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**FIRM BROCHURE**  
(Part 2A of Form ADV)

July 28, 2015

**Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of Labrum Wealth Management, LLC. If you have any questions about the contents of this Brochure, please contact us at (760) 707-5555. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Labrum Wealth Management, LLC is registered as an investment adviser with the Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.**

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

## ITEM 1: COVER PAGE

Please refer to previous page.

## ITEM 2: MATERIAL CHANGES

The previous version of this Brochure was filed on February 3, 2015. Below is a summary of the material changes made to the Labrum Wealth Management, LLC's ("LWM's" or the "Firm's") Brochure since the Brochure was last updated:

- Item 4 – Advisory Services: Updated to include disclosures that LWM recommends private funds to certain qualified clients. Also added disclosures pertaining to the use of margin accounts.
- Item 5 – Fees: Added language regarding times when LWM waives financial planning fees, such as during marketing campaigns and for investment management clients. Clarified that in most cases the full fixed fee for financial planning services is due in advance. Also included disclosures to reflect that fees charged for Retirement Plan Solutions can be billed in either arrears or advance, depending on the custodian requirements, and to reflect that the fee may be waived for new clients under certain marketing campaigns utilized by LWM.
- Item 6 – Performance Based Fees and Side by Side Management: Updated to include disclosures stating that certain private funds recommended by LWM charge performance/incentive based fees.
- Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss: Updated to include details on the risks pertaining to investments in private funds and options.
- Item 10 – Other Financial Industry Activities and Affiliation: Updated to include disclosure regarding Jason Labrum's service on the Board of the local Boys and Girls Club, which equates to no more than 5% of his monthly time and he does not receive compensation for such services.
- Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading: Updated to reflect that employees may invest in the same private funds that clients invest in, but they must obtain written preapproval from the CCO.
- Item 12 – Brokerage Practices: Updated to include disclosures regarding the fact that LWM also recommends TD Ameritrade as custodian to clients, in addition to Schwab. Also added language regarding the placement of client transactions for accounts being managed under the Betterment wrap program.
- Item 14 – Client Referrals and Other Compensation: Updated to include disclosures that LWM participates in the Schwab Advisor Network®, wherein LWM pays Schwab for client referrals. Also included disclosures on the conflicts surrounding this arrangement.

Pursuant to SEC Rules, LWM will ensure that clients receive a summary of any materials changes to this Brochure within 120 days of the close of our fiscal year, along with a copy of this Brochure or an offer to provide the Brochure. Additionally, as we experience material changes in the future, we will send you a summary of our "Material Changes", along with an offer to provide the Brochure under separate cover.

Additional information about LWM and its investment adviser representatives is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 4: Advisory Business

### A. Description of Firm

LWM is an investment management firm founded in 2009, with its principal office located in Carlsbad, CA. As further detailed in Item 4.B., below, LWM offers services covering the areas of providing financial planning, consulting and discretionary and non-discretionary investment management services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities. Some of the investment instruments LWM advises its clientele on include, among other things, mutual funds, exchange traded funds ("ETFs"), equities, bonds, treasuries and certificates of deposits. The Firm is a limited liability company registered with the SEC and conducts business primarily in the State of California, and has made notice filings in applicable states.

LWM's principal owner is Jason Labrum, who also serves as the Firm's President. For information on his qualifications and business background, please refer to his Form ADV Part 2B Brochure Supplement.

### B. Types of Advisory Services Offered

LWM provides two types of advisory services: Financial Planning and Consulting Services and Investment Management Services, both of which are more fully described below.

#### 1. Financial Planning and Consulting Services

LWM's Financial Planning and Consulting Services are typically provided to individuals regarding the management of their financial resources and are based upon an analysis of individual client needs (which may include non-financial matters). The services range from comprehensive financial planning to more focused consultations, depending on the needs of each client. Generally, LWM first conducts a complimentary initial consultation during which pertinent information about the client's financial circumstances and objectives is collected. We then assess the client's goals, objectives, time horizon, and risk tolerance to compare where clients are today in relation to the attainment of their stated goals. Thereafter, either a comprehensive financial plan or other written summary is prepared in accordance with the clients' stated financial goals and objectives, with various alternatives provided for consideration. LWM's recommendations are presented to the client, who has an opportunity to discuss the various alternatives recommended by LWM.

Financial plans are based on the client's financial situation at the time the plan is presented and on the information disclosed by the client to LWM. Clients are advised that certain assumptions may be made with respect to interest and inflation rates, use of past trends and performance of the market and economy. Past performance is in no way an indication of future performance. LWM cannot offer any guarantees or promises that the client's financial goals and objectives will be met. As the client's financial situation, goals, objectives, or needs change, the clients are strongly urged to promptly notify the Firm. For more information on the risks associated with investing, please refer to Item 8, below.

For Financial Planning Services, clients are free at all times to accept or reject any or all recommendations made by the Firm and clients retain the authority and discretion on whether or not to implement LWM's recommendations. If the client decides to follow the recommendations, the client has the option, but is under no obligation, to request that LWM implement such recommendations through the Firm's Investment Management Services. Should a client request LWM to implement such recommendations, the client will receive the services outlined in Item 4.B.2., below.

From time to time LWM may suggest using International Assets Advisory, LLC ("IAA", an SEC registered broker-dealer and member of the Financial Industry Regulatory Authority ("FINRA"), to implement certain investment recommendations. LWM's Wealth Management Advisor, Richard Labrum, is a registered representative of IAA. Accordingly, if a client chooses to open an account with IAA, then Mr. Labrum may receive fees and other concessions as a result of his relationship with IAA. Clients should be aware that this represents a conflict of interest. Clients are under no obligation to transact any business through IAA or LWM and other advisers or broker-dealers may offer similar services, with costs that are higher or lower than those obtainable from LWM or IAA. In all cases, LWM and its Associated Persons will only make such recommendations if they believe them to be in the best interests of the client. Please refer to Item 5 below for detailed information on fees and compensation.

## **2. Investment Management Services**

LWM provides clients with ongoing Investment Management Services, which may be performed on either a discretionary or non-discretionary basis. Prior to engaging LWM to provide Investment Management Services, the client is required to enter into an Investment Advisory Agreement with the Firm setting forth the terms and conditions of the engagement, including the specific scope of the services to be provided. In addition, each client completes a Client Profile setting forth important information related to the client's investment goals and financial objectives, among other things.

Clients are responsible for promptly notifying LWM in writing of any material changes in the information furnished by the client in the Client Profile or information that is otherwise material to the client's financial situation, investment objectives, time horizon, risk tolerance and investment strategy or if they wish to impose any reasonable restrictions upon LWM's management services. In the event that a client notifies the Adviser of changes to the information in their Client Profile, LWM will review such changes and recommend any necessary changes to the client's portfolio. The Adviser will meet with clients periodically to review the client's investment goals and current advisory portfolios.

The Firm's investment management services are divided into three types: LWM Fund Model Portfolios, LWM Separate Account Management and LWM Strategic Model Portfolios. In addition, LWM offers Retirement Planning Solutions for plan sponsors. Each type of offering is described further below.

a. *LWM Strategic Model Portfolios*

LWM uses mutual funds, exchange traded funds (“ETFs”), closed-end funds, and other investments to formulate five types of model portfolios, which are then constructed by the Firm’s Investment Committee (“IC”) based on volatility and risk considerations. LWM may use certain option strategies to mitigate market risks and may suggest the use of certain third-party money managers (including wrap fee programs), alternatives and/or limited private offerings and could participate in an IPO in the event a portfolio manager deems it appropriate for eligible accounts, depending on the client’s needs and investment objectives. Clients can invest in one or more of the following portfolio types: capital preservation (which focuses on preservation of capital with a goal of minimizing the effects of market volatility and risks), conservative, moderate, growth or aggressive growth (which focuses on growth with little or no regard to market volatility). Note that cash positions may be a tactical asset, and there may be times when LWM recommends that a client go to partial or all-cash positions. Our Wealth Management Advisors will meet with clients to discuss which model portfolio best meets their long-term personal goals and objectives. Each of our models are actively managed, with portfolio management decisions occurring at the IC level, which meets approximately once per week.

