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Form ADV Part 2  
Wrap Fee Program Brochure  
November 4, 2015

This wrap fee investment program brochure provides information about the qualifications and business practices of TradeKing Advisors, Inc. If you have any questions about the contents of this brochure, please contact our Compliance Department at (800) 425-3205.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Additional information about TradeKing Advisors, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). A search of this site for firms or their associated personnel can be accomplished by name or a unique firm identifier, known as a CRD number. The CRD number for TradeKing Advisors, Inc. is 170301.

Even though the firm and its associates may be registered with the SEC or notice-filed in other jurisdictions, that registration implies neither an endorsement by any regulatory authority nor a certain level of skill or training on the part of the firm or its associated personnel.

Item 1 – Cover Page

*TradeKing Advisors, Inc.  
Form ADV Part 2 Wrap Fee Brochure – Updated November 4, 2015*

## **Item 2 - Material Changes**

The most recent previous update to this wrap fee program brochure was October 14, 2015. This brochure was updated to reflect TradeKing Advisors' value of assets under management.

Some non-material updates have also been made to this wrap fee program brochure to enhance the description of the program.

Between the firm's last annual update and this update, the following material changes were made (aside from updates to the amount of TradeKing Advisors' assets under management):

- January 2015: Added a portfolio to the existing line of portfolios offered.
- March 2015: Changed the firm's SEC registration from Internet Adviser to Multi-State Adviser and all account agreements were amended to reflect that TradeKing Advisors now manages all Clients' assets on a discretionary basis.
- April 2015: TradeKing Advisors moved its office to a new location. A new schedule of fees and new minimum requirements were introduced.

As with all firm documents, clients and prospective clients are encouraged to review this brochure in its entirety and are encouraged to ask questions at any time prior to or throughout the engagement.

For future filings this section of the brochure may address only those material changes that have occurred since the firm's last annual update. The firm may at any time update this document and either send a copy of its updated brochure or provide a summary of material changes to its brochure and an offer to send an electronic or hard copy form of the updated brochure. Clients are also able to download this brochure from the SEC's Website: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or may contact our firm at (800) 425-3205 to request a copy during our normal business hours of 8 AM ET – 6 PM ET.

### Item 3 - Table of Contents

#### Form ADV Part 2 Wrap Fee Brochure

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#### **Important Information**

Throughout this document TradeKing Advisors, Inc. shall also be referred by its business name "TradeKing Advisors," or "the firm," "firm," "our," "we" or "us". The client or prospective client may be also referred to as "you," "your," etc., and refers to a client engagement involving a single *person* as well as two or more *persons*. In addition, the term "advisor" and "adviser" are used interchangeably where accuracy in identification is necessary (i.e., Internet address, etc.).

## **Item 4 – Services, Fees and Compensation**

### **Description of Our Firm**

Based in Charlotte, North Carolina, TradeKing Advisors is a Delaware corporation. TradeKing Advisors' majority shareholder is TradeKing Group, Inc., whose controlling interest is retained by TradeKing Holdings, LLC and Zecco International BV. TradeKing Advisors does not have any subsidiaries or controlling interests in another reportable business entity.

TradeKing Advisors is an SEC-registered Multi-State adviser pursuant to Rule 203A-2(d). TradeKing Advisors maintains its principal office at 11605 N. Community House Rd. Calhoun Bldg. Third Floor, Charlotte, North Carolina 28277.

As of November 5, 2015, our firm had approximately \$11, 500,000<sup>1</sup> of reportable client assets under management through discretionary account agreements.

TradeKing Advisors offers the TradeKing Advisors Wrap Fee Program to prospective and current clients. TradeKing Advisors is a sponsor of the TradeKing Advisors Wrap Fee Program.

### **Description of Services Offered**

TradeKing Advisors' primary focus is to provide discretionary portfolio management services to our clients' via our online investment services offering. We do this exclusively through web-based solutions and informational resources, and virtual interaction. We do not offer financial planning services.

Our wrap fee investment program provides our clients the opportunity to obtain professional portfolio management services through our access to institutional money managers and their investment strategies, in addition to traditional transactional services in support of their account for an inclusive fee that is based upon the client's assets under our management.

TradeKing Advisors has entered into an agreement with Ibbotson Associates, Inc. ("Ibbotson") whereby Ibbotson acts as an Investment Advisor to TradeKing Advisors. Ibbotson is an unaffiliated SEC-registered investment advisor owned by Morningstar, Inc. Ibbotson provides a variety of services including but not limited to creating and providing model portfolios, initial selection and ongoing due diligence of the exchange-traded funds (ETFs) and/or exchange-traded notes (ETNs) in each model, review and if necessary updating model portfolios including the allocation percentage and/or the underlying ETFs and ETNs, providing risk tolerance questionnaire(s) used to assist potential clients in selecting an appropriate model and also creating certain marketing materials. Ibbotson does not have discretion or access to the client accounts.

