contact us at 281-822-8800 and/or [hope@stawealth.com](mailto:hope@stawealth.com). The information in this firm brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

## ITEM 2 –MATERIAL CHANGES

STA Wealth Management last updated their firm brochure on March 27, 2014.

This annual update includes the following **material changes**:

**ITEM 10** was updated to include STA Wealth Management acting as the Liquidating Trustee to the series of Black Swan Funds.

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## ITEM 4 - ADVISORY BUSINESS

### **Advisory Firm Description**

STA Wealth Management, LLC ("STA") formerly named Streettalk Advisors, LLC has been in business since October 9, 2002. STA Wealth Management, LLC also uses the name STA Wealth Advisors, LLC. The business structure has not changed. The principal owners are Lance Eric Roberts, Michael Anthony Smith, and James "Luke" Patterson.

### **Types of Advisory Services**

#### ***Investment Management Accounts***

STA manages portfolios on a discretionary basis and makes arrangements for efficient custody safekeeping of assets and trade execution. STA advises its clients based on information gathered from the client. Clients are asked to complete a Client Information and Profile Worksheet, which asks for information regarding, but not limited to, net worth, investment attitude risk, and investment goals. According to the information obtained from the worksheet, as well as information obtained from the client during their meeting(s) with one of our advisors, STA will determine and discuss, with the client, an investment strategy believed to best suit the client's needs. This service is provided to individuals, 401(k) plans, and/or their participants. STA will review, supervise, and manage the account, which consists of all assets covered by the advisory agreement with the client, and all additions to the account.

STA provides advice regarding the purchase and sale of mutual funds, stocks, bonds, certificates of deposit, money market funds, government securities and obligations, debt securities, derivative securities or contracts, alternative investments, non-traded investments, and other securities. Generally, all accounts of a client will be aggregated for the purpose of allocating to a model. There is no guarantee that the advisory services offered will result in clients' goals and objectives being met. Nor is there any guarantee of profit or protection from loss.

STA may also manage IRA accounts or other retirement accounts which are subject to the Pension Protection Act of 2006 (PPA). In all cases an, "eligible investment advice arrangement" or advisory agreement will be executed with the client.

#### ***Financial Planning and Consulting Services (Stand-Alone)***

To the extent specifically requested by a client, STA *may* determine to provide financial planning and/or consulting services (including investment and non-investment related matters, business planning, including estate planning, insurance planning, etc.) on a stand-alone fee basis. Fees charged are described in Item 5.

STA gathers information from the client such as assets, liabilities, and financial goals. STA inputs that information into financial planning/ retirement planning software. The software uses the information to project the likelihood of various investment outcomes and generate a Financial Goal Plan report. The software uses several methods of calculating results. All results are hypothetical in nature and do not reflect actual investment results. Implementation of any financial planning recommendation is entirely

at the client's discretion. This service is used merely to help the client understand how much they may need to save in order to meet their retirement goals. No specific investments or products are recommended. There is no guarantee that clients will meet their retirement or investment goals even if they follow all of STA recommendations.

### ***Affiliated Private Funds***

STA Wealth Management, LLC (previously Streettalk Advisors) is the general partner and investment advisor of The Streettalk Advisors Premier Fund, LP ("Premier Fund"), a Texas limited partnership that offered investors access to a diversified, multi-strategy investment portfolio designed to provide long-term growth of capital. STA Wealth Management has exclusive and complete control of the Premier Fund's activities including the selection, retention, and replacement of investment managers.

STA Wealth Management also acts as investment manager to The STA Specialized Fund LP ("Specialized Fund"), which is a Texas limited partnership that offered investors the opportunity to invest through a pooled vehicle into one or two private equity funds acting as "funds of funds".

Interests in the affiliated funds are closed to new investors. *\*This brochure is not a public offer of either of these investments.*

### ***Unaffiliated Private Investment Funds***

STA may also provide investment advice regarding unaffiliated private investment funds. STA, on a **non-discretionary** basis, may recommend that certain qualified clients consider an investment in unaffiliated private investment funds. STA's role relative to the private investment funds shall be limited to its initial and ongoing due diligence and investment monitoring services. If a client determines to become a private fund investor, the amount of assets invested in the fund(s) shall be included as part of "assets under management" for purposes of STA calculating its investment advisory fee. STA Wealth Advisors' clients are under absolutely no obligation to consider or make an investment in a private investment fund(s).

**\*Please Note:** Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints, and lack of transparency. A complete discussion is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

**Please Also Note: Valuation.** In the event that STA references private investment funds owned by the client on any supplemental account reports prepared by STA, The value(s) for all private investment funds owned by the client shall reflect the most recent valuation provided by the fund sponsor. If no subsequent valuation post-purchase is provided by the Fund Sponsor, then the valuation shall reflect the initial purchase price (and/or a value as of a previous date), or the current value(s) (either the initial purchase price and/or the most recent valuation

provided by the fund sponsor). If the valuation reflects initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be **significantly more or less** than original purchase price. The client's advisory fee shall be based upon reflected fund value(s).

### ***Tailored Advisory Services***

While STA has discretion over client's accounts, clients may instruct STA not to purchase or sell certain investments or participate in a particular sector by notifying STA in writing. For this reason, not all client accounts will contain the same investments even if invested in the same portfolio model.

