



# Sheaff Brock Investment Advisors, LLC

10401 N. Meridian Street, Suite 100

Indianapolis, IN 46290

Telephone: (317) 705-5700

[www.sheaffbrock.com](http://www.sheaffbrock.com)

## **Form ADV Part 2A Brochure**

April 25, 2016

This Brochure provides information about the qualifications and business practices of Sheaff Brock Investment Advisors, LLC, the Advisor. If you have any questions about the contents of this Brochure, please contact us at (317) 705-5700 or [compliance@sheaffbrock.com](mailto:compliance@sheaffbrock.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 Advisor is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Advisor is 118739.

Advisor 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.



## **ITEM 2. MATERIAL CHANGES**

The purpose of this Item 2 is to disclose material changes that have been made to this Brochure since the last annual update of this Brochure on March 16, 2015.

Most Items of this Brochure have been revised to provide additional information, clarifications and explanations; however, we have not revised the amount of the fees we charge for our services.

We urge clients to review this entire Brochure to ensure they understand the additional information, clarifications, and explanations we have provided, and to contact us with any questions at the address or telephone number shown on the front of this Brochure.



## TABLE OF CONTENTS

Item 1.	Cover Page.....	1
Item 2.	Material Changes.....	2
Item 3.	Table of Contents .....	3
Item 4.	Advisory Business .....	4
Item 5.	Fees and Compensation .....	10
Item 6:	Performance-Based Fees and Side-by-Side Management .....	14
Item 7:	Types of Clients.....	14
Item 8.	Methods of Analysis, Investment Strategies and Risk of Loss.....	14
Item 9.	Disciplinary Information .....	19
Item 10.	Other Financial Industry Activities and Affiliations .....	19
Item 11.	Code of Ethics, Participation in Transactions & Personal Trading.....	20
Item 12.	Brokerage Practices .....	22
Item 13.	Review of Accounts .....	26
Item 14.	Client Referrals and Other Compensation.....	27
Item 15.	Custody.....	28
Item 16.	Investment Discretion .....	29
Item 17.	Voting Client Securities.....	29
Item 18.	Financial Information .....	29



## ITEM 4. ADVISORY BUSINESS

### Company

Sheaff Brock Investment Advisors, LLC (“Advisor” or the “Firm”) is a privately-held corporation that began providing investment advisory services in 2002. Advisor’s parent company is Sheaff Brock Capital Management, LLC, whose principal owners are:

- David Sheaff Gilreath, Managing Director, and
- Ronald Robert Brock, Managing Director.

This Brochure provides important information about Advisor, its services and compensation, the costs of its advisory services, and situations where its interests may conflict with the interests of its clients. Clients should pay particular attention to the discussions about the various conflicts of interest because these can affect Advisor’s judgment in managing client’s account, in recommending the custodian to hold account assets, and in choosing the broker to execute trades for the account, among other important considerations.

Clients should consider that Advisor will have the authority to invest in shares of a mutual fund whose investment adviser, SBAuer Funds, LLC, is partially owned by our parent company. For certain Portfolios, Advisor will also have the authority to allocate management of account assets to a subadviser, Salzinger Sheaff Brock, LLC, which is owned by our parent company with Mark Salzinger. Our parent company will benefit economically from advisory fees earned by SBAuer Funds and Salzinger Sheaff Brock, LLC, from client assets managed by them. This benefit provides an incentive to invest a client’s account in the SBAuer Funds or allocate assets to Salzinger Sheaff Brock, LLC, based on the economic benefit our parent will receive rather than the investment needs of the client.

Clients should also be aware that our parent company previously held a profits interest in two investment advisers which still serve as subadvisers for some of our client accounts: Two Fish Management, LLC (“Two Fish”), and Sellery Portfolio Management, LLC (“Sellery”). Although our parent company no longer has a profits interest in either of these subadvisers, our Managing Directors continue to serve as Chief Company Officer and Chief Financial Officer of Sellery.

If you have questions about the information in this Brochure, you can reach your investment adviser representative (the “Portfolio Consultant”) at the email address, telephone number, or street address shown on the Brochure Supplement he or she gives you. You can reach our senior management, including our Chief Compliance Officer, by telephone at (317) 705-5700, by email at [compliance@sheaffbrock.com](mailto:compliance@sheaffbrock.com), or by mail at the address shown on the front of this Brochure.

### Services Advisor Offers

Advisor offers a range of investment advisory programs and services, including the following:

- Individual Portfolio Program Services (“IPP Services”)
- Model Portfolio Program Services (“MPP Services”)
- Financial Planning Services
- Consulting Services

Please note that the information in this Brochure is necessarily general and does not address all details of Advisor’s services. Because certain terms of a client’s Advisory Agreement are negotiable, clients should always refer to their individual Advisory Agreement for terms that apply specifically to them.



## Individual Portfolio Program Services

Through our IPP Services (formerly referred to as the “Investment Supervisory Services Individual Portfolio Management”), we offer individualized portfolio management services for clients seeking a customized approach, rather than one based on a “Model Portfolio” (see below for a description of our Model Portfolios).

### *Suitability Information*

Through the IPP Services, the Portfolio Consultant will work with the client to identify the client’s personal and financial situation, and the investment objective, tolerance for risk, liquidity needs, and investment time horizon (all the “Suitability Information”) for the account (collectively, the “Program Account,” if more than one) that will be managed through the IPP Services. Client will be allowed to impose reasonable restrictions on the Program Account; provided, restrictions must be in writing.

Based on the Suitability Information and any other information the Portfolio Consultant determines appropriate under the circumstances, the Portfolio Consultant will work with the client to develop a portfolio (the “Portfolio”) of investments which is suitable for initial investment of the assets to be managed through the IPP Services (the “Program Assets”). The Portfolio will provide for allocation of the Program Assets among various asset classes, to be managed by the Portfolio Consultant on a fully discretionary basis according to an investment style and strategy consistent with the Program Account's Suitability Information.

### *Portfolio Investments*

For IPP Services accounts, Portfolio Consultants typically develop a Portfolio comprised of a diversified mix of investments consistent with the Suitability Information. The investments are drawn from the [\*Securities About Which We Offer Advice\*](#) described below, as the Portfolio Consultant determines suitable for the account. The investment strategy and any liquidity needs and investment restrictions imposed by the client will affect the specific types of investments we purchase for the Program Account.

When suitable for the account, a Portfolio Consultant may develop a Portfolio and manage an account based on investment strategy ideas or investment selections from the Model Portfolios (discussed below), adapted to the individual needs and objectives of the Program Account.

## Model Portfolio Program Services

Through our MPP Services (formerly referred to as the “Investment Supervisory Services Model Portfolio Management”), we offer portfolio management services based on our Model Portfolios. Each Model Portfolio is designed to meet a particular investment objective. Model Portfolios can be blended to build an appropriate mix of income and growth potential for the client. Following are the current Model Portfolios we offer:

- **IntelliBuild Growth** - This model currently consists of about 33 domestic equity positions which are market cap agnostic, but tend to be mostly mid-cap and small-cap. The only Portfolio objective is capital growth and is normally 100% invested in equities, although trailing stop loss orders are used which may raise cash during drawdowns. The stock selection process uses the Investor's Business Daily IBD 50 and The New America lists and then applies the Quadrix ranking system created by Horizon Investment Services, LLC, Hammond, IN, to rank the top 33 stocks. It is generally a quantitative growth methodology. Turnover is reasonably high at about one or two position changes per week, which will increase the account’s transaction costs.



- **Dividend Growth & Income** - This model consists of 20 to 25 generally domestic equity positions. The selection process is based on a Sheaff Brock score, derived from a combination of three quantitative screens from William O'Neil & Co. (fundamental and technical analysis), Quadrix ranking (fundamental), and Revelation Research (downside risk assessment), paired with a history of paying a dividend and a history of raising that dividend. Turnover is low at about two position changes per quarter, less than 45%. The portfolio objective is a rising dividend income and secondarily capital appreciation.
- **Mid-Cap 10** - This model consists of 10 NASDAQ mid-cap equities. Buy and sell decisions are quantitatively driven and momentum based. Being a focused portfolio of only 10 stocks, correlation to a mid-cap index is low. Turnover and volatility is generally high, resulting in higher transaction costs.
- **Bulls of the Dow** - This model consists of the ten highest Sheaff Brock scoring stocks in the Dow Jones Industrials Index. The selections are rebalanced quarterly which generally results in two to three changes per quarter. Portfolio objective is capital appreciation and dividend income.
- **Tactical - Technical In/Out** - This is a technical allocation portfolio which follows a "market timing" strategy so that at any point in time it is invested either in a large cap equity ETF or in a highly liquid cash-type account, depending on the technical signal given. The tactical allocation will normally change from long to neutral 3 to 4 times per year. The portfolio objective is capital preservation and capital appreciation. **Technical Long/Short** - Similar to above, but with the ability to go short. This model invests in a large cap equity ETF, a highly liquid cash-type account, or a Short S&P 500 ETF.