Ibbotson has entered into an agreement with Horizon Investments, Inc. ("Horizon"), an unaffiliated SEC registered investment advisor, whereby Horizons provides an overlay to certain model portfolios created by Ibbotson. This risk-management strategy analyzes portfolio holdings daily and provides objective criteria to

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<sup>1</sup>The term "assets under management" and rounding to the nearest \$100,000 are as defined by the SEC's 2014 General Instructions for Part 2 of Form ADV.

reallocate a portion of selected portfolios to a fixed-income basket. The goal is to mitigate downside risk. Horizon's program, denominated Risk Assist<sup>®</sup>, switches between an investment portfolio and less-volatile instruments during perceived market declines in an attempt to limit downside exposure. By continually measuring market conditions – with a specific focus on characteristics that indicate abnormal, severe risk conditions – Horizon can apply a proprietary process that shifts risky assets to safer options. Those options are fixed-income ETFs or mutual funds.<sup>2</sup>

Brokerage services are provided through our broker/dealer affiliate, TradeKing Securities, LLC, and clearing and custody services are provided by Apex Clearing Corporation. Both of these entities are FINRA and SIPC members<sup>3</sup>, and independent SEC broker/dealers. Additional information about these two entities and their services, as well as the benefits we receive from them is noted in further detail in Item 9 of this brochure.

Interested parties must access our secure website where they are offered our current firm brochure (Form ADV Part 2A) that describes our advisory firm, its services, potential fees, etc., as well as any material conflicts of interest that could be reasonably expected to impair the rendering of unbiased and objective advice. Our privacy policy is concurrently provided for reference. Both the firm brochure and privacy policy statement are available to our clients/prospective clients in either portable document format (PDF) for their download and/or may be printed on their own local printer.

We will then ask the prospective client to respond to a sequence of interactive questions that we believe are important to the development of their portfolio, such as their investment time horizon, financial goals and objectives, income and/or net worth, among others. We will also inquire into their tolerance or appetite for risk. Following responses to a series of online multiple choice questions, the prospective client will receive a recommendation of an investment allocation model comprising of ETFs and/or ETNs believed to be appropriate for their situation. The recommendation will be delivered for viewing over the Internet via our website, and the prospective client is able to locally save a PDF version or print a copy for their consideration. Should the prospective client wish to then engage TradeKing Advisors for its investment services, they must then enter into a written agreement with our firm to initiate the process.

Ibbotson assists us and our clients through our use of their proprietary investment models and recommended portfolios, which fall into one of following categories: the **Core Portfolio**, the **Core Portfolio with Risk Assist<sup>®</sup>**, or the **Momentum Portfolio**.

### *Core Portfolio*

Ibbotson develops capital market forecasts of risk, return and correlation for over 140 asset classes using a combination of historical and current market data. Using these capital market assumptions, they develop asset allocation models using mathematical techniques such as Traditional and Resampled Mean Variance Optimization (MVO) and Mean Conditional Value at Risk optimization (Mean-CVAR). The goal of MVO is to identify portfolios that maximize returns for a given level of risk or minimize risk for a given level of returns

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<sup>2</sup> Risk Assist is a registered trademark of Horizon Investments, LLC, and is used under license by Ibbotson Associates, Inc.

<sup>3</sup> Our firm is not, nor required to be, a FINRA or SIPC member. Information about the Financial Industry Regulatory Authority (FINRA) or the National Futures Association (NFA) may be found at the following websites: [www.finra.org](http://www.finra.org) and [www.nfa.futures.org](http://www.nfa.futures.org). You may learn more about the Securities Investor Protection Corporation (SIPC) and how it serves member firms and the investing public by going to their website at <http://www.sipc.org>.

while Mean-CVAR allows the portfolio manager to more accurately capture downside risk of each asset class and their impact on the model.

Sensitivity analysis and stress testing are used to further evaluate the Core Portfolios. Asset classes are then selected for inclusion into the portfolio based upon the:

- Availability for certain holdings on our platform;
- Efficiency viewed from a Mean-Variance perspective, looking at each asset class' marginal contribution to the Mean Variance and Mean CVAR optimizations;
- Marginal benefit of increasing the number of asset classes - research has shown the marginal benefit of using more than 11-17 asset classes (depending on the model – Conservative, Moderate, etc.) starts to diminish significantly; and
- Potential trading costs, other fees or minimums associated with gaining exposure to a specific asset class.

#### *Core Portfolio with Risk Assist®*

The Core with Risk Assist® Portfolio employs similar asset allocation models to those employed by the Core Portfolio while attempting to limit downside risk through an active risk control strategy. As such, this Portfolio is primarily focused on a longer term goal for growth in capital and a limited portion is defensive in nature. Portfolio guidelines include generally seeking investments of between 0% and 30% in international equities, and 70% to 100% in domestic equities. Horizon's Risk Assist® is an investment strategy designed to help manage investment risk. This risk management tool analyzes portfolio holdings on a daily basis and provides objective criteria to reallocate a portion of the portfolio to a fixed income basket seeking to mitigate a decline (peak-to-trough) in the value of an account over a period of time.

#### *Momentum Portfolio*

Ibbotson research reveals the potential advantages of momentum investing are most pronounced over a 6-to-12 month time horizon, and it is believed over longer periods the advantages of a momentum-driven approach diminishes. Therefore, to take advantage of short-term price movements, they developed a system to signal "buy" or "sell" decisions at the asset class level, and they rebalance monthly to align with market trends. Model portfolios are built using a broad set of 20 asset classes, including non-traditional asset classes that exhibit momentum characteristics such as emerging market debt and private equity. The momentum strategies are implemented using ETFs/ETNs to gain exposure to different asset classes.

There are multiple risk controls in the momentum portfolios:

- In order to manage the impact of negative momentum signals, no model may short sell any security.
- Asset class "tilts" are limited to less than 75% of the original target allocation; a process designed to limit losses that occasionally occur at market inflection points.
- To keep portfolios on track with their targeted allocation, each portfolio's tracking error risk is accounted for; more aggressive models take on more risk than conservative models.