This is LWM’s most popular offering. Please see Item 12 for important information regarding the trading for this strategy.

b. *LWM Custom Account Management*

LWM offers separate account management for those clients who desire further customization to their portfolio(s). Based on the client’s goals and investment objectives, LWM will build a customized portfolio consisting of mutual funds, ETFs, closed-end funds, equities, fixed-income and/or cash management instruments, including bonds and other financial products. In addition, when appropriate, LWM may use certain option strategies to mitigate market risks and may suggest the use of certain third-party money managers (including wrap fee programs), alternatives and/or limited private offerings and could participate in an IPO in the event a portfolio manager deems it appropriate for eligible accounts, depending on client’s needs and investment objectives.

LWM customizes clients’ portfolios according to their individual risk tolerance, time horizon and specific goals. For example, a client is able to place certain restrictions on their accounts, such as restricting the Firm from purchasing or selling a specific security, and restrictions on the types of securities, industries or sectors that may be included as part of the client’s account. Note that this may not be possible in all situations, such as when the client invests in mutual funds and ETFs. In addition, cash positions may be a tactical asset, and there may be times when LWM recommends that a client go to cash. Clients are charged LWM’s customary asset under management fees pursuant to the terms of the Investment Advisory Agreement regardless of what type of positions are held in the account.

Please see Item 12 for important information regarding the trading for this strategy.

c. *LWM Tactical Model Portfolios*

LWM offers tactical model portfolios using a combination of equities (which are typically blue chip companies) and fixed income instruments to create either a growth, moderate or conservative portfolio. Using a top-down management approach, LWM uses economic variables to trigger the tactical model portfolios' transactions. These models may include inverse or leveraged positions. Typically LWM's tactical portfolios are more heavily concentrated in equity positions which can lead to higher volatility. For example, the conservative strategy could have 20% or more volatility in a year, with the moderate strategy having 30% or more volatility and the growth strategy 40% or more. Clients should think of these strategies as long-term investments.

Please see Item 12 for important information regarding the trading for this strategy.

d. *Retirement Planning Solutions*

LWM provides service to qualified and non-qualified retirement plans including 401(k) plans, 403(b) plans, pension and profit sharing plans, cash balance plans, and deferred compensation plans. In this capacity, LWM provides both 3(21)(a) fiduciary services as well as 3(38) investment management and non-fiduciary services as further described below.

- 1) *Limited Scope 3(21)(a) Fiduciary*. LWM typically acts as a limited scope 3(21)(a) fiduciary that advises, helps and assists plan sponsors with their investment decisions, which often includes selection of investment options and asset allocation recommendations.
- 2) *3(38) Investment Manager*. LWM also serves as an investment manager to certain plans in which it is granted discretionary management by the plan sponsor to select, monitor and replacement plan investments.

Additional services applicable to LWM's Retirement Plan Solutions are described in the client agreement. LWM is deemed a "Covered Service Provider" to pension plan clients under ERISA Section 408(b)(2) regulations and is a fiduciary under Sections 3(21) and/or 3(38) of ERISA. ERISA Section 408(b)(2) requires Covered Service Providers to make required disclosures to the responsible plan sponsor ("RPS") that are in writing, and include information the RPS needs to (i) assess the reasonableness of total compensation, both direct and indirect, received by the Covered Service Provider, its affiliates, and/or subcontractors, (ii) identify potential conflicts of interest, and (iii) satisfy reporting and disclosure requirements under Title I of ERISA. LWM provides its pension plan clients with such information prior to entering into a written agreement with such clients, and annually thereafter.

C. **Wrap-Fee Program Offerings**

LWM does not currently sponsor nor provide management services to any wrap fee program, as that term is defined in the instructions to Form ADV Part 2. However, as described below, LWM may recommend that its clients participate in a wrap-fee program, based on the client's specific financial needs and investment objectives.

LWM, from time to time recommends wrap-fee programs to clients sponsored by Betterment, an unaffiliated registered investment adviser. The terms and conditions under which the client will enter into a wrap-fee program with Betterment will be set forth in separate written agreements between (1) the client and the LWM and (2) the client and Betterment. In some cases, LWM also may control the client allocation, for which it is compensated. LWM shall continue to render advisory services to the client relative to the ongoing monitoring and review of account performance, for which LWM shall receive an annual advisory fee which is based upon a percentage of the market value of the assets being managed under the Betterment wrap-fee program.. Factors that LWM shall consider in recommending Betterment's wrap-fee program include the sponsor's reputation, style of management, performance, and services being offered.

In addition to LWM's written disclosure statement (Form ADV Part 2A), the client shall also receive the written disclosure statement from Betterment, as the wrap-fee program sponsor. Please refer to Item 12 for information regarding the brokerage arrangements for the wrap fee program.

**D. Private Investments**

Although the investment advice provided by LWM is not limited to any specific type of investment, LWM does from time to time, depending on the sophistication, risk tolerances, and qualifications of the client, recommend that a portion of such client's assets be invested in certain private investments. These include hedge funds, real estate funds, and other types of private investment vehicles (collectively "Private Funds"). The Private Funds may invest in various types of instruments, including but not limited to equities, debt securities, real estate, first trust deeds, private companies, and other private investment funds. The Adviser shall continue to render advisory services to the client relative to the ongoing monitoring and review of asset performance and due diligence of the Private Fund. Clients are provided with private placement memorandums and other offering and subscription documentation that detail the nature, risks and associated fees of each Private Fund. It is important that the client read these documents before investing to fully understand the types of investments, risks and conflicts pertaining to the Private Funds.

For further information regarding Private Funds, please refer to item 5, 6, 8, and 10.

**E. General Information About LWM's Advisory Services**

As indicated above, advisory services provided by LWM are customizable based upon the individual needs, objectives, and other financial goals of the client. Early on in the relationship, LWM will typically memorialize each client's investment objectives, risk tolerance, time horizons and other important information, including any investment guidelines, in a client profile or similar document. This information, together with any other information relating to the client's overall financial circumstances, will be used by the Firm to determine the most appropriate asset allocation and investment strategy to best meet the client's financial goals.

LWM will not assume any responsibility for the accuracy of the information provided by the client. The Firm is not obligated to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on



such information. Under all circumstances, clients are responsible for promptly notifying the Firm in writing of any material changes to the client's financial situation, investment objectives, time horizon, tax status, risk tolerance or other material information that the Firm may have relied upon in rendering its services. In the event that a client notifies the Firm of such changes, LWM will review the changes and may recommend revisions to the client's financial plan and/or portfolio.

There are times when a client may decide to use margin in their account, or when a margin account is necessary, such as when a client invests in options. Use of margin in an investment advisory account increases a client's asset-based fee. If margin is used to purchase additional securities, the total value of eligible account assets increases, as does your asset-based fee. In addition, clients will be charged margin interest by the custodian on the debit balance in their custodial account. Notably, the increased asset-based fee that a client pays presents a conflict since it creates an incentive for LWM to recommend the use of margin. However, please note that using margin is not suitable for all investors; the use of margin increases leverage in a client's account and therefore increases overall risk.

#### **E. Amount of Client Assets Managed**

As of January 15, 2015, the following represents the amount of client assets under management by LWM on a discretionary and non-discretionary basis:

Type of Account	Assets Under Management ("AUM")
Discretionary	\$186,559,186
Non-Discretionary	\$0
Total:	\$186,559,186

LWM also has \$4,255,704 attributable to client cash or courtesy account holdings that are not currently receiving management. In addition, LWM provides retirement planning solutions to 401(k) and other defined benefit plans totaling \$50,262,501.