### **Client Assets under Management**

As of December 2014, STA had \$699 million in assets under management. STA does not manage assets on a non-discretionary basis.

### **Other Services and Information**

*Non-Investment Consulting* - STA Wealth does not hold itself out as providing consulting services. However, to the extent requested by a client, STA may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.) including, as disclosed below, to certain STA Wealth personnel in their separate capacities as licensed agents. The client is under no obligation to engage the service of any such recommended professional. The client retains absolute discretion over all such decisions and is free to accept or reject any recommendation from STA. **\*Please Note:** If the client engages any such recommended professional and a dispute arises thereafter, relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional.

*Account Minimum/Advisory Fees*- STA generally requires an account minimum of \$250,000.00 for its discretionary managed account services. STA, in its sole discretion, may reduce its investment advisory fee and/or reduce its minimum \$250,000.00 asset requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with clients, etc.).

*Sub-Advisory Arrangements.* STA may engage sub-advisors for the purpose of assisting STA with the management of its client accounts. The sub-advisor(s) shall have discretionary authority for the day-to-day management of the assets that are allocated to it by STA. The sub-advisor shall continue in such capacity until such arrangement is terminated or modified by STA. STA shall pay a portion of the investment advisory fee received for these allocated assets to the sub-advisor for its sub-advisory services.

*Client Obligations* - In performing its services, STA is not required to verify any information received from the client or from the client's other professionals and is authorized to rely on such information without verification. Clients remain responsible to promptly notify STA if there is ever any change in their financial situation or investment objectives for the purpose of reviewing/evaluating/revising STA's previous recommendations and/or services.

*Disclosure Statement* - A copy of STA Wealth Managements written Brochure as set forth in this Part 2A of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of STA Wealth Management or STA Wealth Advisors' advisory agreement.

## ITEM 5 - FEES AND COMPENSATION

### Fees on Managed Accounts

STA charges an annual advisory fee one fourth of which payable quarterly in **arrears or advance as is determined by the investment advisor representative the client chooses**. The client will sign an investment advisory agreement that clearly details the billing specification.

#### **Billing in Arrears**

Generally the advisory fee is deducted from the client's custodian account on or about the 5<sup>th</sup> day after the last day of the preceding calendar quarter. However, under special circumstances (e.g., when clients have 401K accounts with Fidelity and/or Schwab), STA's fees can be billed directly to the client, and the client agrees to pay all of STA's fees within 30 days of receipt of the invoice. The fee deduction is included on the custodial account statement and invoices are available from STA upon request.

STA's **arrears billing** is calculated based on the market value of the total assets in the account as of the last business day of the preceding calendar quarter. These fees are adjusted for any inflows or outflows during such quarter regardless of the amount of the inflows or outflows. Fees are also charged on accrued interest. If the advisory agreement becomes effective after the first day of a calendar quarter, the fee for that quarter will be calculated proportionately with respect to the number of days in the quarter for which the agreement is in effect. If the agreement is terminated prior to the last day of the calendar quarter, the fee will be calculated proportionately with respect to the number of days in the quarter that the agreement was in effect.

#### **Billing in Advance**

Generally the advisory fee is deducted from the client's account on or about the 5<sup>th</sup> day after the beginning of the calendar quarter. However, under special circumstances (e.g., when clients have 401K accounts with Fidelity and/or Schwab), STA Wealth Advisors' fees can be billed directly to the client, and the client agrees to pay all of STA Wealth Advisors' fees within 30 days of receipt of the invoice. The fee deduction is included on the custodial account statement and invoices are available from STA Wealth Advisors upon request.

STA's **advance billing** is calculated based on the market value of the assets in the account as of the last business day of the preceding quarter. Fees are also charged on accrued interest. One quarter of the annual fee will be payable in advance on or about the 5<sup>th</sup> day of each quarter. In the event this Agreement becomes effective after the first day of a calendar quarter, the fee for such quarter shall be calculated proportionately with respect to the number of days left in such quarter and based on the market value of the account when the account is funded. Once the account has been under STA

management for a full quarter, all future fees will be adjusted based on inflows and outflows of the previous quarter. If the agreement is terminated prior to the last day of the calendar quarter, the client will receive a prorated refund of the previous collected fees, only paying fees for the number of days services were rendered.

The **maximum** annual fee schedule for all advisory clients is shown below. STA does not generally consider its advisory fees to be negotiable, although it reserves the right in its discretion, based on factors it deems relevant, to agree to a fee for any particular client that varies from the fee set forth in the table below. Therefore, fees may be lower or higher than fees charged to another client with a similar account. Relevant factors that may lead to a variation in fees include the size and scope of the client's overall relationship with STA and its affiliates, the complexity of the client's portfolio or their individual requirements, and the fees that the client's account was charged at another firm prior to transferring to STA. Each client signs an investment advisory agreement which clearly defines the fee that client will pay. STA fees may be in excess of the industry norm. Similar advisory services can be obtained for less elsewhere.

Asset Range	Annual Fee
\$100,000 – 249,999	1.75%
\$250,000 – 499,999	1.65%
\$500,000 – 749,999	1.50%
\$750,000 – 999,999	1.35%
\$1,000,000 & UP	1.25%

### **Other Fees on Managed Accounts**

The fees listed above do not include any bank fees, mark-ups or markdowns, margin interest, national securities exchange fees, wire transfer fees, clearing fees, brokerage charges, custody fees, or other costs or fees associated with the securities transactions or required by law for which the client is responsible. Clients are also responsible for the clearing charge assessed by the custodian when STA purchases bonds from a broker other than the account custodian.