Portfolio construction requires a careful screening process. Before an ETF/ETN is introduced into a portfolio, Ibbotson examines the cost, tracking error, consistency, and other qualitative and quantitative factors. For ETNs, they also consider the credit worthiness of the underlying issuer. They then combine their research with analysis on asset class exposures to determine how each fund can be used to implement the overall

asset class models. The result is a range that combines asset class research with a disciplined investment process designed to capture the effects of the *momentum* dynamic.

#### *Client Tailored Services and Client Imposed Restrictions*

The client is asked to provide their information which assists our firm in designing or selecting a portfolio for that particular investor. The accuracy of the data provided by the client is important to their investment recommendation; however, we will not be required to verify any information received from the client and TradeKing Advisors is expressly authorized to rely on said client thereon. TradeKing Advisors does not take a client's personal tax situation into consideration when managing portfolios. We recommend that our clients consult with their tax advisor.

Our clients retain discretion over the initial implementation decisions and are free to accept or reject the initial recommendation from TradeKing Advisors. Once the client has accepted the portfolio recommendation they will be required to open a separate brokerage account in order to participate in the investment program. The client must authorize TradeKing Advisors to exercise discretionary trading authority over the designated account. Once the portfolio model has been selected, TradeKing Advisors will use discretion and execute trades for the initial allocation of the selected strategy and also for ongoing rebalancing. TradeKing Advisors will monitor the accounts and may rebalance for "drift", deposits and withdrawals, to free up cash to pay for advisory fees, and also if Ibbotson makes a change to the underlying model. TradeKing Advisors does not have the authority to remove funds or securities and may only request the withdrawal of its advisory fees as described in following paragraphs.

#### **Fees**

Our firm and any selected sub-advisor's or consultant's compensation are based on a combined annualized asset-based fee, and the calculation is determined by the account's average daily balance. Our fees will be billed monthly, in arrears, per the following table:

Portfolio	Assets Under Management	Annual Fee
Core	\$0 to \$4,999	\$12
Core	\$5,000 +	0.25%
Core with Risk Assist®	\$0 to \$4,999	\$12 + 0.50%
Core with Risk Assist®	\$5,000 +	0.75%
Momentum	Any Amount	0.50%

The only other fees clients will incur from TradeKing Advisors are the fees embedded in the securities purchased on clients' behalf; TradeKing Advisors does not earn or receive such fees.

#### *Discounting Fees*

For the benefit of discounting a client's asset-based fee, multiple accounts may be aggregated for the same individual, or two or more accounts within the same family, or accounts where a family member has power of attorney over another family member's or incompetent person's account. Should account restrictions be

substantially different for any two or more household accounts, requiring different investment approaches or operational requirements, the firm reserves the right to apply the fee schedule separately to each account. Published fees may be discounted at the discretion of a member of our advisory firm's management but they are not generally negotiable.

All forms of advisory engagements with our firm, the services to be provided and their specific fees will be detailed in our client services agreement. The firm's fees may be discounted at its discretion but they are not negotiable.

### *Payment of Fees*

TradeKing Advisors does not accept cash, money orders or similar forms of payment for any of its engagements, nor do we allow for direct billing. Fees will be billed monthly, in arrears, and fee payments will generally be withdrawn from the account maintained at the custodian of record within the first 10 days of each month.

The client's first billing cycle will begin once the agreement is executed with our firm and assets have settled into the client account held by the custodian of record. Fees for partial months will be prorated based on the remaining days in the reporting period in which our advisory firm services the account.

Accounts will be assessed in accordance with the account's average daily balance. Fees will be calculated daily and then aggregated and billed monthly to the client account. All fees deducted will be clearly noted on account statements that the client will receive from the custodian of record. Please note that the client shares in the responsibility to verify the accuracy of fee calculations; the custodian may not necessarily verify billing accuracy for each client. By signing our advisory firm's engagement agreement, as well as the introducing broker/dealer and/or custodian of record account opening documents, the client will be authorizing the withdrawal of fees from their account. The withdrawal of these fees will be accomplished by the introducing broker/dealer and/or the custodian of record, not by TradeKing Advisors, and the introducing broker/dealer and/or the custodian will remit the advisory fees directly to our firm.

### **Termination of Services**

Either party may terminate the agreement at any time, which should typically be done in writing. If a client verbally notifies our firm of the termination and, if within two business days following this notification our firm has not been sent the client's written notice, our firm will make a written notice of the termination in its records and will send the client its own termination notice as a substitute.

TradeKing Advisors will not be responsible for future investment allocation, advice or transactional services (except for limited closing transactions) upon receipt of a termination notice. Upon termination it will also be necessary that we inform the introducing broker/dealer and/or custodian of record that the relationship between the firm and the client has been terminated.

If the client did not receive our Form ADV Part 2A firm brochure at least 48 hours prior to entering into the firm's agreement, then the client will have the right to terminate the engagement without penalty within five business days after entering into the agreement. Should the client terminate the agreement after the five-day period, the client will be assessed fees on a prorated basis for services incurred from either (i) as a new client, the date of the engagement to the date of the firm's receipt of the written notice of termination,



or (ii) for all other accounts, the last billing period to the date of the firm's physical or constructive receipt of written termination notice.

