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# WEALTH ADVISORS

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AN INDEPENDENT WEALTH MANAGEMENT FIRM

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This brochure provides information about the qualifications and business practices of SFMG Wealth Advisors. If you have any questions about the contents of this brochure, please contact us at 972-960-6460 or [craig@sfmfg.com](mailto:craig@sfmfg.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 SFMG Wealth Advisors also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Material Changes**

Our last annual amendment was filed in March 2016.

Since then, the following material changes have occurred:

*Branch Office:* We have added a branch office in Dallas.

*Fees and Compensation:* We have slightly increased our hourly rates.

*Investment Strategies:* We have discontinued the Global Trends Strategy.

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## ADVISORY BUSINESS

### **Advisory Firm Description**

SFMG, LLC conducts business as SFMG Wealth Advisors, (“SFMG” or “Firm” or “we” or “us”). The history of the Firm began with Strategic Financial Management, founded by Greg Morgan in 1992. In 2002, David White and Craig Greenway joined Mr. Morgan to create Strategic Financial Management Group. Kevin Margolis joined Strategic Financial Management Group in 2004, which changed its name to SFMG, LLC, dba SFMG Wealth Advisors in 2009. SFMG is now owned jointly by the four principals.

SFMG Wealth Advisors is a Dallas-based financial planning and wealth management group comprised of professionals with a variety of unique backgrounds and viewpoints. Our team offers high-touch, personalized financial planning and wealth management for individuals and families. We approach each client relationship from a planning perspective, integrating the comprehensive planning services with the management of your investment portfolio. We see this as an ongoing, dynamic relationship between planning and investing. Our aim is to provide advice that meets your needs. Our client service philosophy includes:

- Promoting and providing complete transparency
- Providing a single point of contact – financial concierge
- Simplifying the complex and filtering out the extraneous
- Meeting regularly and confirm that your financial goals are on track
- Removing and eliminating obstacles
- Utilizing the latest research and technology

We help identify and confirm goals through open and frequent communication. To guarantee that you receive the attention you deserve, we limit the number of clients with which our advisors can partner. Our financial advisors schedule meetings with you to keep you abreast of changes in the market, tax changes, and the economy and their impact on your personal situation.

Our financial advisors serve as fiduciaries offering custom wealth management services for successful individuals who in most cases already have a trusted group of advisors from various disciplines: tax accountants, attorneys, and insurance agents. Our role is not to supplant these services, but to coordinate and support them. Our team of financial advisors helps you execute a plan that brings everything together under one cohesive umbrella.

By focusing on the big picture, we assist you in making the fundamental decisions that will best put you on a path to achieving your individual goals. This unique approach to wealth management surrounds you with a dedicated team of experts that can simplify your life and integrate all of your financial professionals and decisions.

### **Types of Advisory Services**

#### *Financial Planning*

We listen. We believe that before quality advice can be offered, it is essential to understand your goals. By listening closely to your concerns and plans for the future we

can create a financial planning strategy that accelerates you toward your goals. Our financial advisors develop a clear financial planning roadmap that fully leverages your available resources to reach your objectives. Successful financial planning involves implementing a plan for the long term rather than the short term. We offer a broad and comprehensive set of services to allow you to live your life with total peace of mind. The scope of our planning services includes:

- **Net Worth/Cash Flow Statements**

Our financial advisors evaluate your current assets and liabilities, including all income and expenses. We also consider potential inheritances, salary changes, or major one-time expenses.

- **Retirement Planning**

Once we have established your projected cash flow, we answer the most fundamental question: "Will I be able to maintain my current standard of living once I retire?" Our planners utilize a sophisticated set of tools to measure and analyze various assumptions on retirement dates, savings rates, longevity expectations, and market conditions. In estimating returns conservatively, we partner with you to establish the most effective possible retirement scenario.

- **Tax Planning**

Our team works in concert with your tax professional to identify any areas of opportunity that might impact your current and future tax situation.

- **Insurance Planning**

We help your insurance agents to determine the best level of coverage for homeowners, auto, liability, disability, life, and long-term care insurance. Managing risks minimizes the impact of unforeseen events.