These portfolios are subadvised by Sellery Portfolio Management. Refer to Item 10 for the discussion of the conflict of interest arising from our selection of Sellery as subadviser.

- **Tactical - Dynamic Allocation Portfolio** - This is a combination of several Sheaff Brock models (IntelliBuilD, Dividend Growth, Mid-Cap 10, Bulls of the Dow, etc.). Each model is a separate sleeve, and each sleeve can go to cash independently based upon a moving average trigger for that particular asset class. Turnover and the number of positions is high. Minimum account size is \$1,000,000 in a single account. The portfolio objective is capital preservation and capital growth.
- **Covered Call**. This model consists of 20 to 25 generally domestic equities chosen by similar methods described in the three above portfolios. Each position is then covered by a "covered call" option position. The objective is to create a 2% to 3% cash flow every quarter in the portfolio from the call option income alone. The second objective is to earn capital appreciation on the underlying stock between the purchase price and the call option strike price. Turnover is very high and short-term capital gains are common. The portfolio objective is high income and secondarily capital appreciation.
- **Option Opportunity - Put Income** - This portfolio consists of capital gain income from the expiring time premium of out-of-the-money put options. Turnover of the put positions is high. Issues held are generally marginable stocks, bonds, mutual funds, cash, and short put option positions. **Index Spread Income** - This portfolio consists of capital gain income from the expiring time premium of put option credit spreads. Turnover of the put positions is high. Issues held are generally marginable stocks, bonds, mutual funds, cash, and short put option positions. **Iron Condor Income** - This portfolio consists of capital gain income from the expiring time premium of put option and call option credit spreads. Turnover of the put positions is high. Issues held are generally marginable stocks, bonds, mutual funds, cash, and short put option positions. The portfolios are sub-advised by Two Fish Management, LLC an Indianapolis based registered investment advisor.
- **Preferred Income** - This portfolio consists of about 25 positions in preferred stocks and corporate bond trusts that trade as preferred stocks. Generally, the stocks are NYSE listed and have a par



value of \$25 per share. The objective is income and capital preservation. Capital appreciation is generally minimal.

- **Core Plus and High Yield Bond** - These portfolios consist of about 40 individual taxable bond positions. The objective is income and capital preservation. Capital appreciation is generally minimal. This portfolio is sub-advised by Oppenheimer Asset Management (OAM), Carmel, IN an SEC registered investment advisor. OAM principals have many years of experience managing institutional fixed income portfolios.
- **Salzinger Sheaff Brock** - ETF and mutual fund portfolios, including the **Alternative** portfolio offered through Sheaff Brock, are sub-advised by Mark Salzinger who is affiliated by being a member of Salzinger Sheaff Brock, LLC. Mark is also publishing editor of two popular newsletters, the No-Load Fund Investor and the Investor's ETF Report.

### *Custodian*

Clients who wish to participate in the IPP Services or MPP Services must maintain their “Program Assets” with a qualified custodian acceptable to Advisor, in its sole discretion. Advisor recommends clients use the custodial and brokerage services of TD Ameritrade Institutional, a division of TD Ameritrade Inc., member FINRA/SIPC (“TD Ameritrade”). TD Ameritrade is an independent broker-dealer not affiliated with Advisor. TD Ameritrade is also referred to as “Custodian.”

### *Discretionary Account*

In the Advisory Agreement, Client will grant Advisor and Portfolio Consultant full authority and discretion to manage the Program Account(s) and Program Assets, without prior consent or notice to Client, according to the terms of the Program and the Advisory Agreement, other Program documents, and information provided to Advisor and Portfolio Consultant from time to time; and Portfolio Consultant will provide continuous and regular investment management services with respect to the Program Account(s) and Program Assets to seek to achieve the account objectives. Advisor and Portfolio Consultant may elect to change the asset classes and class weightings of a Portfolio, may change the investment strategy for a particular Portfolio, or designate a different Portfolio for the Program Account, without prior notice or consent of the client.

***Please refer to Item 8 for information about Advisor’s methods of analysis and investment strategies, the types of investments Advisor generally recommends, and the material risks involved with respect to the IPP Service and MPP Service. Refer to Item 12 for information regarding brokerage.***

## **Financial Planning Services & Extended Planning Services**

Advisor offers clients a range of financial planning services based on the specific needs of the client. Advisor and client will enter into a written Advisory Agreement that describes the specific Financial Planning Services Advisor will provide, and the Advisory Fees for such services.

Through our Financial Planning Services, the client’s Portfolio Consultant meets with the client to discuss and analyze the client’s investments and financial situation, and help the client to identify his or her investment goals and objectives, tolerance for risk, and investment time horizon, among other key factors to developing a financial plan. Clients may be asked to provide detailed information about the client's personal and family situation, estate and retirement plans, trust agreements, wills, investments, insurance, or other information necessary to provide the specific services requested. Based on the information provided by the client, the Portfolio Consultant will develop recommendations to help the client towards achieving his or her investment objectives.



### Reliance on Information from Client, Other Professionals & Planning Assumptions

In providing the Financial Planning Services, the Portfolio Consultant will rely on assumptions or estimates regarding a number of important factors that may or may not turn out to be accurate at any time. These assumptions will often include subjects such as future market performance and investment returns, anticipated and reasonably foreseeable living and medical expenses, tax laws, interest rates, and other factors. Advisor will also rely on information provided by client and client's other professionals (e.g., attorneys, accountants, etc.).

Advisor is not required to verify any information received from the client or from such other professionals, and Advisor is expressly authorized to rely on such information. As a result of likely differences between the items assumed and the actual situation at any time in the future, client's (or client's successors') financial situation or needs may be materially different than anticipated and client's financial or investment objectives may not be achieved. Clients are advised that it remains their responsibility to promptly notify Advisor if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising Advisor's previous recommendations or services.

Advisor will generally provide a written report or financial plan in connection with the Financial Planning Services which will usually include recommendations to assist the client in achieving his or her financial goals and objectives, which may include recommendation to use Advisor's services to manage client's assets. See Item 10 for conflicts of interest that arise as a result of the potential for compensation if the client chooses to accept such recommendation.

### Extended Planning Services

Once the initial engagement has been completed, the client will determine the extent to which client wishes to implement the recommendations made by Advisor, and may extend the Advisory Agreement to provide for an annual, renewable extended planning arrangement which includes on-going guidance and assistance with respect to implementation and regular consultations with their Portfolio Consultant.

## Consulting Services

Advisor provides a range of consulting services addressing a variety of investment and non-investment related matters, such as pension plan administration and investment consultations. The scope of these project-based services varies, as each engagement is individually negotiated and tailored to accommodate the specific needs of a particular client. In these cases, the services we provide will be included in a consulting agreement negotiated by Advisor and the client. We will charge a project or consulting fee, which will vary depending on the scope of the services to be provided. Advice is based on objectives communicated, either orally or in writing, by the client or the client's advisors. Advice may be provided through individual consultations or a written plan document, as agreed between Advisor and client.

## Information Regarding Our Services

### *Changes in Client Circumstances*

Clients are advised that changes in their personal or financial situation, investment objectives, tolerance for risk, or investment time horizon may cause the strategy or Portfolio designated for the client's account to become no longer suitable. In the event of any material change in client's personal or financial circumstances, client should contact the Portfolio Consultant or Advisor promptly so that we may assist in identifying another program, strategy or other investments that better meet the client's needs.





### *Deposit Cash or Cash Equivalents; Excluded Assets*

Generally, for the IPP Services and MPP Services, client is expected to deliver only cash or cash equivalents to the Custodian. With Advisor's consent, client may transfer securities to the Custodian, but the securities will be liquidated to cash as soon as reasonably practical, unless Advisor agrees that such assets may be retained in the account. Client may not transfer or deposit to the account any securities that are not publicly traded or that cannot be promptly sold, except upon our agreement, and such assets shall be held in the account as "Excluded Assets" for reporting purposes only and for which we shall not have any responsibility to provide advice or manage whatsoever, except as we and client shall otherwise agree. Client will grant us and the Custodian the authority, in our respective discretion, to liquidate securities transferred into the account or to require client to transfer such securities out of the account upon request.

