

# Firm Brochure



## **STRATEGIC EQUITY MANAGEMENT, INC.**

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This brochure provides information about the qualifications and business practices of Strategic Equity Management, Inc. If you have any questions about the contents of this brochure, please contact us at: 520-749-4580, or by email at: [SEMINC@STRATEQUITY.COM](mailto:SEMINC@STRATEQUITY.COM). 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.

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

STRATEGIC EQUITY MANAGEMENT, INC. is a Registered Investment Adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

**March 3, 2016**

## **Material Changes**

There are no material changes since the last annual update of Strategic Equity Management's Form ADV Part 2A brochure dated March 31, 2015.

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# Advisory Business

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## **Firm Description**

Strategic Equity Management, Inc., (“SEM”) was founded in 1992 by Richard Gage, our principal owner, an engineer experienced in the use of statistical design and optimization. Today the SEM team includes engineers, finance and business professionals.

SEM, based in Tucson, AZ, serves clients nationwide by working strategically with professional financial advisors assisting their clients achieve their financial goals.

In this brochure the words “we”, “our”, “us” and “SEM” refer to Strategic Equity Management, Inc. and the words “you”, “your” and “client” refer to you as either a client or prospective client of SEM. The term Associated Person is used in this brochure, our Associated Persons are our SEM’s officers, employees and all individuals providing investment advice on behalf of SEM.

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## **Types of Advisory Services**

SEM provides investment supervisory services, also known as asset management services, on a discretionary basis.

We specialize in DYNAMIC ASSET ALLOCATION. This strategy evaluates market conditions and reallocates our client assets in response to changes in global markets. Our Dynamic Asset Allocation approach utilizes technical analysis to develop computer-driven investment models. When the investment model indicates an allocation change SEM executes the trade in our client accounts. These models are developed through extensive back-testing and most often proprietary to SEM.

We provide Dynamic Asset Allocation by establishing accounts in your name with investment companies directly or through trust, brokerage, or insurance firms. The funds are then switched between money market, stock or bond mutual funds and subaccounts, when our trading systems indicate.

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## **Individual Portfolio Management**

SEM provides advisory services tailored to the individual needs of our clients.

Our clients most often are referred to us by other financial professionals; generally Registered Investment Advisors or Registered Representatives.

The following explains the process that associated persons and other financial professionals utilize:

1. Initially and on an ongoing basis the financial professional will have personal communications designed to understand the client’s goals, objectives and individual situation. Specifically the client works with the financial professional to complete our New Account Form. This form

assesses our client's investment history, time horizon, risk tolerance and liquidity needs.

2. SEM offers several investment programs. Generally each program targets a different risk level and includes multiple active investment strategies. The client and the financial professional then select a mix of SEM's investment programs tailored to fit their individual needs.

3. Optionally, the client can complete a questionnaire which provides an output score. This score is an additional guide that can be used to help categorize a client's major need, i.e. income, conservative, growth etc. Depending on the score we identify a logical allocation to our investment programs.

4. A wide range of individual portfolios can be constructed using a combination of SEM programs. Generally each investment program requires a minimum investment of \$25,000 (although this amount can be higher or lower depending primarily on the custodian and investment program). All programs may not be available at each custodian.

5. After the program allocation is made by the client and their financial professional the account paperwork is submitted to SEM. If the program allocation seems unsuitable we will contact the financial professional and / or client for clarification.

In order to participate in our discretionary investment programs we require that you grant us discretionary authority to manage your account.

Discretionary authorization will allow us to determine the specific securities, and the amount of securities, to be purchased or sold for your account without your approval prior to each transaction. Discretionary authority is typically granted by the investment advisory agreement you sign with us or trading authorization forms. You may limit our discretionary authority (for example, limiting the types of securities that can be purchased for your account) by providing our firm with your restrictions and guidelines in writing.

Pursuant to a Model License Agreement with Geneos Wealth Management, a Registered Investment Advisor and wholly owned subsidiary of GWM Holdings Inc. ("GWM"), SEM provides investment advisory services on an investment model level for clients of GWM.

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### **Assets under Management**

As of February 22, 2016, SEM manages approximately \$312,500,000 in assets on a discretionary basis and no assets on a non-discretionary basis.