- **Estate Planning**

We work with your attorney to provide a plan that distributes your assets to your heirs according to your wishes with the least amount of taxes and expenses possible.

- **Education Planning**

We also assist with comprehensive education planning. Our planners advise you on how much to set aside and how to take advantage of the tax-advantaged education saving options.

- **Corporate Benefits**

Clients who reach a corporate executive level receive significant corporate benefits such as company stock or stock options. Our team will advise you on how to integrate the exercise of stock options and minimize the tax implications as well as the implementation of other benefits.

- **Business Planning**

For many clients, their most valuable asset is their closely held business. We can assist you in determining employee benefits packages and succession planning and how to best integrate the business value in your overall planning.

- **Charitable Planning**

Our wealth management services include advising you concerning philanthropic gifting. We compare suitable solutions ranging from donor-advised funds to private foundations. We then help you direct your giving through tools that provide the maximum impact for your selected charitable causes and maximize your tax benefit.

**Investment Management**

Our mission is to build and preserve your wealth over the long term. Although we cannot predict short-term trends, we can assist you in detecting long-term patterns and respond accordingly. As the market changes, we make the needed adjustments to your portfolio to reflect the current risk environment. Every decision we make is in accordance with your long-term goals and risk tolerance. By signing our investment management agreement and account application with the custodian, you give us the authority to trade in your account without receiving permission from you before each trade. We provide you with written quarterly reports, which are in addition to the statements you receive directly from your account custodian.

Our investment management process is to:

- Determine your risk tolerance
- Establish your Investment Policy Statement ("IPS")
- Invest your portfolio consistently with your IPS
- Make tactical changes reflecting current economic and market conditions
- Review your portfolio's quarterly performance versus appropriate benchmarks
- Conduct periodic meetings with you to review your risk tolerance and objectives to determine if anything has changed for you.

Please see the "Methods of Analysis, Investment Strategies and Risk of Loss" section below for more details.

**Tailored Advisory Services**

Obviously, we tailor each financial plan to you, determining your financial goals, objectives, and requirements. Your portfolio is tailored similarly, by matching your investment objective and risk tolerance, goals and objectives to the appropriate investment strategy, asset allocation and mix of securities. You may restrict us from buying or selling particular investments in your portfolio. These restrictions may be changed at any time by notifying us.

**Termination**

The Client Agreement may be terminated by either party immediately upon receipt of written notice from the other party. If you should terminate the relationship during a quarter, we refund to you on a pro rata basis the fees which you have prepaid and which we will have not yet earned. Upon termination of the agreement, we have no obligation to take any action with regard to investments in your account(s).

**Client Assets Under Management**

As of December 31, 2016, we managed approximately \$1,024,861,708 on a discretionary basis, where we are able to place trades in clients' accounts without receiving permission for each transaction. We also manage approximately \$27,828,627 on a non-discretionary basis.

## FEES AND COMPENSATION

*We are a fee-only firm, and receive no compensation for the sale of any product.* In the past some of our personnel have sold insurance products to clients, for which sale continuing commission checks still arrive. We donate the full amount of these commission checks to charity.

### Financial Planning Fees

Clients may engage us to create a Financial Plan exclusive of Portfolio Management or request we perform financial planning services outside the scope of services in our original agreement. In these situations, we charge by estimating the total time to complete the plan. This estimate depends upon the complexity of your financial situation and your requirements of a plan. We then multiply the estimated time by the appropriate hourly rate and set a minimum and maximum estimated fee. One-half of the minimum fee is due upon signing of the financial planning agreement. We bill the remaining actual fee upon delivery of the final plan to you. The total fee we charge will never exceed our estimated maximum fee. We do not charge fees that exceed \$1200 for six months or more in advance.

If you should choose to terminate the financial planning agreement prior to completion of the plan, you may do so immediately in writing. You would owe us for all time expended to date on the plan, not to exceed the maximum plan fee shown on the financial planning agreement. If we owe you funds, we would issue you a check within 15 days of the termination. If you owe us, we would invoice you for work completed as of the termination date and would expect payment within 15 days of receipt of the invoice.