Clients may withdraw account assets on notice to Advisor, subject to usual and customary securities settlement procedures. Advisor designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Advisor may consult with its clients about the options and implications of transferring securities. Clients are advised that when transferred securities are liquidated, they may be subject to transaction fees, fees assessed at the mutual fund level (i.e. early redemption or contingent deferred sales charges) and tax ramifications, for example.

### *Differences Among Portfolio Consultants' Accounts*

Portfolio Consultants develop different Portfolios for clients participating in the IPP Services and MPP Services, follow different investment strategies and styles, and have different policies and practices for developing, rebalancing, and adjusting Portfolios in view of the Suitability Information of the accounts they are managing. Consequently, it is expected that the Portfolios, levels of volatility, fees, expenses, returns, and performance will vary significantly among accounts from one Portfolio Consultant to another, as well as among the accounts of each Portfolio Consultant.

The Portfolio Consultant will be acting on behalf of Advisor; and any discretion granted by the client to the Portfolio Consultant will be deemed to be granted to, and may be exercised by, Advisor. Advisor, as the Portfolio Consultant's supervisor, will have the authority to direct any act of the Portfolio Consultant in the performance of any service. Although the Portfolio Consultants act under the general supervision of Advisor and Advisor monitors the accounts of each Portfolio Consultant, Advisor does not direct or mandate the investment strategy or style followed by a Portfolio Consultant.

### **Securities About Which We Offer Advice**

We offer advice regarding a wide variety of securities, including:

- exchange-listed or over-the-counter, common, preferred, or convertible securities of domestic or foreign issuers;
- warrants;
- certificates of deposit;
- corporate debt securities;
- municipal securities;
- securities issued by the US Treasury, agencies, or government sponsored enterprises;
- shares of money market funds, open-end investment companies (mutual funds), closed-end funds, unit investment trusts, and exchange-traded funds ("ETFs"); and
- option contracts on securities.



However, with respect to any individual client's account and Portfolio, our advice will be limited to those securities with respect to which the client has request advice and those which the Portfolio Consultant determines are suitable for the account. This list is more extensive than the investments we recommend for a typical client's account. Please refer to the discussion in Item 4 with respect to the IPP Service and MPP Service and in Item 8 for information about the investments we typically recommend.

## **Assets under Management**

As of December 31, 2015, Advisor managed \$1,100,574,123, all of which was managed on a discretionary basis.

## **ITEM 5. FEES AND COMPENSATION**

Prior to engaging Advisor, the Client will be required to enter into a written Advisory Agreement with Advisor setting forth the terms and conditions of the engagement and describing the scope of the services to be provided.

### **IPP Services and MPP Services Advisory Fees**

The maximum Advisory Fee Rate for the IPP Services and MPP Services is 2.00%, expressed as an annual percentage, but calculated and payable quarterly in advance. Advisory Fees are based on the value of Program Assets as of the last trading day of the preceding calendar quarter; provided, for the first calendar quarter, Advisory Fee are based on the value of Program Assets on and prorated through the last trading day of the first calendar quarter. Advisory Fees will be due and payable immediately following the end of the calendar quarter. Advisory Fees are not charged on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client.

Except as provided below, the value of the Program Assets shall be determined by reference to the valuations provided by or available from each Custodian. If the last trading day of a calendar quarter or other period for which we calculate Advisory Fees is different than the last day of a Custodian's reporting or statement period, we may value Program Assets maintained by such Custodian as of the close of the Custodian's reporting or statement period, as we shall select on a consistent basis for each Custodian.

Fees are calculated on a per account basis unless accounts are designated as part of a household, as Advisor determines in its sole discretion. Advisory Fees may be calculated on the basis of the actual number of days in a calendar quarter or on the basis of 4 even calendar quarters, as we elect to apply on a consistent basis.

### ***Additional Fees & Expenses***

The Advisory Fees are separate and distinct from a number of other expenses that Program Accounts will incur, including:

- Brokerage and Investment Expenses
- Investment Company Expenses
- Custodial Expenses

### ***Brokerage and Investment Expenses***

As used in this Brochure, the term "Brokerage and Investment Expenses" refers to the following:

- commissions, ticket charges, and other fees charged by brokers (including the Custodians) who execute securities transactions for the Program Account on an agency basis;



- mark-ups, mark-downs, or other spreads included in the amount charged by or paid to a dealer for securities bought or sold on a principal basis, and underwriting fees, dealer concessions, or related compensation in connection with securities acquired in underwritten offerings;
- odd lot differentials, transfer or other taxes, floor brokerage fees, exchange fees, service and handling fees, electronic fund or wire transfer fees, costs of exchanging currencies, and postage and delivery expenses; and
- costs of cash management services (including for “sweep” arrangements of idle cash into bank deposit accounts or money market mutual fund accounts), and direct and indirect fees for other financial or investment services provided by brokers or custodians.

Advisor does not receive any of the Brokerage and Investment Expenses. Please refer to Item 12 for additional information about our brokerage practices and costs.

#### Investment Company Expenses

Mutual funds, money market funds, ETF's, variable annuities, and UIT's (all referred to as a “fund”) deduct from their assets the internal management fees, operating costs, and investment expenses they incur to operate the fund, and the administrative and mortality costs of the variable annuity. These internal expenses also include recordkeeping fees, and transfer and sub-transfer agent fees, among others. All of these represent indirect expenses that are charged to the fund's shareholders.

Frequently, these internal expenses also include "Distribution Fees." These amounts are deducted from the fund's assets to compensate brokers who sell fund shares, as well as to pay for advertising, printing and mailing prospectuses to new investors, and printing and mailing sales literature. Mutual fund internal expenses also commonly include “Shareholder Service Fees” which are amounts deducted from the fund's assets to pay the costs of responding to investor inquiries and providing investors with information about their accounts.

Distribution Fees and Shareholder Service Fees are referred to collectively as “12b-1 Fees,” named after the SEC rule that adopted them. The 12b-1 Fees are calculated for each class of shares of a fund, and are calculated as a percentage of the total assets attributable to the share class. The 12b-1 Fees, Advisor fees, and other ongoing expenses are described in the fund's prospectus Fee Table. These fees will vary from fund to fund and for different share classes of the same fund. You can use prospectus Fee Tables to help compare the annual expenses of different funds.

Mutual funds may also impose an early redemption fee if shares are redeemed within a short time period, usually within 30, 60 or 90 days from the date of purchase. The redemption fee is generally one percent.

Advisor does not receive any of the Investment Company Expenses for investments in a Program Account.

#### Custodial Expenses

Clients must pay the cost of services provided by their Custodian for: (1) arranging for the receipt and delivery of securities that are purchased, sold, borrowed or loaned for the Program Account; (2) making and receiving payments with respect to Program Account transactions and securities; (3) maintaining custody of Program Account securities; and (4) maintaining custody of cash, receiving dividends, and processing exchanges, distributions, and rights accruing to the Client's account. The Custodian may be compensated through commissions or other transaction-based fees for securities transactions executed through the Custodian (or its affiliates) or by asset-based fees for investments settled into the Custodian's accounts, or both. The specific fees and terms of each Custodian's services are described in the Client's separate custodial agreement.

Refer to Item 12 for more information regarding brokerage services provided by the Custodians.



## Financial Planning Services & Consulting Services Fees

For Financial Planning Services or Consulting Services, Advisor generally charges a negotiable hourly or fixed fee, typically ranging up to \$400 on an hourly basis and up to \$15,000 (or more) on a fixed fee basis, depending on the scope and complexity of the engagement and the professional providing the underlying services. The specific fee arrangement will be described in the client's Advisory Agreement, and if an hourly arrangement, the agreement will include the hourly rate and an estimate of the total fee. Client will pay a deposit of 50% of the estimated fee at the signing of the Advisory Agreement with the balance of the actual fee payable upon completion of the agreed services, as described in the client's Advisory Agreement.

Depending on the nature and scope of the services to be provided, services are typically completed between 30 and 120 days, provided the client promptly provides all information needed to complete the services. Financial Planning Services or Consulting Services terminate upon completion of the services described in the Advisory Agreement; provided, either party may terminate the Agreement at any time, in which Advisor shall provide a refund (or shall be owed payment) based on the percentage of the project actually completed by Advisor, as Advisor determines in good faith.