### **Services Purchased Separately**

The total costs associated with a wrap fee program account may be more or less than separately purchasing brokerage and advisory services. The factors that bear upon the relative costs of any wrap fee program include the number of and timing of transactions, referral fees (if any), portfolio management and custody fees; regulatory, compliance and administrative charges; research costs, promotional materials, among others. These and other factors may affect the cost of obtaining these services separately from another provider. For example, our momentum portfolio accounts will typically experience 80 – 100 transactions per year; core portfolios 40 – 60 transactions per year. If a client was charged \$4.95 per trade, that would result in at least an additional \$396 of trading charges for a momentum portfolio and \$198 for a core portfolio, exclusive of other traditional brokerage fees.

### **Additional Client Fees**

There are no sales loads, brokerage fees, mark-ups, mark-downs, spreads paid to market makers, or brokerage termination or account surrender fees associated with most of our programs. A client may however incur certain separate charges imposed by TradeKing Securities, LLC or Apex Clearing Corporation such as: wire transfer and electronic fund fees, retirement plan custodial or account termination fees, in addition to certain taxes on non-retirement brokerage accounts which will be described in the fee schedule that will be provided to the client prior to account inception. A current list of these fees can be found here <https://www.tradeking.com/rates/fees>.

### **Compensation Matters**

Associates of TradeKing Advisors, Inc. do not receive a portion of the advisory fee our firm assesses. Clients should always consider other programs offered by our affiliates or other firms, as well as whether paying separately for investment advice, brokerage, and/or other services is more appropriate for their personal situation.

### **General Information**

#### *Custody*

TradeKing Advisors' client assets will be maintained in a separate account in the client's name by TradeKing Securities, LLC who then clears and settles trades at Apex Clearing Corporation. Client assets are not physically maintained by our advisory firm or by any related person of our advisory firm. In keeping with this policy involving client funds or securities, we:

- Restrict the firm or an associate from serving as trustee or having general power of attorney over a client account;
- Prohibit an associate from having authority to directly withdraw securities or cash assets from a client account. Advisory fees will only be withdrawn from a client investment account through the engagement of a qualified custodian maintaining client account assets and with prior written client approval (termed "constructive custody");
- Do not accept or forward client securities (i.e., stock certificates) erroneously delivered to our advisory firm;

- Will not collect advance fees of \$1,200 or more for services that are to be performed six months or more into the future;
- Will not authorize an associate to have knowledge of a client's account access information (i.e., online 401(k), brokerage or bank account passwords) when such access might result in physical control over client assets.

Clients will be provided with transaction confirmations and summary account statements prepared by the custodian of record. Typically statements are provided on at least a quarterly or more frequent basis. TradeKing Advisors will not create an account statement for a client nor serve as the sole recipient of client account statements. Clients are urged to carefully review and compare their account statements that they have received from their custodian of record with any performance report they may receive from our firm.

#### *Firm Services*

TradeKing Advisors will use its best judgment and good faith effort in rendering its services to its clients. The firm cannot warrant or guarantee any particular level of account performance, or that an account will be profitable over time. Past performance is not indicative of future results.

Except as may otherwise be provided by law, we will not be liable to the client, heirs, or assignees for any loss an account may suffer by reason of an investment decision made or other action taken or omitted in good faith by our firm with that degree of care, skill, prudence and diligence under the circumstances that a prudent person acting in a fiduciary capacity would use; any loss arising from adherence to direction of the client or their attorney-in-fact may provide; any act or failure to act by a service provider maintaining an investment account.

Federal and state securities laws impose liabilities under certain circumstances on persons who act in good faith and, therefore, nothing contained in this document or the firm's client agreement shall constitute a waiver of any rights that a client may have under federal and state securities laws.

### **Item 5 – Account Requirements and Types of Clients**

#### **Account Requirements**

##### *Minimum Account Requirements*

The minimum initial investment per account for the Core Portfolio is \$500; for the Core with Risk Assist® Portfolios is \$5,000; and the minimum initial investment for the Momentum Portfolios per account is \$5,000. If the account balance falls below the minimum required per account, we reserve the right to discontinue the advisory relationship. As stated in Item 4, we may assess a per-month minimum fixed fee.

##### *Account Opening Process*

In order for TradeKing Advisors to allocate the investment model to the brokerage account, the client is required to first fund the account. Instructions for funding will be provided interactively on the website during the brokerage account opening process. Once the minimum investment level for the specified model is reached the available cash will be allocated.

TradeKing Advisors may keep a portion of the account in cash reserves. The cash will be held as a cash credit in the brokerage account and will be used primarily to collect advisory fees. Generally this amount will be from one to three percent of the entire account value. For example, for an account holding \$25,000, approximately \$500 may be held in a cash position and \$24,500 may be allocated to investments within the portfolio.

TradeKing Advisors will have discretionary authority over original securities deposited to the account that are not part of the model portfolio the client has selected. Unless instructed by the client to transfer those securities out of the account, TradeKing will liquidate them. The cash from the sale of the securities will be invested in the model assuming the investment minimums are met. No commissions will be charged on the sale of the securities. There may be additional fees charged by the broker/dealer to transfer those securities.

It remains each client's ongoing responsibility to promptly update their information with our firm when there is a material change to their situation and/or investment objective for the purpose of evaluating or revising previous account restrictions or portfolio recommendations.

### **Types of Clients Served by the Firm**

TradeKing Advisors generally provides its advisory services to:

- Individuals
- High Net Worth Individuals
- Pension and Profit Sharing Participants
- Corporations or Business Entities

### **Types of Clients Served within the Program**

We generally offer the wrap fee program to individuals, high net worth individuals, and pension and profit sharing plan participants; however, we will include corporations and other business entities should their investment guidelines permit us to do so. TradeKing Advisors reserves the right to waive or reduce certain fees based on unique individual circumstances, special arrangements, pre-existing relationships, or as otherwise may be determined by our firm. We also reserve the right to decline services to any prospective client for any non-discriminatory reason.