Once the plan has been completed, we charge renewal financial planning fees based on actual time we spend to review and update your financial plan and/or to provide other services you might request. Again, this work is charged at the appropriate hourly rate of \$150, \$250 or \$350 depending on the level of the personnel completing the work.

We also provide financial planning, due diligence and/or investment advice on a negotiated flat-fee basis or hourly rate of \$350 for specific questions or situations, as you might request.

### Portfolio Management Fees

Our fee for investment advisory services is assessed at the annual rate in effect at the time you engaged SFMG as your investment advisor. Therefore, some clients' fees are different than those listed on the current fee schedule, which means we provide clients the same service for different fees. The current annual rate for new clients follows:

Portion of Investment Portfolio	Annual Rate
First \$1,000,000	1.25%
Next \$2,000,000	0.80%
Assets over \$3,000,000	0.60%

This fee is cumulative and may be negotiable, except for where stated below under "Client Referrals and Other Compensation." Your Financial & Investment Advisory Agreement will reflect your applicable fee schedule. We base the management fee on

the market value of your portfolio as determined by the custodian (or outside pricing service) at the end of the last trading day of the previous calendar quarter. We charge the investment management fee each quarter at one-fourth of the above annual rate and deduct this fee directly from your account. Some clients pay in arrears. Each Financial & Investment Advisory Agreement correctly specifies payment terms.

When a client has invested in a private partnership in his/her portfolio, we value the partnership annually, using the capital account value as reported on the clients' Form 1065 K-1, which is generated by an outside accounting firm. If during the year, the partnership has a significant change in value due to contributions or distributions, we may adjust the value of the partnership based on this new information. We will either charge our investment management fee for these assets at a lower fee rate regardless of the amount of other assets managed by SFMG, or we will charge a due diligence fee for these assets which will be disclosed to you when you receive the partnership documents.

In special circumstances, we provide investment consultations on an hourly basis at the rate of \$350/hour. These fees are due at the close of the meeting or when the client is invoiced.

#### Additional Fees

When we recommend a mutual fund for your account, you are typically charged three separate fees, either directly or indirectly. The first fee is our investment management fee where the fund is included in the asset base for the quarterly fee calculation. The second is the set of internal fees charged by the investment company for the fund's investment management, marketing, administration and marketing assistance. These internal expenses are disclosed in each fund's prospectus which is provided to you by your account custodian. (This set of fees also applies to any money market fund, ETF or ETN purchased in your account.) The third fee is a transaction fee which is assessed by the custodian for its service of providing access to a universe of mutual fund families through one account. To avoid such fees you would be required to open a separate account with each individual mutual fund company instead of using the custodian we recommend. This would also negatively affect our ability to deliver our services efficiently. Not all mutual fund trades we purchase for client accounts incur this transaction fee. We recommend and purchase no-load funds for our clients and do not recommend funds with loads. Some funds require a minimum holding period to avoid redemption fees.

Any SEC fees, commissions, transaction fees, etc., that are charged against your account(s) are separate from our management fee and will be deducted from your account by your custodian. We require that you use a "qualified custodian" to hold your publicly traded securities that we manage. Qualified custodians provide you with statements showing all holdings and transactions occurring in the account on a monthly or quarterly basis.

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

This section does not apply to us, as we do not charge performance-based fees.



## **TYPES OF CLIENTS**

We provide investment advice to:

- individuals
- high net worth individuals
- pension plans
- trust, estates or charitable organizations
- corporations or other business not listed above

We have a negotiable minimum client relationship size of \$500,000, which is applied to a family of related accounts.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

By understanding your goals through our comprehensive planning process, we are able to quantify the returns that are required to reach your financial objectives. We begin by developing a personal investment policy statement. Each individual investment policy lists such factors as risk tolerance, financial objectives, return expectations, time horizon, tax considerations, and ultimately the portfolio asset allocation.

The process of constructing your investment portfolio takes into consideration your financial objectives, tax and cash flow factors, the timeline for reaching your goals, and the return expectations. Our portfolio management style involves dynamic allocations, with a goal to provide you with a more reactive portfolio to market risks than the typical “buy, hold, and hope” approach.