### **ITEM 5: FEES AND COMPENSATION**

#### **A. Compensation for Financial Planning Services**

Clients who engage LWM for Investment Management Services may receive the Firm's Financial Planning Services on a complimentary basis. Fees for Financial Planning Services for those clients wishing to receive this service as a standalone are agreed to in writing before the Firm renders its services.

For such standalone Financial Planning services, the Firm generally charges a fixed fee and/or an hourly fee. The Firm's fixed fees may be assessed as a one-time fee, or an ongoing fee dependent upon the services received. Generally, rates range from \$1,000 to \$10,000 on a fixed fee basis, or from \$100 to \$250 on an hourly rate basis, depending upon several factors, including the level and scope of the services provided, the type of planning and/or consulting selected by the client, and the professional rendering the financial planning or consulting services. These rates may be

negotiated based on the sole discretion of the Firm. Additionally, the firm will periodically waive all or a portion of its financial planning fee for certain new clients that become investment management or retirement planning clients. There also are times when LWM utilizes marketing campaigns which offer waiver of all or a portion of the financial planning fee to new financial planning clients.

LWM requires the client to pay at a minimum 50% and in most cases, all of the estimated fixed fee in advance based on the anticipated costs for the services selected.

Should a client elect to implement the recommendations contained in their financial plan, brokerage and other transaction costs could apply. Please refer to Item 5.C. and Item 12 for more information on fees clients may be responsible for and LWM's brokerage practices.

## **B. Compensation for Investment Management Services**

As described in greater detail below, LWM charges fees based on a percentage of assets under management and in some cases will charge performance-based fees for its Investment Management Services. The specific fees charged by LWM for its Investment Management Services will be set forth in each client's written Agreement. Advisory fees may be negotiable under certain circumstances at the sole discretion of LWM, and arrangements with any particular client may differ from those described below. Although LWM believes its advisory fees are competitive, clients should be aware that lower fees for comparable services may be available from other sources.

### **1. Asset-Based Fees**

The Firm's investment management fees are assessed quarterly, in advance, based upon a percentage of the Client's assets under management (including assets invested in Private Funds) as of the close of business on the last business day of the preceding calendar quarter, including accrued interest. In the case that LWM utilizes the Wrap-fee program Betterment, clients will be billed in arrears at of the ending value as of the last day of the preceding quarter. The billing scale applies to client's entire account value versus tiered. The Firm typically requires a minimum fee of \$2,500.00 per year; however all fees are negotiable at the sole discretion of LWM. The Firm's management fees are based on the following annual percentages and fee scale(s):

#### **Investment Management Standard Billing Scale**

Assets Under Management	Annual Management Fee
Up to \$499,999.99	1.50%
\$500,000 +	1.25%
\$1,000,000 +	1.00%
\$2,000,000 +	0.85%
\$5,000,000 +	Negotiable

#### **Bonds and Fixed-Income-Only Accounts Billing Scale:**

Assets Under Management	Annual Management Fee
Up to \$499,999.99	0.65%
\$500,000 +	0.60%
\$1,000,000 +	0.50%
\$2,000,000 +	0.40%
\$5,000,000 +	Negotiable

Investment management fees will be automatically deducted from the client's account by the custodian as soon as practicable following the end of each applicable period. Should a client open an account during a quarter, the Firm's management fee will be prorated based on the number of days the account was open during the quarter. In the event the Firm's services are terminated mid-quarter, any paid, unearned fees will be promptly refunded to the client. The number of days the account was managed during the quarter until termination is used to determine the percentage of the management fee earned (based on the total number of days in the month) and the balance is refunded.

The custodian delivers an account statement to the client at least quarterly, showing all disbursements, including advisory fees, deducted from the account. The client is encouraged to review all account statements for accuracy. It is the responsibility of the client and not the custodian to ensure the fees are calculated correctly.

Advisory fees are negotiable and arrangements with any particular client may differ from those described above. The Firm may amend its standard fee schedule at any time by giving thirty (30) days advanced written notice to clients. Should a client have more than one account managed by the Firm, then LWM may elect at its sole discretion to aggregate the client's accounts for the purpose of computing management fees.

## **2. Performance-Based Fees**

For certain qualified clients as further defined in Item 6 below, LWM may receive an annual incentive allocation between 10% and 30% of the net realized gains for the year of each client's account less any minimum fees the client might have paid throughout the quarter. The incentive allocation is payable only if, and to the extent that, the net capital appreciation of the client's account exceeds any net capital depreciation accumulated in prior years (as adjusted for withdrawals of capital). LWM, in its discretion, may waive all or a portion of the incentive allocation as to an investor, or may agree with an investor to other changes to the incentive allocation as to such investor. The assessment of performance based fees and any allocations based on performance will be done in accordance with all requirements for such compensation arrangements as specified under Rule 205-3 of the Investment Advisers Act of 1940, as amended (the "Advisers Act") and rules promulgated thereunder, including the requirement that such fees may be charged only to "qualified clients" as that term is defined in Rule 205-3(d).

## **C. Compensation for Retirement Planning Solutions**

Based upon the services selected by the client, the Firm generally will charge an annual advisory fee not to exceed one percent (1%) of a client's assets under management. This fee is assessed quarterly, in arrears or advance depending on calculation procedures of the applicable custodian. Such fees will be automatically deducted from the client's account by the custodian as soon as practicable following the end of each applicable billing period and paid to LWM. LWM will calculate the fee and invoice clients directly at LWM's discretion.

Should a client open an account during a quarter, the Firm's advisory fee will be prorated based on the number of days the account was open during the quarter. In the event the Firm's services are terminated mid-quarter, any paid, unearned fees will be promptly refunded to the Client, and any earned, unpaid fees will be due and payable to LWM.

At times, LWM may also charge a fixed-fee for consulting and plan implementation services. These fees are negotiable and described in the client's Agreement with LWM. There are times when LWM utilizes marketing campaigns which offer waiver of a portion of the annual fee to new retirement planning clients

#### **D. General Information on LWM's Compensation and Fees**

Clients may incur certain fees or charges imposed by third-parties other than LWM in connection with investments or recommendations made by the Firm. These fees and charges are separate and distinct from the fees or charges stated above and may include, but not be limited to: custodial fees, mutual fund fees and expenses including 12b-1 fees, certain deferred sales charges on previously purchased mutual funds transferred into the account, Private Fund management and incentive/performance fees, other transaction related fees, IRA and Qualified Retirement Plan fees, interest charged on margin borrowing, interest charged on debit balanced, "spreads" imposed by brokers and dealers representing implicit transaction costs, commissions and transfer taxes. Information regarding fees or charges assessed by any mutual funds held in client accounts is available in the appropriate prospectus. LWM is not responsible for, and does not receive any portion of, the fees imposed by such third-parties.

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

As noted in Item 5 above, LWM may charge certain clients a performance-based fee (*i.e.*, a fee calculated based on a share of capital gains upon or capital appreciation of the assets or any portion of the assets of an advisory client). These fees are typically assessed to client directed investments in IPO and secondary offerings. Clients then typically indicate if and when to sell these holdings. Such performance fees will only be charged to clients who meet the definition of "high net worth individual" as used in Form ADV and/or "qualified client" as defined in Rule 205-3(d) of the Advisers Act of 1940, as amended (the "Advisers Act"), and who are otherwise eligible to be charged performance-based fees. All such fees will only be charged in accordance with the provisions of Rule 205-3 of the Advisers Act.

Performance-based compensation payable to LWM may be larger than otherwise would be the case if the fee was calculated as a percentage of assets under management because the amount of the fee will be based on account performance (which includes net realized gains). Performance-

based fee structures could create an incentive for LWM to over-value certain assets held by clients. To mitigate this conflict, LWM does not value assets upon which performance-based fees are based, but rather a valuation of such holdings are provided by Schwab (as defined below). Further, LWM has adopted policies designed to promote fair, accurate and current valuations of securities and portfolios.