## **Item 6 – Portfolio Manager Selection and Evaluation**

### **Selection and Review of Portfolio Managers**

Following extensive research we selected and entered into a consulting agreement with Ibbotson to serve as our sub-advisor in order to engage their portfolio strategies services. Several factors were taken into consideration during the portfolio manager selection process including the experience and reputation of the manager or management team. We also believe it is important to ensure a portfolio manager aligns with our investment philosophy.

We will ensure due diligence is completed on each recommended investment manager to include determining whether the investment manager is registered/notice-filed (or required to be) within the jurisdiction the client is domiciled. At least annually thereafter our due diligence review will be performed

from both a compliance and performance perspective to determine that the selected investment manager remains an appropriate fit. In the future if we decide to add or replace a sub-advisor, we will inform both clients and regulators in writing of that change.

TradeKing Advisors' advice is rendered through its online technology and is set up to be run by the client. Performance reports are available for the client when they access the firm's service platform, and clients have unlimited access to the system as long as their account remains open with our advisory firm. This access also provides the client the ability to generate various reports to gauge their account progress. TradeKing Advisors' online performance reports are calculated using a time-weighted methodology. The methodology is programmed into our portfolio administration systems, and, to ensure accuracy, periodic back-testing is conducted by our supervisory staff and/or qualified third-parties. Time-weighted reporting compounds daily portfolio-level returns from the period the account had been originally funded until the present time. Reports are intended to inform our clients about investment performance on both an absolute basis and as compared to a known benchmark. We believe these are appropriate methods to evaluate portfolio performance since they are not sensitive to the contributions or withdrawals the client makes to their account. We do not validate performance reports created by systems external to ours, and cannot attest as to whether they are calculated on a uniform and consistent basis.

Clients will receive electronic account statements prepared by the custodian of record on at least a quarterly basis. TradeKing Advisors does not create an account statement for an advisory client, and we urge clients to carefully review statements they receive from the custodian of record for accuracy and clarity.

#### **Related Persons Serving as Portfolio Manager**

TradeKing Advisors, Inc. will not engage an associate of the firm or any other related person to serve as a portfolio manager for its wrap fee program. We believe this type of arrangement poses a conflict of interest and does not conform to our practices.

#### **Investment Strategy and Method of Analysis Material Risks**

Our selection of a sub-advisor and their strategies are designed to produce the appropriate potential return for the given level of risk; however, neither we nor any sub-advisor can guarantee that an investment objective or planning goal will be achieved. As an investor each client must be able to bear the risk of loss that is associated with their account, which may include the loss of some or all principal invested. The following paragraphs offer examples of such risk.

#### **Active Asset Management**

A portfolio that employs active management strategies may, at times, outperform or underperform various benchmarks or other strategies. In an effort to meet or surpass these benchmarks, active portfolio management may require more frequent trading or "turnover." This may result in shorter holding periods, higher transactional costs and/or taxable events generally borne by the account holder, thereby potentially reducing or negating certain benefits of active asset management.

#### **Company Risk**

When investing in securities, there is always a certain level of company or industry-specific risk that is inherent in each company or issuer. For example, there is the risk that a company will perform poorly or

have its value reduced based on factors specific to the company or its industry. This is also referred to as *unsystematic risk* and can be reduced or mitigated through diversification.

### **Financial Risk**

Excessive borrowing to finance a business operation increases profitability risk 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.

### **Fundamental Analysis**

The challenges involving fundamental analyses include situations wherein information obtained may be incorrect; the analysis may not provide an accurate estimate of earnings which may be the basis for a security's value. If a security's price adjusts rapidly to new information, a fundamental analysis may result in unfavorable performance.

### **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.

### **Management Risk**

An investment with a firm varies with the success and failure of its investment strategies, research, analysis and determination of its portfolio. If an investment strategy were not to produce expected returns, the value of the investment would decrease.

### **Market Risk**

When the stock market as a whole or an industry as a whole falls in value, it can cause the prices of individual stock prices to fall indiscriminately. This is also called *systemic* or *systematic* risk.

### **Passive Investing**

A portfolio that employs a passive, "efficient markets" approach (generally representative of index investing) has the potential risk at times to generate lower-than-expected returns for the broader allocation than might be the case for a more narrowly focused asset class, and the return on each type of asset may deviate from the average return for the asset class. We believe this variance from the expected return is generally low under normal market conditions when a portfolio is made up of diverse, low-correlated or non-correlated assets.

### **Research Data**

When research and analyses are based on commercially available software, rating services, general market and financial information, or due diligence reviews, a firm is relying on the accuracy and validity of the information or capabilities provided by selected vendors, rating services, market data, and the issuers themselves. Therefore, while our firm makes efforts to determine the accuracy of the information received, we cannot predict the outcome of events or actions taken or not taken, or the validity of all information researched or provided which may or may not affect the advice regarding or investment management of an account.