## **Fees and Compensation**

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### **Description**

Annual fees are based on a percentage of assets under management as follows. Client assets are totaled and charged the fee for the respective account based on that total amount. At our discretion, we may combine the

account values of family members living in the same household to determine the applicable advisory fee. For example, we may combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts. Combining account values may increase the asset total, which may result in your paying a reduced advisory fee based on the available breakpoints in our fee schedule stated below. We may also, in our sole discretion, negotiate or waive fees for certain accounts.

\$250,000 and Less	2.25%
\$250,001 to \$500,000	2.10%
\$500,001 to \$1,000,000	1.95%
\$1,000,001 to \$1,500,000	1.80%
\$1,500,001 to \$2,000,000	1.65%
\$2,000,001 to \$4,000,000	1.50%
\$4,000,001 and greater	1.35%

Fees are based on the account value at the end of each calendar quarter. A time-pro-rated adjustment is made to the fee basis to account for any additions or withdrawals made to the account during the quarter.

The annual fee is invoiced in arrears on a quarterly basis. Lower or higher fees may be found for comparable services.

A copy of this Brochure is provided to each client prior to, or contemporaneously with, the execution of the Investment Advisory Agreement. Any client who has not received a copy of our written Brochure at least 48 hours prior to executing the Investment Advisory Agreement will have five business days after executing the agreement to terminate our services without penalty.

A Client may terminate our agreement at any time by notifying SEM in writing and paying the rate for the time spent on the investment advisory engagement prior to notification of termination.

SEM may terminate our agreement at any time by notifying you in writing.

Per the Model License Agreement by SEM and GWM, SEM receives an annual fee of up to 0.50% of the market value of the assets it provides services on. This fee is paid quarterly in arrears, based on the assets in the Product as measured on the last day of the calendar quarter.

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## **Fee Billing**

Investment management fees are billed quarterly, in arrears, meaning that we invoice you after the three-month billing period has ended. Payment in full is expected upon invoice presentation. Fees are usually deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of their investment account. Subject to advance preapproval we may allow billing instead of direct debiting.

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## **Charges and Fees by Third Parties**

Clients may be charged certain fees and expenses imposed by third party broker-dealers, insurance companies, investment companies and/or custodians such as custodial fees, charges imposed directly by a mutual fund in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees and commissions are exclusive of and in addition to SEM's fee.

These charges and fees are typically imposed by the broker-dealer or custodian through whom your account transactions are executed. To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, our firm, and others. For information on our brokerage practices, please refer to the "Brokerage Practices" section of this Brochure.

SEM's principal is a licensed insurance agent. Please refer to the "Financial Industry Activities and Affiliations" section of this Brochure for more information.

Any material conflicts of interest between you and our firm, or our employees are disclosed in this Brochure. If at any time, additional material conflicts of interest develop, we will provide you with written notification of the material conflicts of interest or an updated Disclosure Brochure.

## **Performance-Based Fees**

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### **Sharing of Capital Gains**

Fees are not based on a share of the capital gains or capital appreciation of managed securities. SEM does not use a performance-based fee structure.

## **Types of Clients**

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### **Description**

SEM generally provides investment advice to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, government entities, corporations or business entities.

When we provide investment advice to pension, profit sharing, and 401(k) plans where there are individual accounts with participants choosing our investment service as one of several options offered through the plan. Our service is designed to achieve an investment goal selected by the plan. In these situations we do not provide plan participants with individualized investment management services and do not base our recommendations on the individual needs of plan participants.



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## Account Minimums

The minimum account size is \$50,000 of assets under management. SEM has the discretion to waive the account minimum.