An additional flat fee of \$25.00 is deducted from each client's account(s) every quarter for reporting services provided by STA. Other fees may be incurred while client funds are in a money market fund or other no-load mutual fund, such as internal investment management fees and fund operating expenses, which are reflected in the fund's internal expenses and are disclosed in each fund's prospectus. These fees are charged and collected by the mutual or money market funds and are in addition to the fee the client pays STA. They are not offset or refundable to the client. Clients investing in mutual funds through STA may also incur transaction fees which would not be incurred if the client were to invest directly with the mutual fund. These transaction fees are charged by the custodian for the convenience of trading in multiple mutual fund families through one account.

### **Financial Planning and Consultation Fees**

To the extent specifically requested by a client, STA *may* determine to provide financial planning and/or consulting services (including investment and non-investment related matters, business planning, including estate planning, insurance planning, etc.) on a



stand-alone fee basis. STA's planning and consulting fees are negotiable, but generally range from \$2,000 to \$30,000 on a fixed fee basis, and from \$150 to \$350 on an hourly rate basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s).

### **Fees on Certain Managed IRA or Other Retirement Accounts**

For IRA accounts or other retirement accounts which are subject to the Pension Protection Act of 2006 (PPA). An "eligible investment advice arrangement" or advisory agreement will be executed with the client. STA will be considered a "fiduciary advisor" and will charge fees to the retirement account based on a "level-fees basis", which means the fees will not vary depending on the investment option selected.

### **Fees for Direct Investments/Private Placements/Hedge Funds/Alternative Investments**

#### ***Investments in pooled vehicles not affiliated with STA Wealth Management***

STA may invest account assets in "hedge funds" or other pooled investment vehicles that invest in securities. These funds may be publicly held, private partnerships, or other types of entities. They may pursue investment strategies that seek to achieve high returns by taking high risks. Typically, investments in these funds are illiquid and are suitable only for investors who can understand and bear the risk of losing all or part of their investment. Investors must meet specific financial criteria. STA cannot guarantee that the advisory services offered will result in clients' goals and objectives being met, nor is there any guarantee of profit or protection from loss.

When STA advises a client to invest in one of these vehicles, for which STA is not the investment advisor, STA's compensation is a management fee that is a percentage of the client's capital account balance in each recommended fund. The percentage applied is the same percentage applied to all other assets managed by STA for the client (thus the fee schedule is the same as that detailed above under "Fees on Managed Accounts"). Internal fees for each fund are set forth in the various private placement memoranda.

**\*Please Note:** Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints, and lack of transparency. A complete discussion is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

**Please Also Note: Valuation.** In the event that STA references private investment funds owned by the client on any supplemental account reports prepared by STA, The value(s) for all private investment funds owned by the client shall reflect the most recent valuation provided by the fund sponsor. If no subsequent valuation post-purchase is provided by the Fund Sponsor, then the valuation shall reflect the initial purchase price (and/or a value as of a previous date), or the current value(s)

(either the initial purchase price and/or the most recent valuation provided by the fund sponsor). If the valuation reflects initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be **significantly more or less** than original purchase price. The client's advisory fee shall be based upon reflected fund value(s).

### ***Investments in pooled vehicles affiliated with STA Wealth Management***

Interests in the affiliated funds are closed to new investors and the funds are currently in liquidation.

### **Other Fee and Expense Information**

The Premier and Specialized Funds and managed accounts incur and pay brokerage commissions, financing, and other transaction costs and expenses in connection with any trading and investment activities, as well as custodian fees for assets held in cash or securities at various banks, broker-dealers, and other financial institutions.

The Premier and Specialized Fund pay ongoing operating and offering costs as incurred. These costs include, without limitation, administrative, accounting, custody, transfer, reporting, tax, audit, regulatory, legal fees and expenses as well as any extraordinary expenses, if any.

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

STA Wealth Advisors does not receive performance-based fees from any of its clients. However, STA Wealth Advisors' affiliate, as general partner of the Specialized Fund, is entitled to receive a carried interest allocation from certain partners equal to 20% of the Fund's net profits. At this time we do not anticipate any net profit and we are not charging any management fee.

Managing accounts with performance-based payments side-by-side with accounts not paying performance-based fees creates a conflict of interest for STA Wealth Advisors, as it may have an incentive to trade more aggressively in, take greater risk for, or allocate more profitable trades to the performance paying accounts or funds. This risk is mitigated by monitoring all accounts to ensure that all clients are treated fairly and equitably. All accounts are managed with an appropriate amount of risk in light of their investment objectives and limited investment opportunities are allocated appropriately.

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

STA provides investment supervisory services and manages investment advisory accounts for:

- Individuals,
- high net worth individuals,
- pension and profit sharing plans,
- pooled investment vehicles, and
- corporations or other business not listed above.

The general investment minimum required for an actively managed account is \$100,000. STA generally does accept and work with clients with investment accounts of less than \$100,000.

Please see the discussion under Item 5 Fees and Compensation for minimum investments in affiliated STA pooled investment vehicles.