## **Security-Specific Risks**

### Alternative Investments

Strategies involving “alternative” investments generally include those which do not fall into equity, fixed income or cash equivalents. Such investments would include “real assets” such as real estate and commodities, and alternative strategies such as absolute return strategies and various other hedge fund-type strategies: global macro, managed futures, long/short equity, multi-strategy, event driven, private equity, etc. The goal of these alternative strategies is to provide for diversification in order to lower portfolio volatility and enhance long-term returns. The alternative investments we recommend are managed through ETFs/ETNs; they are not individual holdings. The potential risks involving these underlying investments may include:

Hedge Funds – Many hedge funds are structured as private placements; relying on Regulation D (Rule 506) offering rules which generally requires investors to be “accredited” and many hedge funds have other additional requirements. More recently, hedge funds have been offered to a wider public via a “fund-of-funds” hedge fund vehicle. Hedge funds have a broad range of underlying strategies and holdings, and may not be as transparent or have the same level of liquidity as other more commonly known investments. They may also have higher management fees and/or operating expenses.

Managed Futures Accounts – Managed futures accounts are alternative investments that employ long and short positions in futures contracts, forwards and options to provide portfolio diversification among various types of investment styles and asset classes in an effort to moderate portfolio risk. Managed futures accounts allow investors to leverage their investment with the use of notional funding, which allows an investor to put up only a portion of the required minimum investment but trade at a higher level of exposure. This may result in larger earnings or losses, as well as higher management fees, relative to the actual amount invested.

Private Equity – Investments in private equity often involve investment of capital into or the acquisition of an operating business enterprise; capital is frequently sourced from institutional investors. There are a broad range of private equity types and they generally fall into categories such as: (i) leveraged buyouts, (ii) growth capital, (iii) distressed debt or turnaround strategies, (iv) mezzanine capital, (v) secondaries, and (vi) venture capital. In general, private equity investing is often offered directly to qualified investors as well as through fund-of-funds structures. While such holdings may generate above average returns for an investor, they typically are less transparent, less liquid and may involve greater risk, and they typically have a higher fee structure than traditional investments.

Real Estate Investment Trusts – Risks involved in REIT investing may include (i) following the sale or distribution of assets an investor may receive less than their principal invested, (ii) a lack of a public market in certain issues, (iii) limited liquidity and transferability, (iv) fluctuations involving the value of the assets within the REIT, (v) a reliance on the investment manager to select and manage assets, (vi) changes in interest rates, laws, operating expenses, and insurance costs, (vii) tenant turnover, and (viii) the impact of current market conditions.

### Equity (Stock) Market Risk

Common stocks are susceptible to general stock market fluctuations and to volatile increases or decreases in value as market confidence in and perceptions of the company who issued the stock

change. If an investor held common stock, or common stock equivalents, of any given company, they would generally be exposed to greater risk than if they held preferred stock and/or debt obligations of the company. Common stocks are often holdings within mutual funds and ETFs.

#### ETF/ETN and Mutual Fund Risks

The risk of owning ETFs/ETNs and mutual funds reflect the risks of their underlying securities (e.g., alternative investments, stocks, bonds, etc.). ETFs/ETNs and mutual funds also carry additional expenses based on their share of operating expenses and certain brokerage fees, which may result in the potential duplication of certain fees. Also, some mutual funds may be too large to adjust quickly in response to market fluctuations, meaning that investors may miss out on gains or be exposed to losses for a longer time than if they were in a more nimble portfolio.

#### Fixed Income Risks

Various forms of fixed income instruments, such as bonds, money market or bond funds, or certain ETFs/ETNs containing these holdings, may be affected by various forms of risk, including:

Credit Risk – The potential risk that an issuer would be unable to pay scheduled interest or repay principal at maturity, sometimes referred to as “default risk.” Credit risk may also occur when an issuer’s ability to make payments of principal and interest when due is interrupted. This may result in a negative impact on all forms of debt instruments, as well as funds or ETF/ETN share values that hold these issues. Bondholders are creditors of an issuer and have priority to assets before equity holders (i.e., stockholders) when receiving a payout from liquidation or restructuring. When defaults occur due to bankruptcy, the type of bond held will determine seniority of payment.

Duration Risk – Duration is a measure of a bond’s volatility, expressed in years to be repaid by its internal cash flow (interest payments). Bonds with longer durations carry more risk and have higher price volatility than bonds with shorter durations.

Interest Rate Risk – The risk that the value of the fixed income holding will decrease because of an increase in interest rates.

Liquidity Risk – The inability to readily buy or sell an investment for a price close to the true underlying value of the asset due to a lack of buyers or sellers. While certain types of fixed income are generally liquid (i.e., bonds), there are risks which may occur such as when an issue trading in any given period does not readily support buys and sells at an efficient price. Conversely, when trading volume is high, there is also a risk of not being able to purchase a particular issue at the desired price.

Reinvestment Risk – With declining interest rates, investors may have to reinvest interest income or principal at a lower rate.

#### Index Investing

Index investing may have the potential to be affected by “active risk” (or “tracking error risk”), which might be defined as a deviation from a stated benchmark. If a core portfolio attempts to closely replicate a stated benchmark, the source of the tracking error or deviation may come from a satellite portfolio or position, or from a “sample” or “optimized” index fund or ETF that may not as closely align the stated benchmark. In

these instances, a portfolio manager may choose to reduce the weighting of a satellite holding, utilize very active satellites, or use a “replicate index” position as part of its core holdings to minimize the effects of the tracking error in relation to the overall portfolio.

#### QDI Ratios

While many ETFs/ETNs and index mutual funds are known for their potential tax-efficiency and higher “qualified dividend income” (QDI) percentages, there are asset classes within these investment vehicles or holding periods within that may not benefit. Shorter holding periods, as well as commodities and currencies (that may be part of an ETF/ETN or mutual fund portfolio), may be considered “non-qualified” under certain tax code provisions. A holding’s QDI should be considered when tax-efficiency is an important aspect of the client’s portfolio.