Fees for the Extended Planning Services are negotiated similarly to Financial Planning Services, however, the Representative will consider the on-going nature of the services, the number and of frequency of client meetings and other contacts, the overall scope of services over the initial one-year period as well as intermediate and longer terms and prospects for future investment management services, and the cost of providing the additional financial services which client selects, among other factors. The Representative will provide the client with the estimated costs of the service prior to the client entering into the Advisory Agreement. Fees are generally paid monthly or quarterly in advance; with client permitted to terminate the agreement and receive a refund of any unearned, prepaid fees based on the services actually rendered by Representative.

## General Information Regarding Fees

### *Grandfathering of Minimum Account Requirements*

Pre-existing advisory clients are subject to Advisor's minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our minimum account requirements will differ among clients.

### *Risk of Liquidations to Pay Fees*

The Custodian will be authorized to deduct the Advisory Fees directly from the Client's account, without notice to the Client. If sufficient cash is not available in the account to pay the Advisory Fees when due, the Custodian will liquidate securities selected by the Custodian or us without prior notice to the Client. If mutual funds are liquidated, the client may be charged a contingent deferred sales charge, an early redemption fee, or a fee to discourage short-term trading of fund shares. If the liquidated securities have declined in value, the client will realize a loss and lose the opportunity for future appreciation of the securities.

### *Deduction of Fees from Custodial Account*

The Advisory Agreement authorizes and directs the Custodian to deduct the Advisory Fees directly from the Program Account upon receipt of our instructions. We require clients to authorize the Custodian to deduct the Advisory Fees from the Program Account and pay us. Clients are not generally permitted to choose to have Advisory Fees billed directly to them for payment in lieu of billing the Custodian; however,



this term may be negotiable in our sole discretion. The amount of the Advisory Fee deducted by the Custodian will be reflected on the Custodian's regular statements to the client.

### *ERISA Accounts*

Advisor is deemed to be a fiduciary with respect to certain clients pursuant to the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986 (the "Code"), respectively. As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, Advisor may only charge fees for investment advice about products for which we do not receive any commissions or 12b-1 fees, or conversely, investment advice about products for which we receive commissions or 12b-1 fees, however, only when such fees are used to offset advisory fees.

### *Fair Valuation of Assets*

Typically, the value of the Program Account and Program Assets will be based on the value reported by the Custodian on its statements (or its internal electronic system). In the event Custodian does not value the Program Account or any asset, or we determine Custodian's value of the Program Account or an asset is materially inaccurate, the Program Account or such asset shall be valued by us in good faith to reflect its fair value. Money market accounts and bank accounts, if any, shall be valued as of the valuation date. Transactions that have not settled may be included in either the current or the following period, as determined for the Program Account maintained with each Custodian on a consistent basis.

### *Negotiability of Fees & Other Terms*

For all services, Advisor has the discretion to negotiate its fees and other terms of each client's relationship with Advisor, and to negotiate different fees and other terms on a client-by-client basis.

When considering these matters, Advisor usually considers the amount of assets to be placed under management by the client and related accounts, anticipated future revenues and anticipated future assets or other business from the client or related persons, and other existing or anticipated relationships. Advisor may elect, in its discretion, to aggregate related client accounts for the purpose of determining fees.

Because Advisory Fees and other terms of programs and services may be negotiated separately with individual clients, some accounts pay lower Advisory Fees than other accounts. Waivers, discounts or more favorable terms not generally available to other clients may be offered to family members and friends of employees and affiliates.

### *Evaluate All Costs of Our Services*

When evaluating the overall costs and benefits of our services, Clients should consider not just the Advisory Fees, but also the Brokerage and Investment Expenses, the Investment Company Expenses, and Custodial Expenses, as well as the compensation that our parent company will earn which is in addition to the Advisory Fees client will pay pursuant to the Advisory Agreement. Clients should consider carefully all of these direct and indirect fees and expenses of our services and the investment products Advisor recommends to fully understand the total costs and assess the value of Advisor's services. Our Advisory Fees and the other costs of our services may be higher than amounts charged by other advisers or financial services firms for similar services.



### *Fees in Advance and Terminations*

Advisory fees for the IPP Services and MPP Services are paid in advance. The Advisory Agreement may be terminated by either party upon notice to the other party. Advisory Fees payable for the last calendar quarter shall be prorated based on the number of days the Advisory Agreement is in effect during such quarter, and the balance shall be refunded to client.

After an Advisory Agreement has been terminated: Client may be charged commissions, sales charges, and transaction, clearance, settlement, and custodial charges, at prevailing rates, by the Custodian and any executing or carrying broker-dealer; client will be responsible for monitoring all transactions and assets; and Advisor shall not have any further obligation to monitor or make recommendations with respect to the account or those assets.

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

We are required to disclose information about “performance-based” fee arrangements (fees based on a share of capital gains on or capital appreciation of the assets of a client) and any situations where we manage both accounts with performance-based fee arrangements and accounts without such arrangements.

We do not currently have any performance-based fee arrangements with our clients.

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

Advisor provides investment advisory services to the following types of clients:

- Individuals, including high net worth individuals;
- Pension and profit sharing plans;
- Trusts, estates, and charitable organizations; and
- Corporations and other businesses entities.

Advisor has established a minimum of \$500,000 per client relationship for the IPP Service and MPP Service, which Advisor may agree to modify or waive, in Advisor’s sole discretion. Advisor may agree to group related accounts for purposes of meeting the minimum.

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

### **Methods of Analysis**

Advisor’s Investment Committee and its Portfolio Consultants use a variety of methods of analysis in managing client portfolios and the Model Portfolios. Following are typical methods of analysis that may be used; however, Clients should inquire of their specific Portfolio Consultant the particular method the Portfolio Consultant or Investment intends to use in managing the Client’s account or with respect to a particular Model Portfolio:

#### *Fundamental Analysis*

Fundamental analysis involves analyzing a company’s income statement, financial statements and health, its management and competitive advantages, and its competitors and markets. The fundamental analysis school of thought maintains that markets may misprice a security in the short run but that the “correct” price will eventually be reached. Profits can be made by trading the mispriced security and then waiting for the market to recognize its “mistake” and re-price the security. However, fundamental analysis does not



attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock. Therefore, unforeseen market conditions and company developments may result in significant price fluctuations that can lead to investor losses.

### *Technical Analysis*

For our some of Portfolios, we may also use technical analysis to identify price patterns and trends in financial markets and attempt to exploit those patterns. Technical analysts follow and examine indicators such as price, volume, moving averages, and market sentiment (Stochastics, point-and-figure bullish percent's, or the Dow Theory for example). Technical analysis does not consider the underlying financial condition of a company or industry. This presents a risk in that a poorly-managed or financially unsound company or out of favor sector may underperform regardless of market movement.

### *Mutual Fund and ETF Analysis*

In analyzing mutual funds and ETFs, we look at the experience and track record of the portfolio managers to determine if they have demonstrated the ability to invest successfully over periods of time and in different economic conditions. We also consider whether or not there is a significant overlap with the underlying investments held by other mutual funds and ETFs. We monitor the funds in an attempt to determine if they are continuing to follow their stated investment strategies. We also evaluate the fees of the portfolio managers and the internal expenses to determine whether the client is receiving adequate value for these fees and expenses.

A risk of our mutual fund and ETF analysis is that, as in all investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund, managers of different mutual funds and ETFs in a client's account may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund, which could make the fund less suitable for the client's portfolio. Moreover, we do not control the portfolio manager's daily business or compliance operations, and we may be unaware of the lack of internal controls necessary to prevent business, regulatory or reputational deficiencies.

### *Asset Allocation*

This investment philosophy is grounded in Modern Portfolio Theory, which refers to the process of attempting to reduce risk in a portfolio through systematic diversification across asset classes and within those particular asset classes for both equities and bonds. This method emphasizes the selection of asset classes that comprise the Portfolio, with additional consideration of market and economic factors in the specific allocations and weightings within each Portfolio, as well as decisions affecting changes in Portfolio investments, allocations, and weightings. A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

### *Quantitative Analysis*

This method uses mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price, earnings per share, return-on-equity, PEG ratio, current ratio, and debt levels, and predict changes to that data. A risk in using quantitative analysis is that the models used may be based on assumptions that prove to be incorrect.