## Methods of Analysis, Investment Strategies and Risk of Loss

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### Methods of Analysis

- **Technical Analysis / Charting** – Charting analysis involves the gathering and processing of price and volume information for a particular security. This price and volume information is analyzed using mathematical equations. The resulting data is then applied to graphing charts, which is used to predict future price movements based on price patterns and trends. Technical Analysis involves studying past price patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks. The risk of technical analysis is that charts may not accurately predict future price movements. Current prices of securities may reflect all information known about the security and day to day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy.
- **Relative Strength** – In this type of technical analysis, we measure the movements of many asset classes, e.g. Small Company stocks, Foreign Large Company stocks, etc., in an attempt to improve performance by rotating to the stronger asset classes based on intermediate term indicators. A risk to relative strength occurs when the recent strength of an asset class does persist after we rotate into the asset. In order to decrease this risk we use multiple time frames to measure asset class strength. This is a form of technical analysis and the risks noted above apply.
- **Quantitative Analysis** – In this type of technical analysis, we use mathematical models with investment rules that determine when to invest, what to invest in and when to make a change to our investments. Our application of this technique generally includes an in sample and an out of sample period. The in sample time period of history is the period of market data that we use to develop the model (also referred to as a trading system) and the out of sample period is the historical period we use to measure possible future model performance (since as far as the mathematical model is concerned the out of sample period is the future). A risk to quantitative analysis is that future markets could be different than past markets. In order to decrease this risk we use an out of sample period that includes both good and poor market conditions. This is a form of technical analysis and the risks noted above apply.
- **Fundamental Analysis** – Fundamental analysis involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience, and expertise of the company's management, and the outlook for the company's industry. The resulting data is used to measure the true value of the

company's stock compared to the current market value. The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.

SEM primarily develops trading systems which utilize Technical Analysis (Charting, Relative Strength and Quantitative) and to a lesser degree Fundamental Analysis and then combine multiple non-correlated trading systems in our client's portfolios to provide diversification.

Risks for all forms of analysis: Our securities analysis method relies on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data.

While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

In addition to the previous methods of analysis, SEM obtains pricing information, dividends, corporate filings, published research, and their fundamental information through various publishers and computer data base companies; including Morningstar, DTN and Investors Fast Track.

SEM uses numerous sources of information on the Internet and World Wide Web, such as Briefing.com, MarketWatch.com and finance.yahoo.com, for timely information on the economy and individual companies.

The main sources of information include financial newspapers and magazines, research materials prepared by others, corporate rating services, timing services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

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### Investment Strategies

- **Long Term Purchases** – securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.
- **Short Term Purchases** – securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.
- **Trading** – We purchase securities with the probability of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of our predictions of brief price swings. A risk in a short-term purchase is the potential for losses if the anticipated price swing does not materialize. Moreover, should the anticipated price swing not materialize, we are left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy,

and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short term capital gains (but only if held in a taxable account). To implement Trading investments we generally make transfers between mutual funds or variable annuity subaccounts that are available for no transaction fee (there are still costs but they are not directly tied to the transfer). Mutual fund families or variable annuity issuers may restrict transfer privileges. Such restrictions may have an adverse effect on investment program returns. There are certain mutual fund companies that were designed for active trading and we use these companies for investment management that by design involves Trading.

We do not use margin but we do invest in leveraged index funds which provide market exposure in multiples of the index (such as plus or minus 2 times the daily price change of the index). Although investing in these funds can be more efficient since they require a lower dollar investment to gain a given level of market exposure they do have higher price fluctuations and therefore higher risk than unleveraged funds.

We do not use short selling but we do invest in “inverse index funds”. Inverse funds decline when the index rises and increase in value when the index declines. We use these funds either to hedge a long position that we do not want to sell or to gain exposure to an index that we predict is overvalued or is likely to decline. One risk is that when the index goes up our inverse fund position will decline in value.

Our strategies and investments may have unique and significant tax implications. However, unless we specifically agree otherwise, and in writing, tax efficiency is not our primary consideration in the management of your assets. Regardless of your account size or any other factors, we strongly recommend that you continuously consult with a tax professional prior to and throughout the investing of your assets.

Moreover, as a result of revised IRS regulations, custodians and broker-dealers will begin reporting the cost basis of equities acquired in client accounts on or after January 1, 2011. Your custodian will default to the FIFO (First In First Out) accounting method for calculating the cost basis of your investments. You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, please provide written notice to our firm immediately and we will alert your account custodian of your individually selected accounting method. Please note that decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

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### **Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **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 security, bond, or mutual fund 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. For example, political, economic and social conditions may trigger market events.
- **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.
- **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. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **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.

## Disciplinary Information

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### Legal and Disciplinary

The firm and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

## Other Financial Industry Activities and Affiliations

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### Financial Industry Activities and Affiliations

Richard Gage, our Principal, in his individual capacity is licensed with several life, disability, and other insurance companies. Clients may engage our principal on matters not related to SEM managed accounts to purchase insurance products under a commission arrangement. Clients are under no obligation to purchase these products and may choose agents not affiliated with SEM to satisfy their insurance needs. Thus, a conflict could exist between our interests and those of advisory clients as the receipt of commissions may provide an incentive to recommend investment products based on commissions to be received, rather than on a particular client's need. Insurance product sales are separate and not related to SEM managed advisory accounts. SEM has procedures in place to ensure that recommendations made are in the best interest of clients.