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

### **Method of Analysis**

STA uses a combination of the following types of analysis in evaluating investments for client accounts:

- Charting—Analysis of charts of past stock performance
- Fundamental—Analysis of financial attributes of a company, such as revenue growth, debt to equity ratio, inventory turnover, etc.
- Technical—Analysis which assumes past performance is a predictor of future performance

STA uses the following sources of information in its analysis among others:

- financial newspapers and magazines,
- research materials prepared by others,
- corporate rating services, timing services,
- annual reports, prospectuses, filings with the Securities and Exchange Commission, and
- company press releases.

### **Investment Strategies**

The investment strategies STA uses to implement investment advice include the following:

- long-term purchases (securities held at least a year),
- short-term purchases (securities sold within a year),
- trading (securities sold within 30 days),
- short sales,
- margin transactions – which requires additional documentation from the client,
- option writing, including covered options, uncovered options, or spreading strategies.

The Premier Fund is currently in liquidation so no further investments will be made. The fund's objective was pursued by allocating Premier Fund capital among one or more managers with a diversified group of underlying investment managers for investments in investment pools or discretionary managed accounts, which are managed in an attempt to achieve high relative returns with reasonable volatility.

The STA Specialized Fund is closed to new investors. The investment objective of the Specialized Fund was to achieve long-term capital appreciation through the use of a “multi-manager” investment approach. STA primarily committed the Specialized Fund’s assets to one or two private equity funds. For a complete explanation of all relevant investment strategies and their associated risks, STA’s clients or investors in its private funds, should review each applicable offering document and investment advisory agreement, which may contain explanations of additional strategies, risks, and other related details not discussed in this firm brochure.

## **Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear. STA does not guarantee the future performance of any account, the performance of any investment decision, strategy that STA may use, or the performance of STA’s overall management of the account. Investment decisions made by STA, for a client’s account, are subject to various market, currency, economic, political, and business risks. Such investment decisions will not always be profitable.

More specifically, these risks include but are not limited to:

- *Short Sales:* The Specialized Fund and the Premier Fund may affect short sales. Short selling is the practice of selling investments, which are not owned by the seller, generally when the seller anticipates a decline in the price of the investments or for hedging purposes. To complete a short sale, the seller must borrow the investments from a third party in order to make delivery to the buyer. The seller generally will be required to pay a brokerage commission or interest, which will increase the cost to the seller of selling such investments. Until the investments are replaced, the seller will be required to pay, to the lender, amounts equal to any dividends or interest which accrue during the period of the loan of the investments.

Under certain circumstances, including any U.S. or non-U.S. governmental or regulatory action which impacts short selling, a fund may be prematurely forced out of a short position. The lender of a security used to cover a short position generally has the right to demand the return of the stock that has been loaned at any time. In such event, a fund would be required to replace the borrowed securities by borrowing the securities from another lender. If the fund were unable to replace the borrowed securities, it would be required to close out the short position by buying the security in the market to make delivery. When completing a short sale, the fund could incur a significant loss if the security sold short had increased in value.

- *Put and Call Options on specific investments:* The funds may purchase exchange-listed and over-the-counter (“OTC”) put and call options on specific investments. In addition, the funds may write and sell covered or uncovered call and put option contracts. A call option gives the purchaser of the option the right to buy and obligates the writer to sell the underlying investments at a stated exercise price at any time prior to the expiration of the option. Similarly, a put option gives the purchaser of the option the right to sell and obligates the writer to buy the underlying investments at a stated exercise price at any time prior to the expiration of the option. Options written by the fund may be wholly or partially covered (meaning that the fund holds an offsetting position) or uncovered.

Options on specific investments may be used by funds to seek enhanced profits with respect to a particular investment. Alternatively, they may be used for various defensive or hedging purposes.

The use of put and call options may result in losses to the funds, force the sale or purchase of portfolio investments at inopportune times, force prices higher than (in the case of put options) or lower than (in the case of call options) current market values, limit the amount of appreciation the funds can realize on its investments, or cause the funds to hold an investment it might otherwise sell. For example, a decline in the market price of a particular investment could result in a complete loss of the amount expended by a fund to purchase a call option (equal to the premium paid for the option and any associated transaction charges). An adverse price movement may result in unanticipated losses with respect to covered options sold by a fund. The use of uncovered option writing techniques may entail greater risks of potential loss to a fund than other forms of options transactions. For example, a rise in the market price of the underlying investment will result in the fund realizing a loss on the calls written, which would not be offset by the increase in the value of the underlying investments, to the extent the call option position was uncovered.

- *Withdrawals and Performance:* Numerous hedge funds have experienced material levels of withdrawals and received significant withdrawal requests for upcoming withdrawal dates due to market conditions, fund performance, the need for liquidity by some investors, and other reasons. In response, a number of hedge funds have had to impose liquidity restraints and, in certain cases, dissolve. There can be no assurance that the funds will not in the future experience withdrawal requests at a level that may have an adverse effect on their operations or ability to satisfy such requests.
- *Regulatory Risk:* U.S. and non-U.S. securities and commodities markets are subject to ongoing and substantial regulatory changes. Recently there has been increased government agency scrutiny, as well as self-regulatory scrutiny, of the "hedge fund" industry in general. This includes incidents of regulators unexpectedly announcing regulatory changes or interpretations that prohibited strategies that had been implemented in a variety of formats for many years. For example, in September 2008 the SEC and various non-U.S. regulatory bodies imposed temporary bans on short-selling in a variety of stocks and adopted permanent regulations that may have the effect of making short-selling more difficult or costly. These actions were generally regarded as disrupting market fundamentals and causing unexpected and volatile increases in the stock prices of a variety of issuers, as short sellers closed out their positions by buying securities. Such increased or additional regulation may require the funds to alter the manner in which they do business and could adversely affect their ability to implement their investment programs.