#### **Performance-Based Fees and Side-By-Side Management**

TradeKing Advisors’ advisory fees will not be based upon a share of capital gains or capital appreciation (growth) of any portion of managed funds (known as performance-based fees) because of the potential conflict of interest this type of fee structure may pose. Our compensation will also not be based on side-by-side management, which refers to a firm simultaneously managing accounts that do pay performance-based fees (such as a hedge fund) and those that do not. This type of arrangement and the conflict of interest it may pose does not conform to our firm’s practices.

#### **Voting Client Securities**

Clients may periodically receive “proxies” or other similar solicitations sent directly from their custodian of record or transfer agent. We do not forward these or any correspondence relating to the voting of client securities, class action litigation, or other corporate actions if we receive a duplicate copy.

Our firm does not vote proxies on behalf of our clients nor do we offer specific guidance on how to vote proxies. In addition, we will not offer guidance involving any claim or potential claim in any bankruptcy proceeding, class action securities litigation or other litigation or proceeding relating to securities held at any time in a client account, including, without limitation, to file proofs of claim or other documents related to such proceeding, or to investigate, initiate, supervise or monitor class action or other litigation involving client assets.

Clients will maintain exclusive responsibility for directing the manner in which proxies solicited by issuers of securities that they beneficially own shall be voted, as well as making all other elections relative to mergers, acquisitions, tender offers or other legal matters or events pertaining to a client’s holdings. Clients should consider contacting the issuer or their legal counsel involving specific questions they may have with respect to a particular proxy solicitation or corporate action.

#### **Item 7 – Client Information Provided to Portfolio Managers**

##### **Information Provided to Portfolio Managers**

Our advisory engagements are Internet based. We gather information from the client about their financial situation, investment objectives, and any reasonable restrictions they may want to impose on the



management of the account. This data is then used to determine the appropriate model allocation for the client.

### **Discretionary Account Management**

Our model portfolios are strictly managed on a *discretionary basis* (authority). Similar to a limited power of attorney, discretionary authority allows our firm to implement previously determined investment strategies and subsequent trading decisions, such as the purchase or sale of a security, without requiring the client's prior authorization for each transaction in order to meet stated investment objective(s). This authority will be granted by the client through the execution of our firm's client engagement agreement, as well as the custodian of record's limited power of attorney form or clause that may be part of their account opening documents. The custodian of record will be directed to specifically limit our advisory firm's authority within the client account to the placement of trade orders and our request for the deduction of our advisory fee. Our clients retain the right to terminate our account authority; however, we will require they close the account with our advisory firm.

Pursuant to Investment Company Rule 3a-4, reasonable restrictions may be requested by clients. However since each of the investment strategies utilizes ETFs or ETNs, we have no control over the specific securities bought and sold within those ETFs/ETNs, therefore certain industry or company specific restrictions may not be available.

TradeKing Advisors will generally honor certain reasonable restrictions including but not limited to:

- Trading on margin or shorting securities
- Trading options or other derivative-based securities products
- Trading in futures
- Specific ETFs/ETNs

### **Item 8 – Client Contact with Portfolio Managers**

Portfolio managers are engaged by our firm to develop model portfolios, there is no direct interaction with the investment manager.

### **Item 9 – Additional Information**

#### **Disciplinary Information**

Neither TradeKing Advisors nor any member of its management has been involved in a material criminal or civil action in a domestic, foreign or military jurisdiction, an administrative enforcement action, or self-regulatory organization proceeding that would reflect poorly upon our firm's advisory business or the integrity of our firm.

#### **Other Financial Industry Activities and Affiliations**

TradeKing Advisors' policies require the firm and its associates to conduct business activities in a manner that avoids or appropriately mitigates conflicts of interest including those between the firm, its associates, and its clients, or with any other party that may be contrary to law. We will provide disclosure to each client prior to and throughout the term of an engagement regarding any conflicts of interest that might reasonably compromise our impartiality or independence.

TradeKing Securities, LLC and TradeKing Group, Inc. provide services to support TradeKing Advisors, LLC per an intercompany agreement. These services may include brokerage services, customer technical support, marketing functions, operational support, and other types of services. Management persons of TradeKing Advisors may also serve as management persons of TradeKing Securities, LLC and TradeKing Group, Inc.

TradeKing Advisors is neither registered nor has an application pending to register as a Financial Industry Regulatory Authority (FINRA) or National Futures Association (NFA) member firm, nor are we required to be or to do so. Members of our advisory firm's management are associated persons with TradeKing Securities, LLC; an affiliate of TradeKing Advisors under common control of TradeKing Group, Inc. TradeKing Securities, LLC is a FINRA member introducing broker/dealer. We have the following common control affiliates: TradeKing Forex, LLC, a NFA member firm and TradeKing Media, LLC. We execute advisory client trades with our custodian of record through TradeKing Securities, LLC and we require advisory clients to open an account with TradeKing Securities, LLC. Additional information about this relationship and potential conflicts of interest it may pose is described in other sections of this brochure.