Neither SEM, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.

SEM does not recommend or select other investment advisors for its clients.

SEM is not and has never been either an affiliated person of or principal underwriter for any mutual fund.

## Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

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SEM has adopted a code of ethics to set ethical standards for the firm. The code contains provisions reminding employees of their obligations to clients including being objective, disclosing conflicts of interest, and maintaining confidentiality of client information. A copy of SEM's code of ethics is available upon request.

None of our associated persons or any related person recommends, buys, or sells for client accounts, securities in which we or any related person has a material financial interest.

SEM or a related person may buy or sell securities that are also recommended to clients. This practice may create a situation where we and/or representatives of SEM are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if we did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal

trades executed prior to those of the Registrant's clients) and other potentially abusive practices.

Employees are allowed to have outside investment accounts and employees may participate in SEM programs. SEM employees who have access to nonpublic information regarding clients' purchase or sale of securities, are involved in making securities recommendations to clients or who have access to such recommendations that are nonpublic are considered "access persons". Access persons are required to report transactions and holdings for non-exempt investments held outside of an SEM program. Purchases of any IPO or private placement requires preapproval.

## Brokerage Practices

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### Selecting Brokerage Firms

SEM recommends specific custodians to its clients for execution. No client is obligated to use these firms for custodial or execution services; however, if a client designates the use of a custodian other than the recommended custodians, SEM retains the right to decline to enter into a relationship with the client if we believe that the use of the custodian would inhibit our ability to provide advice to the client.

We strive to select those brokers or dealers, i.e. custodians which will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on the broker's stability, reputation, ability to provide professional services, competitive commission rates and prices, research, trading platform, and other services which will help SEM in providing investment management services to clients. SEM may, therefore recommend (or use) the use of a broker who provides useful research and securities transaction services even though a lower commission may be charged by a broker who offers no research services and minimal securities transaction assistance. Research services may not be useful in servicing all our clients, and not all of such research may be useful for the account for which the particular transaction was effected.

Consistent with obtaining best execution for clients, we may direct brokerage transactions for clients' portfolios to brokers who provide research and execution services to us and, indirectly, to SEM clients. These services are of the type described in Section 28(e) of the Securities Exchange Act of 1934 and are designed to augment our own internal research and investment strategy capabilities. This may be done without prior agreement or understanding by the client (and done at our discretion). Research services obtained through the use of soft dollars may be developed by brokers to whom brokerage is directed or by third-parties which are compensated by the broker. SEM does not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients, believing that the research we receive will help us to fulfill our overall duty to our clients. We may not use each particular research service,

however, to service each client. As a result, a client may pay brokerage commissions that are used, in part, to purchase research services that are not used to benefit that specific client. Broker-dealers we select may be paid commissions for effecting transactions for our clients that exceed the amounts other broker-dealers would have charged for effecting these transactions if SEM determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or our overall duty to its ("brokerage") discretionary client accounts.

Certain items obtainable with soft dollars may not be used exclusively for either execution or research services. The cost of such "mixed-use" products or services will be fairly allocated and SEM makes a good faith effort to determine the percentage of such products or services which may be considered as investment research. The portions of the costs attributable to non-research usage of such products or services are paid by our firm to the broker-dealer in accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934.

When we use client brokerage commissions to obtain research or brokerage services, we receive a benefit to the extent that SEM does not have to produce such products internally or compensate third-parties with our own money for the delivery of such services. Therefore, such use of client brokerage commissions results in a conflict of interest, because we have an incentive to direct client brokerage to those brokers who provide research and services we utilize, even if these brokers do not offer the best price or commission rates for our clients.

Advisor 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 Advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Advisor receives some benefits from TD Ameritrade through its participation in the program. (Please see the disclosure under Client Referrals and Other Compensation below.)

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### **Order Aggregation**

We may combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as "block trading"). If orders are block traded, we will then distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account, but it is not based on account performance or the amount or structure of management fees. Subject to our discretion regarding factual and market conditions, when we combine orders, each participating account pays an average price per share for all transactions and pays a proportionate share

of all transaction costs. Accounts owned by our firm or persons associated with our firm may participate in block trading with your accounts; however, they will not be given preferential treatment.