STA will endeavor to regularly monitor the managers of the funds in which its pooled investment vehicles are invested, but STA is unlikely to have access to information about the underlying portfolio positions of investments in the underlying funds on a regular basis. Investors in the pooled investment vehicles typically have no right to demand such information of the managers. Accordingly, STA will not be in a position to analyze or respond to developments within any particular underlying fund unless, and

until, information relating thereto is disseminated by the manager to its investors. That information may not necessarily be timely or complete.

### **Financial Planning Methodology and Risks**

When providing financial planning services, STA utilizes two software programs: MoneyGuidePro and eMoney, both developed by companies that not affiliated with STA. The methodology underlying MoneyGuidePro and eMoney, as well as various assumptions, limitations, and risks associated with the software, are discussed with clients at the time STA provides them with financial planning services and delivers the client's Financial Plan Goal report.

Any recommendations or suggestions made by STA and/or its advisors, as part of its financial planning services, are not automatically implemented in the client's account. It is entirely up to clients -- in their sole discretion -- to accept or implement STA's financial planning suggestions or to make changes based on the results shown in the financial planning report. STA may assist clients in implementing recommendations in accounts as to which STA provides advisory services. However, this will be undertaken only at the client's specific request, not automatically as part of STA's services. Any changes to other accounts must be made or arranged by clients themselves.

There are limitations and risks inherent in using software for financial planning purposes. The validity of the output produced by the software is dependent on a number of factors, such as the models underpinning the software, the accuracy of the computer coding, the quality of the data put into the models, and the quality of the output generated by the models and ultimately deployed into a report. The potential for errors, such as development, implementation, systems, and human errors are an inherent risk in this process. Risks of loss, corruption, or error due to computer viruses, worms, hacking, intrusions, outages or other factors, and intellectual property disputes could negatively affect the software, its use and performance, and/or the report delivered to clients. While STA takes reasonable steps to mitigate these risks to the extent under its control, these risks cannot be eliminated entirely.

## **ITEM 9 - DISCIPLINARY INFORMATION**

STA, nor any of its officers or principals, has been involved in any investment-related criminal or civil actions in a domestic, foreign, or military court.

STA nor any of its officers or principals, has been found (1) to have caused an investment-related business to lose its authorization to do business, and (2) to have been involved in a violation of an investment-related statute or regulation and the subject of an order in connection with any administrative proceedings before the Securities and Exchange Commission, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority.

STA has not been involved in any self-regulatory organization proceedings; however, one of the principals had a regulatory action brought against him by the NASD (now FINRA). This action stemmed from an employee agreement. In 2002, Mr. Patterson received a forgivable loan from the firm with which he was employed. The loan was to

be forgiven if he stayed with the firm in accordance with his employee agreement. In 2004, Mr. Patterson left the firm for various reasons, which included his not wanting to sell the products the firm offered, as well as differences in investment philosophy. In 2005, the firm filed an arbitration proceeding to collect the portion of the loan that had not been forgiven. Mr. Patterson moved shortly after he left the firm; therefore, he never received the notice of the arbitration and did not appear at the proceeding. This resulted in the suspension of his NASD registration. In 2005, Mr. Patterson's old firm received a default arbitration award. As soon as Mr. Patterson learned of the default arbitration he contacted the firm and settled the matter. His suspension was lifted by FINRA in 2011.

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

### Affiliations with Pooled Investment Vehicles

STA and its affiliates have sponsored a number of private investment funds that they manage. STA and/or its affiliates serve as the general partners to these funds. The funds do not have independent management. These arrangements are described in more detail above under Item 4 Advisory Business. Certain STA principals have also invested personal assets in these private funds.

Although this arrangement may give STA heightened control and discretion over its fund clients, STA manages potential conflicts of interest by adhering to the investment strategy and investment allocation policy discussed in each client's fund offering documents.

From time to time, STA may recommend that qualifying clients invest in one of these private funds. This poses a conflict of interest for STA to the extent it has a financial incentive to recommend that clients invest in the funds, thereby increasing the assets held by the funds and in turn increasing the compensation payable to STA and/or its affiliates, otherwise benefiting them. However, STA does not charge an advisory fee on any assets in its clients' managed accounts that are invested in these private funds, which is aimed at mitigating this conflict of interest. In addition, STA is constrained by fiduciary principles to act in its clients' best interests when managing accounts and will recommend that clients invest in the funds only when it is suitable to do so. STA monitors activity in its clients' accounts in an effort to ensure that transactions are appropriate.

Refer also to Item 6 Performance-Based Fees and Side-By-Side Management above for information about the conflict of interest posed by the carried interest allocation based on net profits that is made to STA's affiliate by the Specialized Fund.