Neither our firm nor its management is or has a material relationship with any of the following types of entities:

- financial institution, such as a bank, credit union or thrift
- accountant or accounting firm<sup>4</sup>
- lawyer or law firm<sup>2</sup>
- real estate broker or dealer
- pension consultant
- sponsor or syndicator of limited partnerships
- issuer of a marketable security
- investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund)

As stated in Item 4, portfolio models are managed by an unaffiliated registered investment advisor we have selected to serve as sub-advisor due to their unique investment strategies and experience. Before making our selection we conducted what we believe to be an appropriate level of due diligence on the recommended sub-advisor, to include ensuring their firm is appropriately registered or notice-filed where required.

Please note that both our firm and the other investment advisor (as portfolio manager) inevitably share in a portion of fees assessed involving this arrangement, and as described in Item 4.

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<sup>4</sup> Firm personnel may be qualified as an accountant or attorney and be a member of their respective professional association; however, our firm does not have an affiliate that holds out a separate legal or accountancy practice or offers such services to advisory clients.

### Code of Ethics Description

Our firm has adopted a Code of Ethics that establishes policies for ethical conduct for all its personnel, and accepts the obligation not only to comply with all applicable laws and regulations but also to act in an ethical and professionally responsible manner in all professional services and activities. Firm policies include prohibitions against insider trading, circulation of industry rumors, and certain political contributions, among others. Our firm periodically reviews and amends its Code of Ethics to ensure they remain current, and requires all personnel to annually attest to their understanding of and adherence to the Code of Ethics. A copy of the firm's Code of Ethics is made available to any client or prospective client upon request.

### Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest

No associate of the firm is authorized to recommend to a client, or effect a transaction for a client, involving any security in which the firm or a "related person" (e.g., associate, an immediate family member, etc.) has a material financial interest, such as in the capacity as an underwriter or advisor to an issuer of securities, etc.

An associate is prohibited from borrowing from or lending to a client unless the client is an approved financial institution.

### Advisory Firm/Personnel Purchases of Same Securities Recommended to Clients and Conflicts of Interest

For the purpose of model performance tracking, TradeKing Advisors invests its own funds in its own account involving five Core portfolios and five Momentum portfolios. TradeKing Advisors does not trade for its own account (e.g., proprietary account trading) for the purpose of generating revenue, tax harvesting, etc. The firm's related persons may buy or sell securities that are the same as, similar to, or different from, those recommended to clients for their accounts. A recommendation made to one client may be different in nature or in timing from a recommendation made to a different client; clients often have different objectives and risk tolerances.

At no time will the firm or a related person receive preferential treatment over a client. In an effort to reduce or eliminate certain conflicts of interest involving personal trading (i.e., trading ahead of a client's order, etc.), firm policy requires the restriction or prohibition of related parties' transactions in specific securities. Any exceptions or trading pre-clearance must be approved by our Chief Compliance Officer in advance of the transaction in a related person's account, and the firm maintains required personal securities transaction records per regulation.

### Review of Accounts

#### ***Schedule for Periodic Review of Client Accounts***

Our firm's advice is rendered through its online delivery solution and is designed to be operated by the user (client) themselves. Clients have unlimited access and frequency to employ systems' functionality and are able to review their account, portfolio allocation, etc., and update it as necessary.

#### ***Review of Client Accounts on Non-Periodic Basis***

Non-periodic reviews may occur by assigned portfolio managers and/or our programmed systems when they are triggered by material market, economic or political events, or by changes in client's financial situations (e.g., changes in employment, relocation, an inheritance, etc.).

Clients should consider revisiting previously entered data to update their information if a material event has occurred so that our firm via its systems is able to review and potentially adjust the client's portfolio.

#### Client Referrals and Other Compensation

##### ***Economic Benefit from External Sources and Potential Conflicts of Interest***

As a fiduciary, TradeKing Advisors endeavors to put the interests of its clients first, and it is important to mention that any benefit received by our firm through a custodian does not depend on the amount of brokerage transactions directed to that custodian. In addition, we believe that the selection of a custodian is in the best interests of our clients since the selection is primarily supported by the scope, quality, and cost of services provided as a whole -- not just those services that benefit only our advisory firm.

TradeKing Advisors may participate in promotional campaigns involving self-directed clients of its broker/dealer affiliate company TradeKing Securities, LLC. These events may be delivered to affiliate company clients in the form of emails, ads on the TradeKing Securities, LLC website, or through other channels. These promotions may include reduced or waived fee arrangements for TradeKing Advisors and they may also include cross-company promotions. A client may be required to maintain certain asset levels in order to be eligible to receive such an incentive.

##### ***Advisory Firm Payments for Client Referrals***

If a client is introduced to our advisory firm by a solicitor, the firm may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, as amended, and any corresponding state securities law requirements. Any such referral fee will be paid from the firm's investment management fee and does not result in additional charge(s) to the client.

The solicitor will disclose the nature of their relationship to prospective clients at the time of solicitation and will provide prospective clients with both the TradeKing Advisors firm brochure in addition to the solicitor's disclosure statement that contains the terms and conditions of the solicitation arrangement, including its compensation arrangement.

#### Financial Information

TradeKing Advisors does not take physical custody of client accounts, nor do we require or solicit prepayment of more than \$1,200 in fees per client for services to be performed six months or more in advance. Neither the firm nor any member of its management serves as general partner for a partnership or trustee for a trust in which the firm's advisory clients are either partners of the partnership or beneficiaries of the trust. Therefore, due to the nature of our advisory services, an audited balance sheet is not required nor included in this disclosure.

The firm and its management do not have a financial condition likely to impair the ability to meet contractual commitments to our advisory clients, nor has the firm and its management been the subject of a bankruptcy petition at any time during the past 10 years, or ever.