Additionally, some of the Private Funds that LWM's investment management clients invest in do charge performance/incentive based fees, which are outlined in the respective product's offering documents and should be reviewed by investors prior to investing. LWM does not receive any portion of these fees.

## **ITEM 7: TYPES OF CLIENTS**

### **A. Description**

LWM provides its services to individuals, high net worth individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### **B. Conditions for Managing Accounts**

LWM generally requires a minimum portfolio size or a minimum initial investment of \$250,000 to open an account, but does reserve the right to waive this minimum and also accept or decline a potential client for any reason in its sole discretion. Prior to engaging LWM to provide Investment Management Services or Financial Planning Services, as described in this Brochure, the client will be required to enter into one or more written agreements with LWM setting forth the terms and conditions under which the Firm will render its services.

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

### **A. Methods of Analysis and Investment Strategies**

LWM uses a variety of analytical information to assist with its analysis. However, the primary type of method of analysis the Firm engages in is analysis of securities' fundamentals. The sources of information used by LWM to perform its analysis include, but are not limited to, market news reports, financial publications such as Morningstar, Schwab Research, Bloomberg and fi360, rating services, outside research reports, annual reports, prospectuses, SEC filings, company press releases, and interpretation of exchange market data. Following an investment, LWM will continue to monitor the progress and suitability of portfolio investments as well as market and economic outlook.

Generally, the Firm recommends asset allocations based upon information provided by the client reflecting their particular financial circumstances, investment needs, goals and objectives and risk tolerance. This may include multiple securities asset-classes consisting of diversified no- or low-load mutual funds and/or ETFs which are available to clients as any one of five model portfolios:

- *Aggressive Growth*: A portfolio that is purely focused on aggressive growth of capital with little or no regard for volatility in the markets
- *Growth*: A portfolio focused on growth of capital with some consideration for volatility
- *Moderate*: A portfolio that has equal consideration for growth of capital and reduction of volatility
- *Conservative*: A portfolio primarily focused on the preservation of capital with some consideration for growth
- *Capital Preservation*: A portfolio structured for the preservation of capital with little appetite for volatility or risk.

From time to time, based upon the needs of the client, the Firm may also conduct certain equity stock, fixed income and/or cash management instruments, including bonds and other financial products. In these situations, the Firm may use fundamental, technical or cyclical analysis based upon publicly available research and reports. In addition, when appropriate, LWM may use certain option strategies to mitigate market risks and may suggest the use of certain third-party money managers (including wrap fee programs), alternatives and/or limited private offerings and could participate in an IPO in the event a portfolio manager deems it appropriate for eligible accounts, depending on client's needs and investment objectives

## **B. Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear. Prior to engaging LWM to perform investment advisory services, a client should carefully consider: 1) committing to management only those assets that the client believes will not be needed for current purposes and that can be invested on a long-term basis, 2) that volatility from investing in the stock market can occur, and 3) that over time the client's assets may fluctuate and at any time be worth more or less than the amount invested.

Some of risks of loss a client should be aware of include, but are not limited, to the following:

- Interest-Rate Risk: Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- Market Risk: The price of a stock, bond, mutual fund or other security may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances.
- Inflation Risk: When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- Currency Risk: Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- Equity (stock) Market Risk: Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock

equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.

- Options Risk: Options on securities may be subject to greater fluctuations in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks. Please see below for more details.
- ETF and Mutual Fund Risk: When investing in a an ETF or mutual fund, you will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. You will also incur brokerage costs when purchasing ETFs.
- Private Funds Investment Risk: The managers of the Private Funds will have broad discretion in selecting the investments for the fund. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. Depending on the type of Private Fund, the Private Fund's manager may trade the assets of the fund on margin or otherwise leverage positions, thereby potentially increasing the risk to the Private Fund and its investors. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. The client should read the private placement memorandum and/or other documents explaining such risks, before investing.
- Political and Legislative Risks: Companies face a complex set of laws and circumstances in each country in which they operate. The political and legal environment can change rapidly and without warning and with significant impact, this is especially true for companies operating outside of the United States or that conduct a portion of their business outside of the United States.
- Reinvestment Risk: This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (*i.e.* interest rate). This primarily relates to fixed income securities.
- Business Risk: These risks are associated with a particular industry or a particular company within an industry. Generally, business risk is that a company will go bankrupt or perform below expectations. Every company carries the business risk that it will produce insufficient cash flow in order to maintain operations. Business risk can come from a variety of sources, some systemic and others un-systemic. That is, every company has the business risk that the broader economy will perform poorly and therefore that sales will be poor, and also the risk that the market simply will not like its products.
- Liquidity Risk: Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if there is an active market for the asset. For example, Treasury Bills are highly liquid, while real estate properties are not.
- Fixed Income Risk: When investing in bonds, there is the risk that the issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending

power. Fixed-income investors receive set, regular payments that face the same inflation risk.

- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Depending on the sophistication and risk tolerances of its clients, LWM recommends, as part of a client's overall investment strategy, that a portion of such client's assets be invested in Private Funds or other alternative investments. Such investments present special risks for LWM's clients, including without limitation, limited liquidity, higher fees, volatile performance, heightened risk of loss, limited transparency, special tax considerations, subjective valuations and limited regulatory oversight. Therefore, private investments may not be suitable for all LWM clients and will be offered only to those qualifying clients for whom an investment therein is determined to be suitable (Please refer to Item 12 below for further information on allocation of Private Fund investments). Generally, such investments are available for investment only to a limited number of sophisticated investors who meet the definition of "accredited investor" under Regulation D of the Securities Act of 1933, as amended (the "Securities Act") and "qualified client" under the Investment Advisers Act of 1940. It is important that each potential qualified investor fully read each offering or private placement memorandum prior to investing. Private Funds often impose performance-based fees or incentive allocations payable to the fund manager or general partner. Such performance-based fee/incentive allocation structures may create an incentive for the managers of the Private Funds to make investments that are riskier or more speculative than would be the case in the absence of a performance-based fee/incentive allocation structure. Additionally, the performance-based fee structure could also cause the portfolio managers responsible for the Private Funds to devote a disproportionate amount of time to the management of the Private Funds, and compensation may be larger than it otherwise would have been because the fee/incentive allocation will be based on account performance instead of a percentage of assets under management.

Some of the Private Funds that LWM invests in for clients may employ alternative or riskier strategies, such as the use of leverage or hedging. Leverage is the use of debt to finance an activity. For example, leverage is used when one uses margin to buy a security. Hedging on the other hand occurs when an investment is made in order to reduce the risk of adverse price movements in a security. For example, hedging is used when one takes an offsetting position in a related security, such as an option or short sale. While leverage or hedging can operate to increase rates of return it also increases the amount of risk inherent in an investment. Additionally, certain Private Funds may be more illiquid than others, meaning that an investor's investment may be "locked up" for a defined period of time or for the life of the Private Fund. The illiquidity of each Private Fund depends on a few factors, including but not limited to the type and liquidity of the Private Fund's underlying investments. It is important for investors to read the Private Fund's offering documents fully before investing.

For certain clients, LWM may also employ the use of options. Below are some of the main risks associated with investing in options:



- When writing covered call options to produce income for a client's account, there may be times when the underlying stock is "called" (call option contract exercised or assigned) by the investor that purchased the call option. That means the client would be required to sell the underlying security at the exercise (pre-determined) price to that investor.
- Clients may be required to open a margin account in order to invest in options, which carries additional risks and would result in margin interest costs to the client.
- Option positions may be adversely affected by company specific issues (the issuer of the underlying security) which may include but are not limited to bankruptcy, insolvency, failing to file with regulatory bodies, being delisted, having trading halted or suspended, corporate reorganizations, asset sales, spin offs, stock splits, mergers and acquisitions. In addition, market related actions, political issues, and economic issues may adversely affect the option market. These factors could restrict, halt, suspend, or terminate option positions written (sold) or purchased.
- Changes in value of the option may not correlate with the underlying security, and the account could lose more than principal amount invested.