### Affiliation with Insurance

Clients may receive advice on other insurance-related products such as fixed annuities and various types of insurance. Some of the investment advisor representatives (IAR's) may be independently licensed with various insurance companies and/or Streettalk Insurance Group, LLC, an affiliated insurance Agency.

#### *Affiliated Insurance Agency – Licensed Agents*

Michael Smith, one of the principals of STA Wealth Management, is also a licensed insurance agent for Streettalk Insurance Group, LLC. Michael Smith, Lance Roberts, and STA Wealth Management, LLC each own an interest in

Streetwork Insurance Group, LLC, an insurance agency. The percentage of interest is as follows: STA Wealth Management, LLC 21.25%, Michael Smith 26.25%, and Lance Roberts 26.25%.

The recommendation by STA Wealth representatives that a client purchase an insurance product from the firm's affiliated insurance agency, presents a **conflict of interest** as the receipt of commissions to the insurance agency benefits STA Wealth Management, LLC and the other owners of the agency. In addition Michael Smith, a licensed agent of Streetwork Insurance Group, LLC, may receive normal and customary commissions for the sale of insurance products. No client is under any obligation to purchase any insurance commission products from STA and/or its representatives. Clients are reminded that they may purchase insurance products recommended by STA through other non-affiliated or insurance agencies. In addition, STA Wealth is constrained by fiduciary principles to act in its clients' best interests when providing advice and will recommend that clients purchase an insurance product only when it is suitable to do so. STA Wealth monitors these arrangements in an effort to ensure that purchases are appropriate.

*Non-Affiliated Insurance Agency - Licensed Agents*

Some of the IAR's acting in the capacity of an insurance agent may recommend insurance products with non-affiliated agencies. This presents a conflict of interest as the IAR may receive fees for the advice and receive commission on the sale of the product. Clients are reminded that they may purchase insurance products recommended by STA Wealth's advisors through other insurance agents. In addition, STA Wealth is constrained by fiduciary principles to act in its clients' best interests when providing advice and will recommend that clients purchase an insurance product only when it is suitable to do so. STA Wealth monitors these arrangements in an effort to ensure that purchases are appropriate.

The recommendation by an STA representative that a client purchase a securities or insurance commission product presents a **conflict of interest**, as the receipt of commissions may provide an incentive to recommend investment products based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any securities or insurance commission products from STA representatives. Clients are reminded that they may purchase securities and insurance products recommended by STA representatives through other, non-affiliated broker-dealers and/or insurance agencies. **STA' Chief Compliance Officer, Hope Edick, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

**Affiliation with Broker/Dealer**

STA Wealth Management does not have an affiliation with a Broker/Dealer; however, some of the IAR's are registered representatives of different unaffiliated broker-dealers.

The recommendation, by an advisor who is also a registered rep of a Broker/Dealer that a client purchase a security /product from the Broker/Dealer, does not benefit STA



Wealth Advisors as commissions would be paid directly to registered representative. As a registered representative of a broker-dealer the advisor may receive normal and customary commissions for the sale of securities/products. Any commissionable product purchased will be excluded from the calculation of the client's management fee. No client is under any obligation to purchase any securities/products. STA Wealth is constrained by fiduciary principles to act in its clients' best interests when providing advice and will recommend that clients purchase products only when it is suitable to do so. STA Wealth monitors these arrangements in an effort to ensure that purchases are appropriate.

#### Other Business Activity

STA Wealth Management is acting as the liquidating trustee to each series of the Black Swan Opportunity Fund, LP as well as the Black Swan Multi-Strategy Funds. The main duty of STA is to oversee the orderly liquidation of each of the fund's assets and the distribution of disposition proceeds in accordance with the liquidation provisions set forth in the applicable Operating Agreements. STA or its Principals are not employees of Black Swan and receive no compensation or fee.

#### Liquidating Trustee

While acting in the capacity poses a risk of misappropriating funds from the various Limited Partner Accounts. The risk is mitigated by having the funds held at a qualified custodian, having a fund administrator producing monthly financials, as well as an annual audit performed on each fund, In addition STA is constrained by the conditions set forth in the Liquidating Trustee Agreement.

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

#### **Code of Ethics**

STA has adopted a Code of Ethics which describes the general standards of conduct STA expects of all firm personnel (collectively referred to as "employees"). Failure to uphold the Code of Ethics may result in disciplinary sanctions, including termination with STA. Any client or prospective client may request a copy of STA's Code of Ethics which will be provided, at no cost, by contacting Hope Edick at 281.822.8800.

The following basic principles guide all aspects of STA's business and represent the minimum requirements to which STA expects employees to adhere:

- Clients' interests come before employees' personal interests and before STA's interests.
- STA must fully disclose all material facts about conflicts, of which it is aware, between STA and its employees' interests, on the one hand, and client and STA's interests on the other.
- Employees must operate on STA's behalf and on their own behalf consistently with STA's disclosures and manage the impacts of those conflicts.
- STA and its employees must not take inappropriate advantage of their positions of trust with or responsibility to clients.
- STA and its employees must always comply with all applicable securities laws.