The dynamic and tactical nature of the portfolios is governed by our Investment Committee along with our market/economic research and signals. The Investment Committee operates in a manner that provides uniformity and consistency for the investment process. Each member of the Committee possesses unique qualifications, providing a wide array of perspectives and a combined 150+ years of knowledge and experience. This Investment Committee model serves to provide you best-in-class thinking and a system of checks and balances for important investment decisions.

A strategically sound portfolio should be able to respond to the longer-term trends of the economy and financial markets. We do not believe that it is possible to efficiently time the short-term moves of the markets, but larger cyclical moves are evident and should not be ignored. We utilize fundamental valuation with economic and technical indicators that enable us to implement tactical changes to client portfolios as market conditions dictate. In doing this, we incorporate both the traditional investment classes of stocks, bonds, and cash with investment vehicles such as mutual funds, ETFs, private equity, real estate, commodities, hedge funds, and more.

Finally, the SFMG Wealth Advisors team not only adjusts the portfolio to respond to market trends, but also monitors your risk tolerance given major changes in your situation or outlook. At the end of the day, we want to partner with you to make sure your portfolio reflects your long-term goals and short-term needs, as well as your overall tolerance for risk and volatility.

We structure an investment strategy for your portfolio which is tailored to meet your objectives. Risks vary according to the different strategies and particular holdings in each strategy, although all accounts are subject to market risk. In addition, some investments may be considered illiquid. Investing in securities involves risk of loss that you should be prepared to bear. If you invest in private issues, the fund documents further explain risks to investing in that particular issue. Past performance does not guarantee future results.

In limited circumstances, we also may place option trades in your account if we believe option positions to be appropriate for your investment objective. It is possible for option trades to incur losses beyond the funds originally invested. Investment vehicles we recommend may use hedging strategies. Hedging is defined as making an investment to potentially reduce the risk of adverse price movements in another asset or group of assets. Hedging is not a guaranteed protection from loss.

Normally (in times of low volatility), we try and minimize turnover in the portfolio by holding investments for a year or longer. However, in times of unusual volatility, we may move in and out of a security more frequently. We may trade on margin for some clients, or make margin borrowing possible. Margin trading may require the liquidation of assets in your account if a margin call should occur during quickly dropping markets.

#### **DISCIPLINARY INFORMATION**

There is no disciplinary information to be disclosed.

#### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Three advisors and one other employee are licensed as Life and Health Insurance Counselors, which allows them to provide advice about (but not sell) life and health insurance as part of their financial planning process. There is no additional fee paid to the Firm or these persons for providing this insurance advice.

Mr. Greenway is the managing member of HHIG, LLC, an entity owned by the Firm's managing directors and one senior advisor. HHIG, LLC has invested in other private issues in which some of our clients have also invested, and on which we are charging investment fees.

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

##### **Code of Ethics**

We have adopted a Code of Ethics which describes the general standards of conduct that we expect of all Firm personnel (collectively referred to as "employees"). This code of ethics focuses on three specific areas where employee conduct has the potential to adversely affect you:

- misuse of confidential information;
- personal securities trading and
- outside business activities.

Failure to uphold the Code of Ethics will result in disciplinary sanctions, including possible termination of employment with us. You may request a copy of the Firm's Code of Ethics which will be provided to you at no cost.

The following basic principles guide all aspects of our business and represent the minimum requirements to which we expect employees to adhere. Your interests come before employees' personal interests and before the Firm's. We must fully disclose all material facts about conflicts between our interests, our employees' interests, and your interests. Employees must operate on our behalf and on their own behalf consistently with our disclosures and to manage the impacts of any conflicts of interest. We must not take inappropriate advantage of our position of trust or responsibility to you. We all must always comply with all applicable securities laws.

#### *Misuse of Non-Public Information*

The Code of Ethics contains a policy against the use of non-public information in conducting our business. Employees may not convey non-public information nor use it in placing personal securities trades or any trades for our clients.

#### *Personal Securities Trading*

Our personnel may buy, sell or hold in their personal accounts the same securities we buy, sell, or hold for you. Employees must obtain pre-approval from the Chief Compliance Officer before purchasing any IPO or private placement for any personal account.