## Investment Strategies & Risks

Advisor reserves the right to employ a number of investment strategies in pursuit of the investment objectives for client Portfolios, including long-term purchases, short-term purchases (investments expected to be held for less than a year), trading (investments held less than 30 days), and option writing, as follows:

- **Long-term purchases.** We purchase securities with the idea of holding them in the client's account for a year or longer. Typically, we employ this strategy when:
  - we believe the securities to be currently undervalued, and/or
  - we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk of a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

- **Short-term purchases.** When utilizing this strategy, we purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.
  - A short-term purchase strategy poses risks should the anticipated price swing not materialize; we are then 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.
- **Option writing.** We may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset. The two types of options are calls and puts:
  - A call gives the owner the right to buy an asset at a certain price within a specific period of time. We will often sell a call in order to create additional income in an account if we are comfortable with the option strike price as a suitable sale price for the underlying stock.
  - A put gives the holder the right to sell an asset at a certain price within a specific period of time. We may sell a put in order to create additional income in an account if we are comfortable with the option strike price as a suitable buy price for the underlying stock.
  - We may (although it is not an active strategy used often by us) also use options to "hedge" a purchase of the underlying security; in other words, we will use an option purchase to limit the potential downside of a security we have purchased for your portfolio.
  - We use "covered calls," in which we sell an option on security you own. In this strategy, you receive a premium for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price.
  - A risk of covered calls is that the option buyer does not have to exercise the option, so that if we want to sell the stock prior to the end of the option agreement, we have to buy the option back from the option buyer, for a possible loss.





- We may also use "cash secured or margin secured puts," in which we sell a put option on security you do not own. In this strategy, you receive a premium for making the option available, and the person purchasing the option has the right to sell the security to you at an agreed-upon price.
- A risk of selling puts is that the price of the underlying stock can fall below the agreed-upon option price so that if the put is exercised or we want to buy the option back from the option buyer prior to the termination of the option, a possible loss could be incurred.

### *Risks Associated with Inverse Funds and ETFs*

Inverse mutual funds and ETFs, which are sometimes referred to as "short" funds and ETFs, seek to provide the opposite of the performance of the index or benchmark they track. Inverse funds and ETFs are often marketed as a way to profit from, or hedge exposure to, downward moving markets. Some inverse funds and ETFs also use leverage, such that they seek to achieve a return that is a multiple of the opposite performance of the underlying index or benchmark (i.e., -200%, -300%). In addition to leverage, these funds and ETFs may also use derivative instruments to accomplish their objectives. As such, inverse funds and ETFs are volatile and provide the potential for significant losses.

Risk associated with holding inverse Funds and ETF's include, but are not limited to:

- **Most Inverse Funds and ETFs Seek Daily Target Returns:** Most inverse funds and ETFs "reset" daily, meaning that they are designed to achieve their stated objectives on a daily basis. Due to the effect of compounding, the return for investors who invest for a period different than one trading day may vary significantly from the fund's stated goal as well as the target benchmark's performance. This is especially true in very volatile markets or if a fund is tracking a very volatile underlying index.
- **Higher Operating Expenses and Fees:** Investors should be aware that inverse funds and ETFs typically rebalance their portfolios on a daily basis in order to compensate for anticipated changes in overall market conditions. This rebalancing can result in frequent trading and increased portfolio turnover. Inverse funds will therefore generally have higher operating expenses and investment management fees than other funds and ETFs.
- **Tax Treatment of Inverse Funds and ETFs May Vary:** In some cases, inverse funds and ETFs may generate their returns through the use of derivative instruments. Because derivatives are taxed differently from equity or fixed-income securities, investors should be aware that these funds may not have the same tax efficiencies as other funds.

### *Margin Accounts*

Certain strategies or Portfolios (such as options) require the use of a margin account to establish required positions. For other Portfolios, the use of margin is not expected to be used frequently, except as necessary to borrow sufficient funds to purchase a security for an account. This typically happens if sufficient cash is not available in the account to purchase the security and it is not advantageous to sell other investments. The use of margin carries risks that clients should understand.

In volatile markets, security prices can fall very quickly. If the net value of a client's account (less the amount the client owes to the broker) falls below a certain level, the broker will issue a "margin call" and the client will be required to sell the security (and other positions) or add more cash to the account. You could lose more money than you originally invested. Additionally, the client must pay interest on the margin balance owed to the broker until it is repaid in full. The amount of margin interest will diminish the client's profits and in some cases could cause net losses in the client's account.



### *Risk of Errors in Investment Decisions*

There is a risk that Advisor's judgment about the attractiveness, relative value, or potential appreciation of a particular market sector or security, or about the timing of investment purchases or sales, may prove to be incorrect, resulting in losses to the client's account. The success of Advisor's strategy for an account or Portfolio is subject to Advisor's ability to continually analyze and select appropriate investments, and allocate and re-allocate the investments consistent with the intended investment objectives and risk parameters. There is no assurance that Advisor's efforts will be successful.

### *Reliance on Sources of Information*

Advisor's method of analyzing investment opportunities assumes that the information Advisor receives about securities, managers, and companies, the characteristics and ratings of the securities they issue, and other publicly-available sources of information Advisor utilizes is accurate and unbiased. While Advisor is alert to indications that data may be incorrect or skewed, there is always a risk that its analysis may be compromised by inaccurate or misleading information.

### *Management of Account Until Advisor Receives Written Notice*

Unless and until the client notifies Advisor in writing to designate a different Portfolio for the Program Account or to notify Advisor of material changes in the Suitability Information, Advisor will continue to manage the account according to the Suitability Information in its records. Clients should inform Advisor promptly of significant changes in their individual or family circumstances or financial situation, or in the investment goals or objectives, investment time horizon, tolerance for risk, or liquidity needs of their account so that appropriate changes can be made.

### *Risk of Loss*

All investing involves a risk of loss that investors should be prepared to bear. The descriptions contained below are a brief overview of the material risks related to Advisor's investment strategies; however, it is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with participation in the Advisor Program.

**Business Risk** – the risk that the price of an investment will change due to factors unique to that company, investment or market segment and not the market in general.

**Leverage Risk** – the risk to specific companies' future earnings due to their use of debt. Companies that borrow money must pay it back at some future date, plus the interest charges. This increases the uncertainty about the company because it must have enough income to pay back this amount at some time in the future.

**Market Risk** – the risk that the price of a particular investment will change as a result of overall market conditions that are not specific to that particular company or investment.

**Event-Based Risks** – these are risks of events the market has not anticipated, known as "Black Swans." A Black Swan event is an event that is unprecedented or unexpected at the point in time it occurs, and which can cause large market dislocations.

**Interest Rate Risk** – the risk that interest rate changes will affect the price of a particular investment. For example, when interest rates rise, the price of bonds generally falls.

**Market Volatility Risk** – The prices of securities may be volatile. Price movements of securities in which Advisor invests are influenced by, among other things: interest rates; changing supply and demand relationships; trade, fiscal, monetary and exchange control programs and policies of governments; and U.S.



and international political and economic events and policies. In addition, governments from time to time intervene, directly or by regulation, in certain markets, particularly those in currencies and interest rate related futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.

**Management Risk**-- The success of the Advisor's strategies for each Portfolio is subject to Advisor's ability to continually analyze and select appropriate investments, and allocate and re-allocate the investments as a suitable Portfolio consistent with the intended investment objectives and risk parameters. There is no assurance that Advisor's efforts will be successful.

## **ITEM 9. DISCIPLINARY INFORMATION**

Advisor is required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Advisor does not have any matters to disclose under this Item.

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

### *Relationships with Investment Company and Investment Advisers*

As disclosed in Item 4 and Item 5, our parent company owns an interest in SBAuer Funds, LLC, which is the investment adviser to a mutual fund, the Auer Growth Fund (the "Mutual Fund"), an investment company registered under the Investment Company Act of 1940, in which we sometimes invest Portfolio assets for accounts participating in IPP Services and certain MPP Services Portfolios. The Chief Compliance Officer and Chief Financial Officer of Advisor serve in the same positions for SBAuer Funds, LLC.

For additional information about the Mutual Fund, the Fund Prospectus and Statement of Additional Information are available on the Internet at: [www.sbauerfunds.com](http://www.sbauerfunds.com). Prospective investors should review these documents carefully before making any investment in the Mutual Fund.

Also as disclosed in Item 4, our parent company is owner with Mark Salzinger of an investment adviser, Salzinger Sheaff Brock, LLC ("SSB"), to which Advisor has the authority to allocate management of client Portfolio assets as subadviser. The Chief Compliance Officer and Chief Financial Officer of Advisor serve in the same positions for SSB.