Options involve risk and are not suitable for all clients. Therefore, a client should read the option disclosure document, "Characteristics and Risks of Standardized Options", which can be obtained from any exchange on which options are traded, at [www.optionsclearing.com](http://www.optionsclearing.com), or by calling 1-888-OPTIONS, or by contacting your broker/custodian.

As mentioned above, LWM may use short-term trading as one of its investment strategies. Clients should be aware that frequent trading may result in increased brokerage and other transaction costs, and that such costs generally reduce investment returns over time.

Past performance is not indicative of future results. Therefore, Clients should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities (including stocks, mutual funds, and bonds, etc.) involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk. Because of the inherent risk of loss associated with investing, LWM is unable to represent, guarantee, or even imply that the Firm's services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines.

## **ITEM 9: DISCIPLINARY INFORMATION**

Registered investment advisers such as LWM are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of the Firm or the integrity of its management.

Mr. Richard Labrum, a Wealth Management Adviser and the Firm's Managing Director, agreed to a compromise with creditors on May 15, 2014, which involved the short-sale of his primary residence. For more information, please see Mr. Richard Labrum's Form ADV Part 2B.

Mr. Sean Moore, the Firm's Senior Portfolio Manager for the Tactical Strategy, was terminated from Merrill Lynch on July 29, 2009 for violating firm policy. Subsequently, Mr. Moore's CFP® designation was revoked for failing to report this termination within 20 calendar days. For more information, please see Mr. Moore's Form ADV Part 2B.

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

### **A. Financial Industry Activities and Affiliations**

In addition to his activities at LWM, Mr. Richard Labrum is a registered representative of IAA, an unaffiliated registered broker-dealer and member of the Financial Industry Regulatory Authority ("FINRA"). In this capacity, Mr. Richard Labrum receives usual and customary commission for placing clients in investment products sold through IAA. Many such products have fixed commissions as they are sold through a prospectus. Thus, a conflict of interest exists between the interests of these associated persons and those of the advisory client(s) in that the receipt of additional compensation itself creates an inherent conflict of interest, and may affect the decisions of these individuals when making recommendations. LWM has adopted certain procedures designed to mitigate the effects of these conflicts. LWM endeavors at all times to put the interests of the clients first, and recommendations will only be made to the extent that they are reasonably believed to be in the best interests of the client. Additionally, the conflicts presented by these practices are disclosed to clients prior to or at the time of entering into an Agreement. Clients are under no obligation to act upon any recommendations of the associated persons or effect any transactions through the associated persons if they decide to follow the recommendations.

LWM is also a licensed insurance agency offering life, health, long-term care and disability insurance to its clients under the dba "LWM Insurance Solutions, LLC" (California insurance license #OH15015). Certain IARs of LWM are also licensed insurance agents with LWM Insurance Solutions, and other various life, health and disability insurance companies. There are times when these IARs recommend the purchase of certain insurance products through LWM Insurance Solutions, and/or other insurance companies, to LWM clients as part of their financial plan. Upon purchase, the IAR, in his or her capacity as an insurance agent, will receive normal and customary commissions. The amount of these commissions and timing of payment can vary depending on the type of insurance purchased. In addition to commissions received, the IARs in their capacity as licensed insurance agents can receive certain sales incentives from insurance companies, including but not limited to the award of vacation travel to domestic and foreign locations, cash bonuses, and/or higher percentage payout of commissions. Additionally, Mr. Jason Labrum receives an indirect benefit of all insurance sales that are made through LWM Insurance Solutions due to the fact that as owner, he shares in the profits and losses of the Firm and LWM receives compensation from insurance companies for selling insurance to its clients.

A conflict exists between the interests of the LWM and/or its associated persons and the interest of the Firm's clients to the extent that these IARs recommending the purchase of insurance products will receive commissions and incentives for doing so, should the clients elect to follow such recommendations, even if the recommendations are based on the best interest of the clients and their needs. Clients are under no obligation to act upon any insurance recommendations. If a

client elects to act on any insurance recommendation, the client is under no obligation to effect the transaction through LWM Insurance Solutions, or through any IAR of the Firm. Importantly, LWM is a fiduciary and as such must act at all times in the best interest of its clients. To further address these conflicts, LWM provides disclosures to its clients, mainly through delivery of this Brochure, and has implemented procedures to monitor and periodically review the sales practices of its IAR/insurance agents to help ensure all recommendations are made in accordance with the needs of each clients.

In addition to his activities at LWM, Mr. Clayton Willits, an IAR of the Firm, is also a Certified Public Accountant and owns his own firm, Miller and Willits Accounting, Inc. in Encinitas, CA. Mr. Willits spends approximately 160 hours per month performing such services. LWM and Miller and Willits Accounting, Inc. are not affiliated companies. From time to time, however, Mr. Willits will refer a client of Miller and Willits Accounting to LWM and LWM will pay a referral fee to Mr. Willits for doing so. Such referral fees comply with applicable state and federal regulations. To the extent Mr. Willits recommends LWM clients to Miller and Willits Accounting, Inc. (or vice-versa), this presents a conflict of interest because Mr. Willits has an economic incentive to make such recommendation based on the compensation he will receive for doing so. Clients should be aware of such a conflict, and are informed at the time of any such recommendation that clients are not obligated to follow or implement such recommendations and have the option to use (or not use) any particular advisory service provider or accounting firm of their choice.

In addition, Mr. Jason Labrum and Mr. Richard Labrum are the Managing Members of LWM Real Estate, LLC, which serves as property manager for the building where LWM's Murrieta, CA office is located. LWM leases the space from LWM Real Estate, LLC. Similarly, Mr. Jason Labrum is also the Managing Member of JADL, LLC, which serves as property manager for the building where LWM's principal office in Carlsbad, CA is located. LWM leases the space from JADL, LLC.

Also, Mr. Jason Labrum is on the Board of Directors for the Carlsbad Boys and Girls Club. He devotes approximately 5% of his time monthly to this activity and is not compensated for his Board service.

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

### **A. Description of Code of Ethics**

LWM is a fiduciary who owes its Clients undivided loyalty. This fiduciary obligation imposes upon LWM and its associated persons a duty to deal fairly and to act in the best interest of its Clients. In addition, this obligation imposes upon LWM and its associated persons numerous responsibilities, including the duty to render disinterested and impartial advice; to make suitable recommendations within the context of the total portfolio to Clients in light of their needs, financial circumstances and investment objectives; to exercise a high degree of care to ensure

that adequate and accurate representations of its business and other information about securities are presented to Clients; and to not engage in fraudulent, deceptive or manipulative practices.

To this end, LWM has adopted a Code of Ethics ("Code") which establishes standards of conduct for the firm's supervised persons and includes general requirements that such supervised persons comply with the their fiduciary obligations to Clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of Client information.

Because LWM's investment professionals and associated persons may transact in the same securities for personal accounts as they may buy or sell for Client accounts, it is important to mitigate potential conflicts of interest. As such, LWM has adopted personal securities transaction policies in its Code, which all of LWM's associated persons must follow. Specifically, the Code requires personnel to report personal trades and holdings and prohibits or requires pre-clearance for certain trades in certain circumstances. The Code also contains procedures for reporting violations and enforcement. The Code is reviewed and distributed to personnel annually. LWM will provide a copy of its Code of Ethics to any Client or prospective Client upon request. Please contact LWM at (760) 707-5555.