In the event orders are not block traded, clients may receive different prices for the same securities transactions. Furthermore, clients may not be able to buy or sell the same quantity of securities and may be charged higher fees or commissions, than if transactions were block traded.

## **Review of Accounts**

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### **Periodic Reviews**

Account reviews are performed quarterly by our Investment Advisor Representatives Shannon Chandler, Jeffrey Hybiak and Richard Gage. SEM's New Account form, which includes client suitability information, is reviewed to ensure completeness and that the portfolio preference coincides with our client's risk tolerance and individual situation.

### **Review Triggers**

Other conditions that may trigger a review are material changes in a client's financial situation, contributions and withdrawals and at the request of our client.

### **Regular Reports**

Clients will receive a written quarterly management fee summary from Strategic Equity Management.

## **Client Referrals and Other Compensation**

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We may pay referral fees to independent persons or firms ("Solicitors") for introducing clients to us. Whenever we pay a referral fee, we require the Solicitor to provide the prospective client with a copy of this document and a separate disclosure statement that includes the following information:

- Solicitor's name and relationship with our firm;
- Explains that the Solicitor is being paid a referral fee;
- Amount of the fee; and
- The fee paid to us has not increased above our normal fees in order to compensate the Solicitor.

At our option we can provide additional fee compensation to the IAR or solicitor, or a Registered Investment Advisor with whom SEM has a written selling agreement. Under no circumstances is a referred client charged a



fee greater than they would have paid had they come directly to Strategic Equity Management, Inc.

As a matter of firm practice, the advisory fees paid to us by clients referred by solicitors are not increased as a result of any referral.

As disclosed under Brokerage Practices above, Advisor participates in TD Ameritrade's institutional customer program and Advisor may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between Advisor's participation in the program and the investment advice it gives to its Clients, although Advisor receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Advisor by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by Advisor's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit Advisor but may not benefit its Client accounts. These products or services may assist Advisor in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Advisor manage and further develop its business enterprise. The benefits received by Advisor or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, Advisor endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Advisor or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the Advisor's choice of TD Ameritrade for custody and brokerage services.

Advisor also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment Advisors participating in the program. Specifically, the Additional Services include Capttools (Client Reporting), LaserApp (Client Forms), Morningstar (Investment Research and Client Reporting), Salesforce (Client Communication), Televent DTN (Market Data and Investment Research), Cities Digital Laserfiche Web Access and Laserfiche Salesforce.com Integration, Derived Data - Ivolatility (Market Data Provider), Ned Davis Research (Market Research), Tango Consulting (Data Feed

Migration), Rocket Science Group (Software Upgrade E-Mail), and Investors Fast Track (Market Data Provider). TD Ameritrade provides the Additional Services to Advisor in its sole discretion and at its own expense, and Advisor does not pay any fees to TD Ameritrade for the Additional Services. Advisor and TD Ameritrade have entered into a separate agreement (“Additional Services Addendum”) to govern the terms of the provision of the Additional Services.

Advisor’s receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to Advisor, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, Advisor’s Client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with Advisor, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, Advisor may have an incentive to recommend to its Clients that the assets under management by Advisor be held in custody with TD Ameritrade and to place transactions for Client accounts with TD Ameritrade. Advisor’s receipt of Additional Services does not diminish its duty to act in the best interests of its Clients, including to seek best execution of trades for Client accounts.

## Custody

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We directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy and compare the custodial statement you receive with the statement that you receive from SEM.

## Investment Discretion

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### **Discretionary Authority for Trading**

Before we can buy or sell securities on your behalf, you must first sign our discretionary management agreement, a power of attorney, and/or trading authorization forms.

You may grant our firm discretion over the selection and amount of securities to be purchased or sold for your account(s) without obtaining your consent or

approval prior to each transaction. You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters for your account(s). For example, you may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio and/or restrictions or prohibitions of transactions in the securities of a specific industry or security.

## **Voting Client Securities**

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### **Proxy Votes**

We do not vote proxies on behalf of our advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of common stock or mutual funds, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic solicitation to vote proxies.

## **Financial Information**

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### **Financial Condition**

We are not required to provide financial information to our clients because we do not:

- require the prepayment of more than \$1,200 in fees and six or more months in advance, or
- take custody of client funds or securities, or
- have a financial condition that is reasonably likely to impair our ability to meet our commitments to you.