Our parent company is also the owner of an investment adviser, Innovative Portfolios, LLC ("IP"), which provides discretionary portfolio management services that are delivered through an automated and interactive web-based investment management system. The Chief Compliance Officer and Chief Financial Officer of Advisor serve in the same positions for IP. Although IP does not act as subadviser for client Portfolios, in appropriate cases, a Portfolio Consultant may recommend that IP manage client assets where such services more closely meet a client's needs than the IPP Services or MPP Services.

Our parent company will benefit economically from advisory fees earned by SBAuer Funds, SSB, and IP from client assets managed by them. This benefit provides an incentive for Advisor to invest in the Mutual Fund, allocate assets to SSB, or recommend IP, based on the economic benefits our parent company will receive rather than the investment needs of the client.

Our parent company previously held a profits interest in two investment advisers which still serve as subadvisers for some of our client accounts: Two Fish Management, LLC ("Two Fish"), and Sellery Portfolio Management, LLC ("Sellery"). Our parent company no longer has a profits interest in either of these



subadvisers; however, our Managing Directors continue to serve as Chief Company Officer and Chief Financial Officer of Sellery.

Finally, for clients who receive Financial Planning Services, we may recommend that they engage our firm to provide investment management services. This is a conflict of interest because the recommendation of our services may be influenced by the potential economic revenue from fees earned from client's business rather than on the investment needs of the client.

Clients should consider these conflicts of interest carefully when deciding whether to participate in these programs. Advisor has adopted the following steps to address these conflicts:

- we disclose the existence of these conflicts in this Brochure and we endeavor to act consistent with our fiduciary duty;
- we request clients to provide the Suitability Information for the account that will be managed by us, and we require that we have a reasonable basis for the investment decisions we make with respect to accounts;
- we request clients to update the Suitability Information to ensure our recommendations continue to have a reasonable basis; and
- we educate our Portfolio Consultants regarding the responsibilities of a fiduciary, including the need for having a reasonable basis for the investment advice provided to clients.

Clients may choose not to acquire shares of the Mutual Fund for their Portfolio, or not to have SSB serve as subadviser of their Portfolio by informing their Portfolio Consultant of their request to impose such restriction; provided, such restriction must be documented in writing. All decisions to invest in an account managed by IP are entirely voluntarily and directed by the client.

## **ITEM 11. CODE OF ETHICS, PARTICIPATION IN TRANSACTIONS & PERSONAL TRADING**

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

Advisor has adopted a Code of Ethics expressing its commitment to ethical conduct. The Code of Ethics describes Advisor's fiduciary responsibilities to its Clients, and its procedures in supervising the personal securities transactions of its supervised persons who have access to information regarding Client recommendations or transactions ("access persons").

A copy of the Code of Ethics is available to Clients and prospective Clients. You may request the Code of Ethics by email at [compliance@sheaffbrock.com](mailto:compliance@sheaffbrock.com) or by calling Advisor at (317) 705-5700.

Advisor owes a duty of loyalty, fairness, and good faith towards Clients and an obligation to adhere not only to the specific provisions of the Code of Ethics but also to the general principles that guide the Code.

Advisor owes a duty of loyalty, fairness, and good faith towards Clients and an obligation to adhere not only to the specific provisions of the Code of Ethics but also to the general principles that guide the Code.

The Code of Ethics includes policies and procedures for the review of access persons' quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by access persons. Among other things, the Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. The Code also provides for oversight, enforcement, and recordkeeping provisions.

The Code of Ethics prohibits the misuse of material non-public information. While Advisor does not believe that it has any particular access to material non-public information regarding publicly traded companies



that would be subject to misuse, all employees are reminded that any such information may not be used in a personal or professional capacity.

Advisor and its officers, and employees may act as investment adviser for others, may manage funds or capital for others, may have, make and maintain investments in its or their own names, or may serve as an officer, director, consultant, partner or stockholder of one or more investment partnerships or other businesses, subject to compliance with the Code of Ethics. In doing so, Advisor or such persons may give advice, take action, and refrain from taking action, any of which may differ from advice given, action taken or not, or the timing of any action, for any particular Client.

Neither Advisor nor any Representative has any obligation to purchase or sell, or to recommend for purchase or sale, any security which Advisor or any principal, officer, or employee purchases or sells for his own account or for the accounts of other Clients, unless such conduct is a fiduciary obligation.

### ***B. Recommendations Involving Our Financial Interests***

Advisor is required to disclose in Item 11 if it recommends that clients invest in securities in which Advisor or a related person has a material financial interest. This includes acting as an investment adviser to an investment company that Advisor recommends to clients.

As disclosed in Item 10, Advisor recommends clients invest in shares of the Mutual Fund whose investment adviser is owned, in part, by Advisor's parent corporation, and whose Chief Compliance Officer and Chief Financial Officer serve in the same positions for Advisor. Refer to the discussion in Item 10 for how we address the conflicts that arise from such recommendations.

### ***C. Investments in Securities Recommended to Clients***

Individuals associated with Advisor may buy or sell securities for their personal accounts identical to or different from those recommended to Clients. It is the policy of Advisor that no person employed by it shall prefer his or her own interest to that of an advisory Client or make personal investment decisions based on the investment decisions of Clients. Subject to the Code of Ethics, Advisor and its employees are permitted to trade for their own accounts side-by-side and in block transactions with Advisor's Clients in the same securities, and at the same time. We have adopted the procedures described in Item 11.D to address the actual and conflicts of interest raised by our policies.

### ***D. Investments around Time of Client Transactions***

Subject to the procedures in this section 11.D, Advisor and its employees are permitted to trade for their own accounts side-by-side with Clients in the same securities at or around the same time as Clients on the same trading day, and are permitted to aggregate trades for their proprietary accounts with trades for Client accounts. Advisor and its employees may buy or sell securities for their personal accounts identical to the securities recommended to Clients. We have adopted the procedures described below to address the conflicts of interest arising from our policies described in Items 11.C and 11.D:

- employees may not purchase or sell securities (other than mutual funds or other securities that are not treated as "reportable securities") immediately prior to client transactions, in order to prevent employees from benefitting from transactions placed on behalf of advisory accounts;
- no director, officer, or employee shall buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment, unless the information is also available to the investing public on reasonable inquiry;
- no director, officer, or employee shall knowingly prefer his or her own interest to that of an advisory client;
- Advisor maintains records of securities held by it and its access persons;



- Advisor emphasizes the unrestricted right of the client to decline to implement any advice Advisor has rendered;
- Advisor requires all employees to act in accordance with all applicable Federal and State laws and regulations governing registered investment advisory practices; and
- any employee not in observance of the above may be subject to discipline, including termination.

## ITEM 12. BROKERAGE PRACTICES

### Recommending Custodians and Brokers

Client assets must be maintained in an account maintained with a qualified custodian (referred to as “Custodian”). Client will select the Custodian by entering into an account agreement directly with the Custodian to open the custodial account. Advisor does not open the custodial account for the client. If a client does not wish to place their assets with a Custodian, Advisor will not manage the client’s account.

#### *Best Execution*

**How Advisor Selects Brokers/Custodians.** Advisor seeks custodians which are brokers and who will hold client assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. Advisor considers a wide range of factors, including, among others, the following:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody);
- capability to execute, clear and settle trades for client’s account;
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.);
- breadth of available investment products (stocks, bonds, mutual funds, exchange traded funds, etc.);
- availability of investment research and tools that assist Advisor in making investment decisions;
- quality of services;
- competitiveness of the prices for the services (commission rates, other fees, etc.) and willingness to negotiate them;
- reputation, financial strength and stability;
- prior service history with Advisor and its clients; and
- availability of other products and services that benefit Advisor, as discussed below (see “Products and Services Available from Custodian”).

**Products and Services Available from Custodian.** Advisor participates in the institutional advisor program (the “Program”) offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA (“TD Ameritrade”), an unaffiliated SEC-registered broker-dealer and FINRA member. 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.

As disclosed above, Advisor participates in TD Ameritrade’s institutional customer program and Advisor recommends 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.

**Services that Benefit Clients.** Custodian's brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through the Custodian include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment, and access to mutual funds with no transaction fees and to certain institutional money managers which may result in lower client expenses. These services generally benefit clients and their accounts.