#### **B. Participation or Interest in Client Transactions**

It is LWM's policy not to enter into any principal transactions or agency cross transactions on behalf of Client accounts. Principal transactions occur where an adviser, acting as principal for its own account, buys securities from or sells securities to any advisory Client. Agency cross transactions occur where a person acts as an investment adviser in relation to a transaction in which the adviser, or an affiliate of the adviser, acts as broker for both the advisory Client and for another person on the other side of the transaction.

LWM or individuals associated with LWM may buy or sell for their personal account(s) securities or investment products identical to those recommended to or already owned by Clients. Alternatively, LWM may cause Clients to buy a security in which LWM or such individuals have an ownership position. Such recommendations will only be made to the extent that they are reasonably believed to be in the best interests of the Client. Nevertheless, such practices present potential conflicts of interest. To mitigate these conflicts, LWM has adopted a Code of Ethics, which outlines the procedures regarding personal trading that must be followed (see details below). Additionally, as part of LWM's fiduciary duty to Clients, LWM and its supervised persons will endeavor at all times to put the interests of the Clients first and at all times are required to adhere to LWM's Code of Ethics.

#### **C. Personal Trading**

On occasion employees of LWM may buy for their own accounts securities which LWM also recommends to Clients, including Private Funds (see Item 4 for full details). It is possible that officers or employees of LWM may buy or sell securities or other instruments that LWM has recommended to Client and may engage in transactions for their own account in a manner that is inconsistent with LWM's recommendations to a Client. Personal securities transactions by

employees may raise potential conflicts of interest when such persons trade in a security that is owned by, or considered for purchase or sale for, a Client.

In order to mitigate this conflict of interest and to comply with all applicable laws and regulations, LWM's Code of Ethics sets forth the professional and fiduciary standards that all associated persons must follow, including but not limited to obtaining preapproval from Compliance on certain personal security transactions, such as investments in Private Funds, IPOs and other limited offerings. The Firm's intention is to protect Client interests at all times and to demonstrate LWM's commitment to its fiduciary duties of honesty, good faith and fair dealing with Clients. All associated persons are expected to adhere strictly to the policy and are required to follow specific procedures regarding personal trading, including:

- Adhere to the fundamental standard that employees should not take inappropriate advantage of their position;
- Conduct all personal securities transactions in a manner consistent with the adopted policy;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities; and
- Comply with applicable provisions of the federal securities laws.

LWM and its Associated Persons may also buy or sell specific securities for their own accounts based on personal investment considerations, which LWM does not deem appropriate to buy or sell for Clients.

## **ITEM 12: BROKERAGE PRACTICES**

LWM does not maintain custody of client assets other than by virtue of being able to debit management fees directly from client accounts. Client assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. LWM typically recommends that clients use Charles Schwab & Co., Inc. ("Schwab") or TD Ameritrade, Inc. ("TD Ameritrade") both FINRA-registered broker-dealers and members of SIPC, as the qualified custodian to maintain custody of client assets and to effect trades for client accounts. LWM is independently owned and operated and not affiliated with Schwab or TD Ameritrade. Schwab and TD Ameritrade will hold our clients' assets in a brokerage account and buy and sell securities when LWM instructs them to. While LWM recommends that you use Schwab or TD Ameritrade as custodian/broker, clients will decide whether to do so when they open an account with Schwab or TD Ameritrade by entering into an account agreement directly with them.

As further described below, factors considered by LWM in recommending Schwab and TD Ameritrade include but are not limited to, the reasonableness of their commissions, their financial strength, product availability, research and other services available to both the client and the LWM.

### **A. Selection Criteria**

LWM will place transactions for clients' accounts through the client's appointed custodian (Schwab or TD Ameritrade), since these custodians generally do not charge custodian fees so long as transactions for client accounts are executed through them as broker-dealer. LWM periodically evaluates the commissions charged and the services provided by the custodian and compare those with other broker-dealers to evaluate whether overall best qualitative execution could be achieved by using alternative custodians. Other factors considered by LWM when evaluating its choice of custodian to recommend are outlined below.

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

LWM seeks to select and recommend a custodian/broker who will hold your assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. LWM considers a wide range of factors, including, among others, these:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody);
- capability to execute, clear and settle trades (buy and sell securities for your account);
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.);
- breadth of investment products made available (stocks, bonds, mutual funds, ETFs, etc.);
- availability of investment research and tools that assist us in making investment decisions;
- quality of services;
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them;
- reputation, financial strength and stability of the provider;
- the custodian/broker's prior service to us and our other clients; and
- availability of other products and services that benefit us, as discussed below

### **Schwab Custodian Arrangement**

#### ***Custody and Brokerage Costs***

Schwab generally do not charge LWM client accounts separately for custody services but is compensated by charging clients commissions or other fees on trades that it executes or that settle into your Schwab account. Schwab's commission rates applicable to LWM client accounts were negotiated based on our commitment to maintain LWM client assets in accounts at Schwab. This commitment benefits you because the overall commission rates you pay are lower than they would be if LWM had not made the commitment. In addition to commissions, Schwab charges a flat dollar amount as a "trade away" fee for each trade that LWM executes by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into a Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. In order to minimize trading costs, LWM will use Schwab to execute trades for your account if LWM believes it is in your best interest to do so.

***Products and Services Available to Us from Schwab***

Schwab Advisor Services is Schwab's business serving independent investment advisory firms like LWM. They provide LWM and our clients with access to its institutional brokerage – trading, custody, reporting and related services – many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (*i.e.*, LWM does not have to request them) and at no charge to us as long as we keep a total of at least \$10 million of our clients' assets in accounts at Schwab. Below is a detailed description of Schwab's support services:

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

*Schwab Services that May Not Directly Benefit You.* Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist LWM in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. LWM may use this research to service all, some or a substantial number of our clients' accounts. In addition to investment research, Schwab also makes available software and other technology that:

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

*Schwab Services that Generally Benefit Only Us.* Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- educational conferences and events;
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab also may discount or waive its fees for some of

these services or pay all or a part of a third party's fees. In addition, Schwab may provide LWM with other benefits such as occasional business entertainment of our personnel.

Other potential benefits to LWM only may include occasional business entertainment of personnel of LWM by Schwab Advisor Services personnel, including meals, invitations to sporting events, including golf tournaments, and other forms of entertainment, some of which may accompany educational opportunities. We also may receive software and other technology (including payments to LWM's current IT vendor). Schwab makes available, arranges and/or pays vendors for products and services rendered to LWM by independent third parties (such as Morningstar). While, as a fiduciary, LWM endeavors to act in its clients' best interests, LWM's recommendation/requirement that clients maintain their assets in accounts at Schwab may be based in part on the benefit to LWM of the availability of some of the foregoing products and services and other arrangements and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

### **LWM's Interest in Schwab's Services**

The availability of these services from Schwab benefits us because LWM does not have to produce or purchase them. LWM does not have to pay for Schwab's services so long as we keep a total of at least \$10 million of client assets in accounts at Schwab. The \$10 million minimum may give LWM an incentive to recommend that you maintain your account with Schwab based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest.

LWM believes, however, that our selection of Schwab as custodian/broker is in the best interests of our clients. It is primarily supported by the scope, quality and price of Schwab's services (based on the factors discussed above – see *"How We Select Custodians/Brokers"*) and not Schwab's services that benefit only us. We have approximately \$187 million in client assets under management, and do not believe that maintaining at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

Please refer to Item 14 for further information regarding trading and compensation pertaining to the arrangements LWM has with Schwab.

### **TD Ameritrade Custodian Arrangement**

LWM participates in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. ("TD Ameritrade"), member FINRA/SIPC/NFA. TD Ameritrade is an independent and unaffiliated SEC-registered broker-dealer. TD Ameritrade offers to independent investment advisers certain services which include custody of securities, trade execution, clearance and settlement of transactions. LWM receives some benefits from TD Ameritrade through its participation in the program, which are very similar to the Schwab custodian arrangement outline above.