To mitigate conflicts of interest, we have established the following policies in order to ensure our fiduciary responsibilities and to place your interests first:

- An officer, director or employee shall not buy or sell securities for a personal portfolio when the decision to purchase is substantially derived, in whole or in part, by reason of employment with us unless the information is also available to the investing public on reasonable inquiry.
- Our Chief Compliance Officer reviews all personal trades in light of our code of ethics and client trades on at least a quarterly basis. Reports of personal securities holdings are filed with our Chief Compliance Officer by all personnel and are reviewed at least annually.
- Infractions of our personal trading policies will be grounds for disciplinary action, including possible termination.

#### **Outside Business Activities**

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

## **BROKERAGE PRACTICES**

#### **Selecting Broker/Dealers for Trades and Custody of Client Assets**

We have entered into agreements with the following independent and unaffiliated broker dealers to serve as custodians for our clients' accounts: Charles Schwab & Co., Inc. ("Schwab"), Fidelity Institutional Wealth Services ("Fidelity"), American Funds and

TD Ameritrade Institutional, a division of TD Ameritrade, Inc., Member FINRA/SIPC ("TD Ameritrade"). We also use Jefferson National Life Insurance Company to execute trades and hold clients' variable annuities.

We have selected these broker/dealers as custodians after analyzing their discounted commission structure, the availability of mutual funds with no transaction fee, their trading platforms, electronic reporting, online access for our clients, and financial stability.

Sometimes we participate in a trading service which enables trades to be placed through a broker other than the custodian ("Prime Broker"). When using Prime Broker services, Schwab, Fidelity and TD Ameritrade usually assess a ticket charge for each security transaction. In these instances, we have the ability to select the executing broker. In selecting a broker or dealer, we consider, among other things, the broker's or dealer's execution capabilities, reputation, availability of product and quality of research.

We generally will seek competitive commission rates, but will not necessarily attempt to obtain the lowest possible commission for transactions for your account(s). Sometimes we direct transactions to brokers in return for research they provide us. Such research generally will be used to service all of our clients, but brokerage commissions you pay could be used to provide research that is not used in managing accounts.

Fidelity, Schwab and TD Ameritrade generally do not charge their account owners separately for custody services. These firms are compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through them or that settle into their accounts (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions).

Schwab is offering an alternative investment fee discount to SFMG and its clients. The following discounted fee will be applied to accounts linked to SFMG:

- A "Transaction Fee" equal to \$50, billed subsequent to any activity
- An "Annual Custody Fee" equal to \$125, billed October 1 each year
- An "Annual Custody Cap" equal to \$250

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

"Soft dollars" is a term applied to commission revenue generated by client trades which is then used to pay for services provided to an investment advisor. These services must benefit our clients and include research and other related services.

We receive access to certain custodians' proprietary account management and data transmission services to enable us to trade clients' accounts electronically. Custodians of our clients' accounts also provide us with educational and compliance material, such as newsletters and access to seminars.

Additionally, Schwab, Fidelity and TD Ameritrade make available to us other products and services that benefit us but may not benefit your accounts. As a fiduciary, we make every effort to act in your best interests. Our recommendation that you maintain your

assets with particular custodians is based in part on some of the products and services they provide us. Portfolio Center (our portfolio management software) is provided and subsidized by Schwab as a result of our relationship with Schwab. The Firm is currently in the process of transferring its portfolio management to Orion, which is unrelated to and not subsidized by Schwab. Our receipt of products and services from custodians creates a potential conflict of interest with you. We generally allow clients to choose which of these custodians they prefer.

Some of these other products and services assist us in managing and administering your accounts. These include software and other technology that provide: access to client account data; the facilitation of trade execution and allocation of aggregated trade orders for multiple client accounts; research, pricing information and other market data; facilitation of payment of our fees from clients' accounts; and assistance with back-office functions, recordkeeping and client reporting. Many of these services generally are used to service all or a substantial number of our client accounts.