**Services that May Not Directly Benefit Clients.** Some of the useful benefits and services made available by the Custodian through its institutional program may benefit Advisor but may not benefit all or any client accounts. When Advisor selects or recommends TD Ameritrade, Advisor will take into consideration whether the Custodian provides Advisor with such benefits and services. Clients pay the Custodian trading fees to execute transactions. These products and services assist Advisor in managing and administering client accounts. They include investment research-related products and tools, in some case the Custodian's own and those of third parties. Advisor may use this research to service all or some substantial number of clients' accounts, including accounts not maintained at the Custodian. In addition to investment research, the Custodian also makes available software and other technology that:

- provide access to client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution, including access to a trading desk serving Advisor's clients;
- access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the aggregated trade orders to multiple client accounts);
- provide pricing and other market data;
- facilitate deduction of Advisory Fees directly from clients' accounts;
- access to an electronic communications network for client order entry and account information;
- assist with back-office functions, recordkeeping and client reporting.

**Services that Generally Benefit Only Advisor.** Custodian also offer other services intended to help Advisor manage and further develop its business enterprise. These services include:



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

Custodian may provide some of these services directly, or in other cases, will arrange for third-party vendors to provide the services to Advisor. They may also discount or waive fees for some of these services or pay all or a part of a third party's fees. Custodian may also provide Advisor with other benefits such as occasional business entertainment of Advisor personnel.

**Brokerage Services Do Not Benefit Specific Accounts.** Advisor does not attempt to put a dollar value on the useful benefits and services each account receives from the Custodian, nor does it attempt to allocate or use the economic benefits and services received from Custodian for the benefit of the accounts maintained with Custodian, or attempt to use any particular item to service all accounts. Some of the products and services made available by Custodian may benefit Advisor but may not benefit all or any of Advisor's client accounts. The benefits and services Advisor receives from Custodian are used to help Advisor to fulfill its overall Client obligations.

**Advisor Interest in the Custodian's Services.** The availability of these services from Custodian is a benefit to Advisor because Advisor does not have to produce or purchase them. These services are not contingent upon Advisor committing any specific amount of business to the Custodian in trading commissions or assets in custody. However, if Advisor did not recommend the Custodian's services, it is unlikely that Advisor would continue to receive these services. Advisor's interest in continuing to receive the Custodian's services gives it an incentive to recommend clients maintain accounts with the Custodian, based on its interest in receiving the Custodian's services that benefit Advisor's business rather than based on the client's interest in receiving the best value in custody services and the most favorable execution of transactions. This is a conflict of interest. Advisor believes, however, that its selection of Custodian as custodian and broker is in the best interests of its clients. The selection and recommendation of Custodian is primarily supported by the scope, quality, and price of all of the Custodian's services (see above, "How Advisor Selects Brokers/Custodians") and not solely by the Custodian's services that benefit only Advisor.

### *Soft Dollars*

Advisor generally does not engage in formal soft dollar arrangements where Advisor commits to direct portfolio brokerage commissions to a broker-dealer in return for specified brokerage or research services that Advisor may use in making investment decisions for its clients. Advisor, however, receives the useful benefits and services described above received from the Custodian.

Section 28(e) of the Securities Exchange Act of 1934 provides that an advisor does not breach fiduciary duties under state or federal law solely by causing its clients' accounts to pay brokerage commissions in excess of the amount another broker-dealer would have charged if the adviser determines in good faith that the commissions are reasonable in relation to the value of brokerage and research services received. It is Advisor's policy to operate within the safe harbor of Section 28(e).

Beyond that, these services are not contingent upon Advisor committing any specific amount of business to a Custodian in trading commissions or assets in custody. This is a conflict of interest. Advisor believes, however, that its selection of TD Ameritrade as custodian and broker is in the best interests of Advisor's clients. It is primarily supported by the scope, quality and price of TD Ameritrade's services (based on the factors discussed above - see "How We Select Brokers/Custodians") and not Custodians' services that benefit only Advisor.





The availability of these useful services creates a financial incentive for Advisor to recommend the Custodian for client accounts so Advisor can continue to receive these services and avoid paying for them separately at Advisor's own expense. Our interests conflict with our clients' interests in obtaining the lowest possible execution costs.

Although we strive to address this conflict in a manner consistent with our fiduciary duty, our judgment may be affected such that our efforts may not be entirely successful. To help mitigate this conflict, we have adopted procedures to analyze periodically the services and programs provided by or available through our brokers, to evaluate the usefulness of these services in relation to the costs of the services, and to assess the overall quality of the services.

### *Lower Costs Available for Similar Services*

We offer no assurance that the commissions or investment expenses Clients will incur by using TD Ameritrade as their custodian and broker will be as low as the commissions or investment expenses charged by other firms for similar services. It is likely that lower costs may be available for similar services from other advisers, brokers or custodians, and by paying lower costs, Clients could significantly improve their long-term performance.

### **Directed Brokerage Arrangements**

Advisor may, in its sole discretion, agree to accept client direction to use a broker-dealer other than TD Ameritrade to purchase the recommended investments. In such cases, Advisor will direct the client's transactions through the designated broker-dealer. The client's custodian may charge additional fees to execute and settle these transactions at another broker or custodian.

When a client directs the use of a particular broker-dealer, orders for these accounts will not be placed until after orders are placed for accounts that have not directed the use of a particular broker. Also, Advisor will not have discretion to place trade orders with other brokers. Consequently, as a result of directing brokerage, the client will not receive the benefit of reduced transaction costs or better prices that may result if Advisor had discretion to negotiate the terms of the orders, such as commissions, volume discounts, or seek price improvement from other broker-dealers. The client may incur higher transaction costs, delays in execution, and less favorable prices than the transactions effected for accounts that do not direct brokerage.

This practice may cost the client more money than if Advisor had discretion to select the broker-dealer. A disparity may arise such that clients who direct brokerage may pay higher overall transaction costs and receive less favorable prices than clients who do not direct brokerage.

### **Order Aggregation**

Advisor may aggregate orders for the purchase or sale of securities on behalf of the accounts it manages. The ability for clients to have their orders aggregated into a "block order" with other clients can offer economic benefits, including the potential for volume discounts on their orders, timelier execution, a reduction of adverse market effects that can occur from separate, competing orders, and mutual sharing of transaction costs. Accounts of our supervised persons (employees) may participate in block orders on the same basis as clients.

Block orders are typically placed through an "average price account" or similar account such that transactions for accounts participating in the order are averaged as to price (which will be NAV for all mutual fund securities), and the securities purchased or net proceeds received are allocated pro rata



among the accounts in proportion to their respective orders placed that trading day. For mutual fund orders, if no economic benefit is received from the use of block orders, they will not be used.

Typically, partial fills will be allocated among accounts in proportion to the total orders participating in the block, unless we determine that another method of allocation is equitable (such as an alphabetical rotation, rotation based on the clients of a particular Portfolio Consultant, or other method). Exceptions may be granted or allowed due to varying cash availability, divergent investment objectives, existing concentrations, tax considerations, performance relative to a benchmark, performance relative to other accounts in the same Portfolio, or a desire to avoid “odd lots” (an amount of a security that is less than the normal unit of trading for that security).

## **Trade Errors**

It is Advisor’s policy for Clients to be made whole following a trade error. If a trade error results in a loss, Advisor will make the Client whole and absorb the loss. If a trade error results in a gain, the Client shall generally keep the gain. The Custodians may have a policy where an adviser is not required to reimburse trade errors resulting in a loss below a de minimis amount (e.g., \$100). In such circumstances, the Custodian will absorb the loss and there is no financial impact to the Client. Likewise, if a trade error results in a gain less than a de minimis amount (e.g., \$100), the Custodian will keep the gain or donate it to charity. In all other circumstances, trade errors will be corrected as described above.

## **ITEM 13. REVIEW OF ACCOUNTS**

### **A. Account Reviews**

For accounts participating in the IPP Services, the Portfolio Consultant continuously monitors the securities in the accounts he or she manages, and performs quarterly reviews of account holdings for consistency with the Suitability Information and guidelines established with the client. More frequent reviews may be triggered by changes in the Suitability Information, as well as by economic, macroeconomic, political, or market activity or events.

For accounts participating in the MPP Services, the Portfolio Consultant continuously monitors the securities in the accounts he or she manages for consistency with the Suitability Information and guidelines established with the client, and while the Advisor Investment Committee performs quarterly reviews of Model Portfolio holdings for consistency with the target allocations, investment objective, and other characteristics of the Model Portfolio. Additional monitoring will be provided from time to time through the subadvisory relationship with Two Fish Management and Sellery Portfolio Management. More frequent reviews may be triggered by changes in the Suitability Information, as well as by economic, macroeconomic, political, or market activity or events.