### **Clients in Wrap-Fee Programs**



LWM places transactions for clients in a wrap-fee program with the wrap-fee program sponsor or the sponsor's affiliated broker-dealer. In the case of Betterment, trades are placed with MTG, LLC dba Betterment Securities ("Betterment Securities"), a registered broker-dealer, member SIPC. The main reason for this is because the brokerage costs (*e.g.*, commissions etc.) for each transaction are included in the full wrap-fee charged to the client by the wrap sponsor. If LWM were to place wrap fee program trades with a broker other than the wrap sponsor or affiliate, the client would incur an additional fee. LWM clients in wrap-fee programs should be aware that this type of "directed brokerage" arrangement could result in a client receiving terms for certain trades that are less favorable in some respects than our non-wrap clients whose trades are not executed through the wrap sponsor or affiliate. Please refer to Betterment's Form ADV Part 2A and Wrap Brochure for further information on Betterment's selection of brokerage and execution practices.

## **B. Best Execution**

As stated above, LWM's general policy is to place client trades with their broker custodian (*e.g.*, Schwab, or TD Ameritrade) and LWM will continue to do so as long as the Firm believes that the broker custodian is providing the best overall deal for the client and they remain competitive in relation to executions and the cost of each transaction ("best execution").

Although LWM will strive to achieve the best execution possible for client securities transactions, this does not require it to solicit competitive bids and LWM does not have an obligation to seek the lowest available commission cost. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among other things, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while LWM will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions. LWM is not required to negotiate "execution only" commission rates, thus the client may be deemed to be paying for research and related services (*i.e.*, "soft dollars") provided by the broker which are included in the commission rate.

To ensure that custodian/brokers recommended by LWM are conducting overall best qualitative execution, LWM will periodically (and no less often than annually) evaluate the trading process and custodian/brokers utilized. LWM's evaluation will consider the full range of brokerage services offered by the custodian/brokers, which may include, but is not limited to price, commission, timing, research, aggregated trades, capable floor brokers or traders, competent block trading coverage, ability to position, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers and administrative ability.

## **C. Soft Dollar Considerations**

LWM's general policy is to comply with the provisions of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)") when entering into soft dollar arrangements. Section

28(e) recognizes the potential conflict of interest involved in this activity, but generally allows investment advisers to use client commissions to pay for certain research and brokerage products and services under certain circumstances without breaching their fiduciary duties to clients. For these purposes, "research" means services or products used to provide lawful and appropriate assistance to LWM in making investment decisions for its clients. "Brokerage" services and products are those used to effect securities transactions for LWM's clients or to assist in effecting those transactions.

Research and other products and services purchased with soft dollars will generally be used to service all of LWM'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, as permitted by Section 28(e). In other words, there may be certain client accounts that benefit from the research services, which did not make the payment of commissions to the broker-dealer providing the services.

Brokerage services obtained with soft dollars may include, for example, quotation and communication equipment and services, other order management systems that provide trading software or provide connectivity to such software, trade analysis software, on-line pricing services, communication services relating to execution, clearing and settlement and message services used to transmit orders.

Research and related services furnished by brokers may include, but are not limited to, written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; financial publications; recommendations as to specific securities; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; and discussions with research personnel, along with hardware, software, data bases and other technical and telecommunication services and equipment utilized in the investment management process. Research received by LWM under such soft dollar arrangements may include both proprietary research (created or developed by the broker-dealer) and research created or developed by a third party.

There may be cases when LWM may receive both non-research (*e.g.*, administrative, accounting or technology services, etc.) and research benefits from the services provided by broker-dealers. If and when this happens, LWM will make a good faith allocation between the non-research and research portion of the services received, and will pay "hard dollars" (*i.e.*, LWM will pay from their own monies) for the non-research portion. In making a good faith allocation between research services and non-research services, a conflict of interest may exist by reason of LWM's allocation of the costs of such services and benefits between those that primarily benefit LWM and those that primarily benefit clients. LWM strives to always put the client's interests first.

As stated above, LWM may recommend that clients establish brokerage accounts with Schwab or TD Ameritrade to maintain custody of clients' assets and to effect trades for their accounts. Schwab and TD Ameritrade are SEC-registered broker-dealers and members of FINRA and SIPC. While there is no direct link between the investment advice given to clients and LWM's recommendation to use the custodial or brokerage services of Schwab or TD Ameritrade, certain benefits are received by LWM due to this arrangement, as outlined above.

#### **D. Directed Brokerage**

Under certain circumstances, LWM may allow a client to direct the Firm to execute all or a portion of client transactions through a specific broker ("Directed Brokerage"). If that is the case, the client should understand that: (1) LWM generally does not negotiate specific brokerage commission rates with the broker on client's behalf, or seek better execution services or prices from other broker/dealers and, as a result, the client may pay higher commissions and/or receive less favorable net prices on transactions for their account than might otherwise be the case; and (2) transactions for that account generally will be effected independently unless LWM is able to purchase or sell the same security for several clients at approximately the same time ("block trade"), in which case the Firm may include such client's transaction with that of other clients for execution by the same broker. If transactions are not able to be traded as a block, the Firm may have to enter the transactions for the client's account after orders for other clients, with the result that market movements may work against the client. Therefore, prior to directing the Firm to use a specific broker-dealer, a client should consider whether, under that restriction, execution, clearance and settlement capabilities, commission expenses and whatever amount is allocated to custodian fees, if applicable, would be comparable to those otherwise obtainable. Clients should understand that he/she might not obtain commissions rates as low as it might otherwise obtain if LWM had discretion to select or recommend other broker-dealers. Consequently, Directed Brokerage may result in the client paying more money for brokerage services.

Subject to its objective to achieve best execution, LWM may decline a client's request to engage in Directed Brokerage if, in Firm's sole discretion, such Directed Brokerage arrangements would result in additional operational difficulties or violate restrictions imposed by other broker-dealers.

#### **E. Order Aggregation**

LWM typically effects transactions for each client account independently, and therefore is usually unable to aggregate client orders. However, when able to, the Firm may aggregate trades of accounts. Trade aggregation, or "bunching of orders," may result in better execution and/or better realized prices. Because LWM's Investment Management Services utilize various types of investments and securities, it may not be possible to bunch orders. Alternatively, even when possible, LWM may not be able to execute all shares of an aggregated trade because of prevailing market conditions and other variables, in which case the Firm will allocate the trade among participating accounts in an equitable manner determined prior to execution of the trade. For example, in rare cases, if two block trades are placed on the same day, the Firm will strive to have an average price applied across all applicable client accounts. In certain cases, the Firm may not be able to purchase or sell the same security at the same price for all clients that could transact in the security, which is generally due to various factors such as the type of security, size of the account, cash availability and account restrictions. For client directed trades and those clients requiring directed brokerage, the Firm is not able to effectively "bunch" orders on the client's behalf, which could impact the possible advantage clients derive from the aggregation of orders.

If an IPO indication of interest is filled in its entirety, securities purchased in the aggregate transaction will be allocated among accounts participating in the trade in accordance with the

allocation statement. As this is a non-discretionary transaction performed by LWM, allocations are based on indications and approvals from the clients. If the order is partially filled, the securities will be allocated pro rata based on the allocation statement. Where the full amount of a block execution is not executed, the partial amount actually executed will be allocated on a pro rata basis whenever possible. Where allocations received for LWM is only 100 shares, custodian regulation requires all shares must go to one account to meet the 100 share minimum. In this case the shares will be allocated based on a rotating basis per client involved in the offer.

## **ITEM 13: REVIEW OF ACCOUNTS**

### **A. Periodic Reviews**

Client accounts are monitored on an ongoing basis. Periodically, reviews are conducted by LWM to check for consistency with the investment strategy implemented in accordance with the parameters set forth by the client and the client's financial plan, and to determine if any adjustments need to be made. Client account reviews also occur upon request by the client.