### *Personal Securities Trading*

Trading by STA personnel in their personal accounts is subject to review and, in many cases, requires prior approval by STA's Chief Compliance Officer (CCO). Employees are allowed to trade in their personal accounts in stocks, mutual funds, bonds, ETFs, and pre-approved private placements. Employees may invest simultaneously with clients as long as the same price is obtained. Investing in private placements in personal accounts must be pre-approved by the CCO. Personal trades must be reported quarterly to the STA CCO and holdings are reported annually. Both personal trades and holdings are reviewed on a periodic basis to ensure compliance with STA's policy. Breaches to the policy are taken seriously and may be met with disciplinary action, including termination of employment.

The STA principals have also invested in the Premier Fund and the Specialized Fund as limited partners; therefore, have ownership interests beyond owning the general partners of each fund. See Item 10 "Other Financial Industry Activities and Affiliations" for more information on the conflict of interest this presents.

### *Outside Business Activities*

Employees are required to report to STA any outside business activities generating revenue. If any are deemed to be in conflict with clients, such conflicts will be fully disclosed or the employee will be directed to cease this activity.

## **ITEM – 12 BROKERAGE PRACTICES**

### **Broker Selection**

STA selects the brokers or dealers that handle securities transactions in client accounts and negotiates their commissions. STA has entered into agreements with Charles Schwab & Co., Inc. ("Schwab"), Fidelity Institutional Wealth Services ("Fidelity"), and Millennium Trust Company (MTC) to act as custodians for client accounts. Each are unaffiliated broker-dealers. The commissions charged by Schwab, Fidelity, and MTC, are comparable with those of other broker-dealers in return for like products and services; however, they may be higher in some instances than those obtainable from other brokers. STA generally trades through the custodian in order to manage transaction fees. STA and its personnel receive no commissions or 12(b)-1 fees from accounts held at these custodians.

### *Best Execution*

STA's policy is to attempt to obtain the best execution for its clients' securities transactions. What constitutes "best execution" as well as determining how to achieve it is inherently uncertain. In evaluating whether a broker will provide best execution, STA considers a range of factors. These include:

- Historical net prices (after markups, markdowns or other transaction-related compensation) on other transactions.
- The execution, clearance, settlement, and error correction capabilities of the broker in connection with securities of the type and amounts to be bought or sold.

- The availability of no load mutual funds.
- The broker's reliability and financial stability.
- The commission structure.
- The quality of information provided to the Firm and to clients.

STA is not required to select the broker that charges the lowest transaction cost even if that broker provides execution quality comparable to other brokers. STA expects at times that clients will pay more than the lowest transaction cost available in order to obtain for STA and/or its clients services and products other than securities transactions execution. As noted above, STA generally trades through the custodian in order to manage transaction fees.

In the event that the client requests that the STA recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct the STA to use a specific broker-dealer/custodian), STA generally recommends that investment management accounts be maintained at *Fidelity and/or Schwab*. Prior to engaging STA to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with STA setting forth the terms and conditions under which STA shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that the STA considers in recommending *Fidelity and/or Schwab* (or any other broker-dealer/custodian to clients) include historical relationship with the STA, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by STA's clients shall comply with the STA's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the STA determines, in good faith, that the commission/transaction fee is reasonable. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although STA will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, STA's investment management fee. The STA's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

1. Research and Additional Benefits

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, STA may receive from *Fidelity and/or Schwab* (or another broker-dealer/custodian, platform or product sponsor) without cost (and/or at a discount) support services and/or products, certain of which assist the STA to better monitor and service client accounts

maintained at such institutions. Included within the support services that may be obtained by the STA may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by STA in furtherance of its investment advisory business operations.

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

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

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

### **Broker Review**

At least annually, STA's Chief Compliance Officer and Chief Executive Officer review brokerage relationships in light of the factors referenced above.

### **Research and Other Soft-Dollar Benefits**

STA currently has no formal soft-dollar arrangements, where specific products or services are paid for with soft dollars generated for STA by individual trades STA places in client accounts. However, as referenced above, the custodians are providing STA with certain products and services. Products or services provided by the custodians may be used to service all or a substantial number of STA's accounts, including accounts not maintained at the particular custodian providing that product or service and without allocating products or services among accounts. To the extent these products or services are provided to STA without charge, STA receives a benefit because it does not have to produce or pay for the products or services out of its own pocket.

These arrangements with the custodians pose a conflict of interest for STA to the extent that they create an incentive for STA to suggest clients maintain their assets in accounts at the custodians on the basis of products and services that may become available to STA as a result, rather than solely on the basis of the nature, cost or quality of custody and brokerage services provided to clients. However, STA is constrained by fiduciary principles to act in its clients' best interests and will suggest the custodians to clients only when it appropriate to do so. In addition, STA maintains an awareness of the services provided to clients by the custodians in an effort to ensure that clients are well served.

### **Brokerage for Client Referrals**

STA does not directly or indirectly compensate any broker for client referrals.

### **Directed Brokerage**

STA requires managed account clients to use one of the custodians and does not permit clients to direct their brokerage to other broker-dealers. As noted above, STA generally trades through the custodian in order to manage transaction fees. See the discussion above in this Item 12 for information about the conflicts of interest posed by STA's arrangements with the custodians.

### **Order Aggregation**

STA will generally aggregate brokerage orders for its clients and allocate the securities purchased or sold among the participating accounts, with each account receiving the same terms, once they are fully into the model. The proportion in which participating account(s) will share transactions will be determined by the portfolio manager(s) on the basis of investment objective, cash availability, expected cash and liquidity needs, and other relevant factors. The overarching principle for every allocation is that no account is unfairly favored over another account that is similarly situated over time. However, Schwab and Fidelity do not provide an expense advantage to participating accounts in an aggregated trade. Rather than charging one transaction fee for the aggregated trade, transaction fees (if applicable) are applied to each account as if the trade had been enacted on an account by account basis.