Generally, Financial Planning or Consulting Services do not include reviews, unless specifically included in the client’s Advisory Agreement. Extended Planning Services clients receive on-going review services through frequent meetings with the Portfolio Consultants and (approximately) semi-annual account review, as client and Portfolio Consultant mutually agree.

### **B. Client Reports**

Clients participating in the IPP Services or MPP Services will receive monthly or quarterly account statements and confirmations from their Custodian, and appropriate periodic account reports from Advisor. Financial Planning clients will receive a written financial plan, as provided in their Advisory



Agreement; provided, Advisor will not provide updates of such plan, unless specifically agreed in the Advisory Agreement. Please refer to Item 15 for further information about account statements.

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

### ***A. Economic Benefits***

As discussed in Item 12, Advisor participates in the institutional advisor program offered by TD Ameritrade. Advisor recommends TD Ameritrade to clients for custody and brokerage services. There is no direct link between Advisor's participation in such program and the investment advice it gives to its clients, although Advisor receives economic benefits through its participation in this program not typically available to retail investors.

Advisor addresses the conflict of interest arising from its receipt of such economic benefits by disclosing them in this Brochure. Advisor also monitors its accounts and evaluates the quality and costs of the services provided by TD Ameritrade to determine whether Advisor's recommendations of TD Ameritrade continues to meet Advisor's fiduciary obligations. Although Advisor continues to believe that its recommendation and selection are appropriate for its clients, its judgment may be materially affected by its dependence on the services TD Ameritrade provides.

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 Envestnet Tamarac and Thomson Reuters. TD Ameritrade provides the Additional Services to our firm 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 creates conflicts of interest. In providing Additional Services to our firm, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, our 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, we have an incentive to recommend to our clients that the assets we manage 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 our duty to act in the best interests of our clients, including seeking best execution of trades for client accounts.

Advisor serves on a TD Ameritrade Institutional Advisor Panel ("Panel"). The Panel consists of independent investment advisors that advise TD Ameritrade on issues relevant to the independent advisor community. The Panel meets in person on average two to three times per year and conducts periodic conference calls on an as needed basis. Independent advisors are appointed to serve on the Panel for indefinite terms by TDA senior management. At times panel members are provided confidentiality agreements. TD Ameritrade does not compensate Panel members. However, TD Ameritrade pays or reimburses for the travel, lodging and meal expenses registrant incurs in attending panel meetings. The benefits received by Advisor or its personnel by serving on the panel do not depend on the amount of brokerage transactions directed to TD Ameritrade. Clients should be aware, however, that the receipt of economic benefits by Advisor or its management in and of itself creates a conflict of interest which may influence the recommendation of TD Ameritrade for custody and brokerage services.



Please refer to Item 12 for additional description of the useful benefits and services that TD Ameritrade provides to Advisor in connection with its institutional advisor program.

### ***B. Referral Arrangements with Third Parties***

Advisor's participation in AdvisorDirect raises potential conflicts of interest. Advisor may receive client referrals from TD Ameritrade through the AdvisorDirect program. Such arrangements comply with the requirements of Rule 206(4)-3 under the Advisers Act. Generally, these requirements require the referring person/firm to have a written agreement with Advisor and provide each client with a disclosure document describing the fees it receives from Advisor, whether those fees represent an increase in fees that Advisor would otherwise charge the client, and whether it is affiliated with Advisor. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, Advisor may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with Advisor and there is no employee or agency relationship between them.

TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise Advisor and has no responsibility for Advisor's management of client portfolios or Advisor's other advice or services. Advisor pays TD Ameritrade an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to Advisor ("Referral Fee"). Advisor will also pay TD Ameritrade the Referral Fee on any advisory fees received by Advisor from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired Advisor on the recommendation of such referred client. Advisor will not charge clients referred by TD Ameritrade any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Referral Fees paid to TD Ameritrade to its clients. In addition, Advisor will not recommend that our TD Ameritrade-referred clients switch to another custodian unless it would be in their best interest to do so.

TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisers that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, Advisor may have an incentive to recommend to 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. To the extent our participation in the AdvisorDirect program provides an incentive for us to recommend TD Ameritrade to our clients, we have a conflict of interest. However, our participation in TD Ameritrade AdvisorDirect does not diminish our duty to seek best execution of trades for client accounts. Under our agreement with TD Ameritrade, we have the right to recommend that clients use a different custodian if it would be in their best interest to do so; however, we have not made any such recommendation to a client.

Advisor maintains policies and procedures to address its arrangements with solicitors to ensure it is complying with Rule 206(4)-3 of the Advisers Act and also to ensure conflicts of interest inherent in these arrangements are addressed.

## **ITEM 15. CUSTODY**

Advisor is deemed to have "custody" of the assets of Client accounts as a result of Advisor's ability to deduct fees from the Client's custodial account, as authorized by the Client's Advisory Agreement. Assets



will be held in the name of the Client by the Custodian. Please refer to Item 5 for information regarding deduction of Advisory Fees from client accounts.

The Custodian will deliver account statements directly to the Client on at least a quarterly basis. Advisor does not provide statements to Clients with respect to the Advisor Program; however, Advisor provides reports with respect to the performance of a client's Program Account, to the extent described in the Advisory Agreement.

Advisor urges Clients to review the account statements from the Custodian and compare them to any report received from Advisor to identify any discrepancies. Report any issues promptly to Advisor using the contact information provided on the front of this Brochure.

## **ITEM 16. INVESTMENT DISCRETION**

The Program Accounts are managed on a discretionary basis. The client executes the Advisory Agreement wherein the client grants Advisor and Portfolio Consultant (acting on behalf of Advisor) full authority and discretion to manage the Program Assets according to the terms of the Program and the Advisory Agreement, guided by the Suitability Information, other Program documents, and information provided to Advisor regarding the Program Account or Program Assets, and any restrictions which client wishes to impose, from time to time.

## **ITEM 17. VOTING CLIENT SECURITIES**

Advisor requires all Clients to retain responsibility for voting Program Account securities. Advisor will not vote proxies, exercise rights, make elections, or take other such actions with respect to securities held for Program Accounts. If desired, a Client may instruct Advisor in writing to forward to the Client or to a third-party any materials Advisor receives pertaining to proxy solicitations or similar matters. Upon receipt of the Client's written instructions, Advisor will use reasonable efforts to forward such materials in a timely manner. In the absence of a written request, Advisor will discard proxy and related materials.

Clients may obtain proxy materials by written request to the account's custodian. For information about obtaining proxy materials from a custodian, contact Advisor by email at [compliance@sheaffbrock.com](mailto:compliance@sheaffbrock.com), or by mail to the address on the front of this Brochure. However, Advisor does not provide advice about the issues raised by proxy solicitations or other requests for corporate actions.

Similarly, Advisor does not advise or exercise rights, make elections, or take other actions with respect to legal proceedings involving companies whose securities are or were held for a Client's Program Account, such as asserting claims or voting in bankruptcy or reorganization proceedings, or filing "proofs of claim" in class action litigation.

If desired, a Client may instruct Advisor in writing to forward to the Client or a third party any materials Advisor receives pertaining to such matters. Upon Advisor's receipt of such written instructions, Advisor will use reasonable efforts to forward such materials in a timely manner. In the absence of a written request, Advisor will discard such materials. Written instructions should be sent by email to [compliance@sheaffbrock.com](mailto:compliance@sheaffbrock.com), or by mail to the address shown on the cover page of this Brochure.

## **ITEM 18. FINANCIAL INFORMATION**

### *Prepayment of Fees Six Months or More in Advance*

Advisers who solicit or accept fees of more than \$1,200 per client, six months or more in advance are required to provide their clients an audited balance sheet.



Because we do not accept pre-paid fees exceeding \$1,200 per client, six months or more in advance, we have not provided a balance sheet.

#### *Disclosure of Certain Financial Conditions*

Advisers who have custody or discretion over client funds or securities, or who require prepayment of fees exceeding \$1,200 six months or more in advance must disclose any financial condition reasonably likely to impair their ability to meet contractual commitments to clients.

There is no financial condition that is reasonably likely to impair our ability to meet contractual commitments to our client.

#### *Bankruptcy within Past Ten Years*

Advisers who have been the subject of a bankruptcy petition during the past ten years must disclose certain information about the matter.

We have never been the subject of a bankruptcy petition.