### **B. Other Reviews and Triggering Factors**

In addition to the periodic reviews described above, reviews may be triggered when a client notifies the Firm of changes in his/her personal, tax or financial status. Other events that may trigger a review of an account are material changes in market conditions as well as macroeconomic and company-specific events. Clients are encouraged to notify LWM and its representatives of any changes in their personal financial situation that might affect their investment needs, objectives, risk tolerance, tax status, time horizon or other material information LWM may have relied upon during the course of providing its services.

### **C. Regular Reports**

Written brokerage statements are generated no less than quarterly (or annually in the case of fixed annuities) and are sent directly from the account custodian or carrier. These reports list the account positions, activity in the account over the covered period, and other related information. In addition to the regular statements clients receive from their custodian, LWM may send clients reports on a periodic basis concerning relevant account and/or market-related information as well as an inventory of account holdings and account performance, as agreed to with the client. Clients are encouraged to compare the statements received from LWM to those sent by the account custodian and other third parties.

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

### **A. Incoming Referrals**

LWM, from time to time, will enter into agreements with individuals and organizations, some of whom will be affiliated or unaffiliated with LWM, that refer clients to the Firm. All such agreements will be in writing and comply with the applicable state and federal regulations. If a client is introduced to LWM by a solicitor, LWM will typically pay that solicitor a fee in

accordance with the applicable federal and state securities law requirements. While the specific terms of each agreement may differ, generally, the compensation will be based upon the percentage of fees paid to LWM by such clients. Any such fee shall be paid solely from LWM's fees, and shall not result in any additional charge to the client.

Each prospective client who is referred to LWM under such an arrangement will receive a copy of the Firm's ADV Part 2A and a separate written disclosure document disclosing the nature of the relationship between the third party solicitor and LWM and the amount of compensation that will be paid by LWM to the third party. The CCO will supply each solicitor with a current copy of the Solicitor Disclosure Statement and LWM's Form ADV Part 2A (the "Disclosure Brochure") and any amendments thereto for reference and delivery by the solicitor to all prospective clients solicited on behalf of LWM. LWM is responsible for overseeing that the prospective client received those documents and for maintaining all required records relating to solicitation arrangements entered into by the Firm.

### **Participation in Schwab Advisor Network**

LWM receives client referrals from Charles Schwab & Co., Inc. ("Schwab") through LWM's participation in Schwab Advisor Network® ("the Service"). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with LWM. Schwab does not supervise LWM and has no responsibility for LWM's management of clients' portfolios or LWM's other advice or services. LWM pays Schwab fees to receive client referrals through the Service. LWM's participation in the Service may raise potential conflicts of interest described below.

LWM pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by LWM is a percentage of the fees the client owes to LWM or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. LWM pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to LWM quarterly and may increase, decrease or be waived by Schwab from time to time. The Participation Fee is paid by LWM and not by the client. LWM has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs LWM charges clients with similar portfolios who were not referred through the Service.

LWM generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from Schwab. This Fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees LWM generally would pay in a single year. Thus, LWM will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of LWM's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, LWM will have incentives to encourage household members of clients

referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit LWM fees directly from the accounts.

For accounts of LWM clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from such clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for transactions executed at other broker-dealers are in addition to the other broker-dealer's fees and are borne by the client. LWM acknowledges its duty to seek best execution of transactions for client accounts. Transactions for client accounts held in custody at Schwab may be executed through a different broker-dealer than ones for LWM's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

Please refer to Item 12 for further information regarding LWM's brokerage practices and best execution considerations.

#### **B. Referring Clients to Third Parties**

From time to time LWM will refer a client to an unaffiliated third-party professional. LWM receives permission from the client prior to sharing any client information with such third-parties in accordance with the Firm's privacy policies.

#### **C. Other Compensation**

As more fully explained in Item 12.B, above, LWM is provided with an economic benefit through its receipt of soft dollars in accordance with Section 28(e) of the Securities Exchange Act of 1934. The Firm may enter into these "soft dollar" arrangements whereby brokerage transactions are directed to certain broker-dealers in return for investment research products and/or services which assist LWM in its investment decision-making process. The receipt of such services may be perceived to serve as an economic benefit to the Firm, and although customary, these arrangements give rise to potential conflicts of interest, including the incentive to allocate securities transactional business to broker-dealers based on the receipt of such benefits rather than on a client's interest in receiving most the favorable execution. To mitigate this potential conflict of interest, and as part of LWM's fiduciary duty to its clients, the Firm endeavors at all times to put the interest of the clients first.

As stated in Item 10, above, certain individuals of the Firm are also licensed insurance agents and/or registered representatives with IAA, an unaffiliated broker-dealer. Please refer to Item 10 above for additional information.

From time to time, LWM may attend or hold sponsored events, the expenses of which may be borne either partially or entirely by a third-party entity, such as a mutual fund company or other financial industry service provider. Representatives of these third-party entities may also be present at these sponsored events with LWM compensating these individuals for their

attendance. From time to time, representatives of various investment firms may sponsor a meal to apprise representatives of LWM of product developments or changes.

### **ITEM 15: CUSTODY**

Pursuant to the Investment Advisers Act of 1940, LWM is deemed to have “constructive custody” of client funds because the Firm has the authority and ability to debit its fees directly from the accounts of those clients receiving LWM’s Investment Management Services. To mitigate any potential conflicts of interest, all client assets are actually maintained with an independent qualified custodian. In some cases a client’s broker-dealer also may act as the custodian of the client’s assets for little or no extra cost.

When exercising its discretionary authority, LWM may only implement its investment management recommendations after the client has arranged for and furnished the Firm with all information and authorization regarding its accounts held at the designated qualified custodian.

Clients will receive statements on at least a quarterly basis directly from the qualified custodian that holds and maintains their assets. Clients are urged to carefully review all custodial statements and compare them to the statements provided by other third parties. Statements sent by third-parties may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Please refer to Item 12 for additional important disclosure information relating to LWM’s relationship with broker-dealer custodians.

If funds or securities are inadvertently received by LWM, they are returned to the sender immediately or as soon as practical.

### **ITEM 16: INVESTMENT DISCRETION**

For LWM’s Investment Management Services, the Firm has discretionary authority to determine, without first obtaining client’s permission for each transaction: 1) the type of securities to be bought and sold, 2) the dollar amounts of the securities to be bought and sold, and 3) whether a client’s transaction should be combined with those of other clients and traded as a “block.” The Firm’s clients grant LWM this discretionary authority by signing the Firm’s Investment Advisory Agreement.

For clients that are receiving Financial Planning Services on a non-discretionary basis, LWM will make recommendations to the client regarding the purchase or sale of securities or other assets that they consider to be in the best interest of the client. The client has full discretion to accept or reject the Firm’s recommendations and is responsible for implementing any accepted recommendations with any broker-dealer the client chooses.

### **ITEM 17: VOTING CLIENT SECURITIES**

LWM's policy and practice is to not vote proxies on behalf of its clients. Therefore, the Firm shall have no obligation or authority to take any action or render any advice with respect to the voting of proxies solicited by or with respect to issuers of securities held in a client’s account,

unless the account is an ERISA account and such authority has not been delegated to another named fiduciary in the plan's written documents. Consequently, the client retains the responsibility for receiving and voting all proxies for securities held within the client's account. LWM will not be deemed to have proxy voting authority solely as a result of providing advice or information about a particular proxy vote to a client.

LWM does not advise or act for clients with respect to any legal matters, including bankruptcies and class actions, for the securities held in clients' accounts.

#### **ITEM 18: FINANCIAL INFORMATION**

LWM does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. LWM does not have any financial commitments that impair its ability to meet contractual and fiduciary obligations to clients, and has not been the subject of a bankruptcy proceeding.