## **ITEM 13 - REVIEW OF ACCOUNTS**

### *Managed Accounts*

Reviews are conducted by STA Wealth Advisors' Investment Advisor Representatives. Through the use of trading and investment software programs, managed account holdings are compared to the selected portfolio model for allocation purposes, as well as monitored for performance. Michael Smith, Luke Patterson (Principals), and Andrei Costas (Senior Investment Analyst), discuss the performance of each model in a weekly investment committee meeting. The principals meet with the investment advisor representatives at least bi-monthly to discuss the advisors client's accounts. STA personnel generally contact clients annually to schedule an in-depth portfolio review with one of the advisors. Clients are also provided access to STA Wealth Advisors' Portal, Advisor View, where they may obtain reporting on their performance and other account information.

### *Pooled Investment Vehicles*

Each private fund's investment committee is responsible for monitoring the holdings of its respective fund on at least a quarterly basis. STA provides investors with written annual audited financial statements examined by independent auditors, as well as annual tax information.

### *Financial Plans*

STA Wealth Management, LLC offers a varying degree of financial planning services. Prior to implementing a financial plan, clients will complete a financial planning services agreement which will outline the scope of the service. Financial planning reports generated by the MoneyGuidePro and/or eMoneysoftware are reviewed by STA investment personnel and then delivered to the client, usually in a face-to-face meeting to explain the results. Dependent upon the service chosen in the agreement, STA may or may not have an obligation to update, monitor, or amend any advice or report provided. The agreement determines the scope of the client and Advisor obligation. Please note the Financial Planning Services Agreement is separate from the Investment Advisory Agreement. Should a financial planning client wish to have STA manage their investment account, the client will need to sign a separate Investment Advisory Agreement. Financial planning clients are reminded they are under no obligation to act on the advice provided in the plan.

## **ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

STA does not, nor do any of its principals or employees, receive an economic benefit such as sales, awards or other prizes, from non-clients for providing advisory services to its clients. In addition, STA does not compensate third parties for client referrals.

### Other Compensation and Arrangements

STA hosts a daily radio talk show on KSEV 700am during which its principals provide general market commentary. The show's sponsors pay a flat monthly fee to STA for two hours of airtime each week. Additionally, advertisers pay for 30 second to 1-minute commercial spots at \$300 per minute (negotiable) and \$400 per minute for a live endorsement.

## **ITEM 15 - CUSTODY**

Because STA generally has the authority to instruct the account custodian to deduct the management fee directly from the client's account, STA is considered to have "custody" of managed account assets. This limited access is monitored by the client through receipt of account statements directly from the custodian. These statements show the deduction of the management fee from the account. Otherwise, STA may only direct the movement of funds from one account in the client's name to another account with like registration. In addition, since STA or its affiliate is the general partner and/or investment advisor to the STA Specialized Fund LP and Premier Fund, they are also deemed to have custody of those assets.

When clients receive their account statements from the custodian, they should carefully review those statements. If clients receive account statements from STA, they are reminded to compare the statements from STA with the account statements from their

custodian. Clients should contact both STA and the custodian if there are unexplained discrepancies.

Additionally, STA engages an outside auditor to conduct an annual audit of the private funds. Although STA attempts to deliver the audited financials to all Premier Fund and STA Specialized Fund investors within 180 of the fund's fiscal year end, delivery is usually delayed due largely to the fact that not all fund managers of the underlying funds and/or private equity issuers report to the fund on time. The STA Specialized Fund and the Premier Fund assets are in the custody of a qualified custodian which is sending investors quarterly statements.

#### **ITEM 16 - INVESTMENT DISCRETION**

STA has discretionary authority to manage accounts on behalf of its clients. Clients provide STA with a limited power of attorney granting trading authority and authority to instruct the custodian to withdraw its investment management fee on a quarterly basis. STA determines, for all clients, what securities are to be purchased and sold, how much, when, and negotiates commissions with the account custodians.

This authority is granted for managed accounts through the investment advisory agreement each client executes with STA. This authority is granted to STA for the private funds by the limited partnership agreements.

Managed account clients may limit STA's discretionary authority by designating restricted security positions as part of their investment advisory agreement with STA.

#### **ITEM 17 - VOTING CLIENT SECURITIES**

STA does not vote client proxies and has instructed the custodian to forward all proxy material directly to the client. STA shall forward to the client, or to the advisor(s) for an employee benefit plan covered by ERISA, any proxy materials it receives that pertain to the assets in the client's account unless the account relates to an employee benefit plan and the plan's trust agreement provides otherwise. Clients will receive proxy materials directly from the custodian by U.S. Mail or by email. Clients may contact STA with questions concerning particular proxy matters.

#### **ITEM 18 - FINANCIAL INFORMATION**

This item is not applicable to STA, as there is no financial condition or circumstance required to be disclosed nor any circumstance requiring STA to include its balance sheet.

**ANY QUESTIONS: STA's Chief Compliance Officer,  
Hope Edick, remains available to address any  
questions regarding this Part 2A.**