Schwab, Fidelity and TD Ameritrade also provide other services intended to help us manage and further develop our business. These services include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, our custodians make available, arrange and/or pay for these types of services rendered to us by independent third parties. Custodians could discount or waive fees they would otherwise charge for some of these services or pay all or a part of the fees charged by a third party providing these services to us.

#### **Brokerage for Client Referrals**

We do not direct trades to particular brokers in exchange for receiving client referrals.

#### **Directed Brokerage**

On rare occasion a client will request that trades be enacted through a specific broker. We prefer you use one of our recommended broker/dealers as your account custodian.

#### **Order Aggregation**

Some accounts sharing similar objectives hold the same investments, enabling us to trade in block trades for efficiency and to treat all clients fairly. If these blocks are executed in pieces at different prices on the same day at the same custodian, all shares participating in the block are assigned the same average price per share at the end of the day. Block trades enacted through Schwab, Fidelity or TD Ameritrade are charged transaction fees at the account level, so do not receive a transaction fee advantage. Blocks are allocated across accounts as appropriate, and our employees are able to participate in blocks with clients. In the rare event that a block order is partially filled, the shares would be allocated on a pro rata basis, with employees receiving no shares until all client orders are filled.

### **REVIEW OF ACCOUNTS**

We provide written reports to financial planning clients that usually consist of current listings of assets and liabilities, cash flow projections and retirement/accumulation projections. The reports include any, or all, of the above or other situation-specific reports dependent upon each client's requests or financial situation.

Written quarterly reports to investment management clients include a current portfolio statement, performance reports and a calculation of SFMG fees for informational purposes. Your account custodian provides statements to you on a monthly or quarterly basis, and includes valuation of holdings and transaction activity for the period. We remind you to compare the reports we send you with those you receive from your custodian.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

We pay referral fees to independent contractors and registered investment advisors. The referring party receives a percentage of our fees or receives a fixed fee, as specified in the contract between that solicitor and us, which is paid from the management fee you pay to us. All such referred clients sign a disclosure acknowledgement letter detailing this relationship and the fee arrangement. You pay the same fees to us regardless of whether or not you were introduced to us by an outside party receiving a portion of the management fee you pay to us.

Some SFMG personnel receive compensation based on new client assets they generate.

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

SFMG pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by SFMG is a percentage of the fees the client owes to SFMG or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. SFMG pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to SFMG quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by SFMG and not by the client. Clients referred through the Service will be charged the SFMG's customary Portfolio Management fee rate listed under the section titled "Fees and Compensation." This fee schedule is non-negotiable for clients referred through the Service.

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

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of SFMG's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, SFMG will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit SFMG's fees directly from the accounts.

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

## **CUSTODY**

Custody is defined as an investment advisory firm, its related entities, and/or its personnel having direct access to your funds or securities. We protect your assets by requiring that you use a "qualified custodian" that sends you account statements at least quarterly. All of the custodians we recommend are qualified. Further, we request that you review our statements regularly and compare them to the statements you receive from your account custodian. If you find significant discrepancies, you should notify us and the custodian.

We have custody of your assets to the extent that we have the authority to instruct your account custodian to deduct our fee directly from your account. This fee deduction is reported to you quarterly in the statements you receive from your custodian and SFMG, and you should contact us if you have any question about the accuracy of the fee calculation.

Three of our investment advisor representatives serve as trustees for some client accounts managed by SFMG. Because of these activities, SFMG has custody of funds and/or securities in each of these accounts. These accounts are examined annually on a surprise basis by an outside public accounting firm.

## **INVESTMENT DISCRETION**

We manage assets for you because you grant us trading authority, which gives us the right to place trades in your account(s) without obtaining prior permission from you. We only direct the transfer of funds to an account bearing the same name as the account we

manage for you, with the exception of the deduction of our management fees or with a release which you have signed.

#### **VOTING CLIENT SECURITIES**

We do not vote proxies for you or assist with proxy voting decisions. You receive your proxy voting material directly from your account custodian. You are free to request our assistance in determining how to vote on a particular issue.

#### **FINANCIAL INFORMATION**

There is no financial condition that is likely to impair our ability to continue to provide services to you.