

**William Michael Smiley  
dba Penland Legacy Advisors**

**3611-204 Mt. Holly-Huntersville Road  
Charlotte, NC 28216**

**Telephone: (704) 399-7010  
Fax: (704) 973-0915**

February 2, 2017

**FORM ADV PART 2  
BROCHURE**

This brochure provides information about the qualifications and business practices of William Michael Smiley dba Penland Legacy Advisors. If you have any questions about the contents of this brochure, please contact him at (704) 399-7010. 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 Penland Legacy Advisors is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Penland Legacy Advisors is 118937.

Penland Legacy Advisors 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**

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since our last annual updating amendment dated February 26, 2016, there are no material changes to report.

### Item 3 Table Of Contents

Item 1 Cover Page	Page 1
Item 2 Material Changes	Page 2
Item 3 Table Of Contents	Page 3
Item 4 Advisory Business	Page 4
Item 5 Fees and Compensation	Page 9
Item 6 Performance-Based Fees and Side-By-Side Management	Page 9
Item 7 Types of Clients	Page 10
Item 8 Methods of Analysis, Investment Strategies and Risk of Loss	Page 10
Item 9 Disciplinary Information	Page 12
Item 10 Other Financial Industry Activities and Affiliations	Page 12
Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	Page 13
Item 12 Brokerage Practices	Page 13
Item 13 Review of Accounts	Page 16
Item 14 Client Referrals and Other Compensation	Page 17
Item 15 Custody	Page 17
Item 16 Investment Discretion	Page 17
Item 17 Voting Client Securities	Page 18
Item 18 Financial Information	Page 18
Item 19 Requirements for State-Registered Advisers	Page 19
Item 20 Additional Information	Page 19

## Item 4 Advisory Business

William Michael Smiley dba Penland Legacy Advisers is a registered investment adviser based in Charlotte, North Carolina. He is organized as a sole proprietorship under the laws of the State of North Carolina. Mr. Smiley has been providing investment advisory services since 2002 and is the owner and Chief Compliance Officer. Currently, Mr. Smiley offers the following investment advisory services, which are personalized to each individual client:

- **Financial Planning Services**
- **Portfolio Management Services**
- **Selection of Other Advisers**

The following paragraphs describe Mr. Smiley's services and fees. Please refer to the description of each investment advisory service listed below for information on how he tailors his advisory services to your individual needs.

### **Financial Planning Services**

Mr. Smiley offers broad-based and consultative financial planning services to his clients and prospective clients. Financial planning will typically involve providing a variety of advisory services to clients regarding the management of their financial resources based upon an analysis of their individual needs. If you retain Mr. Smiley for financial planning services, he will meet with you to gather information about your financial circumstances and objectives. He may also use financial planning software to determine your current financial position and to define and quantify your long-term goals and objectives. Once he specifies those long-term objectives (both financial and non-financial), he will develop shorter-term, targeted objectives. Once Mr. Smiley reviews and analyzes the information you provide to him and the data derived from the financial planning software, he will deliver a written plan to you, designed to help you achieve your stated financial goals and objectives.

Financial plans are based on your financial situation at the time Mr. Smiley presents the plan to you, and on the financial information you provide to him. You must promptly notify Mr. Smiley if your financial situation, goals, objectives, or needs change.

Your written financial plan usually includes general recommendations for a course of activity or specific actions to be taken. For example, recommendations may be made that you obtain insurance or revise existing coverage, establish an individual retirement account, or increase or decrease invested funds. Financial planning services may be rendered in the areas of retirement planning, financial planning, personal tax planning, estate planning, insurance planning, and special needs, among others.

You are under no obligation to act on Mr. Smiley's financial planning recommendations. Should you choose to act on any of his recommendations, you are not obligated to implement the financial plan through any of his other investment advisory services. Moreover, you may act on his recommendations by placing securities transactions with any brokerage firm.

Mr. Smiley charges an hourly fee of \$250.00 for financial planning services, which is negotiable depending on the scope and complexity of the plan, your situation, and your financial objectives. An estimate of the total time/cost will be determined at the start of the advisory relationship. In limited circumstances, the cost/time could potentially exceed the initial estimate. In such cases, Mr. Smiley will notify you and request that you approve the additional fee.

If you only require advice on a single aspect of your finances, Mr. Smiley offers modular financial planning/general consulting services on an hourly basis. His rate for such services is \$250.00 per hour and is negotiable depending on the scope and complexity of the plan, your financial situation, and your

objectives. An estimate of the total time/cost will be determined at the start of the advisory relationship. In limited circumstances, the cost/time could potentially exceed the initial estimate. In such cases, he will notify you in advance and request that you approve the additional fee.

Fees are due upon completion of services rendered.

You may terminate the financial planning agreement by providing written notice to Mr. Smiley. You will incur a pro rata charge for services rendered prior to the termination of the agreement.

### **Portfolio Management Services**

Mr. Smiley offers discretionary and non-discretionary portfolio management services to his clients and prospective clients. His investment advice is tailored to meet his clients' needs and investment objectives. If you retain Mr. Smiley for portfolio management services, he will meet with you to determine your investment objectives, risk tolerance, and other relevant information (the "suitability information") at the beginning of the advisory relationship. Mr. Smiley will use the suitability information he gathers from the initial meeting to develop a strategy that enables him to give you continuous and focused investment advice and/or to make investments on your behalf. As part of Mr. Smiley's portfolio management services, he may customize an investment portfolio for you in accordance with your risk tolerance and investing objectives. Mr. Smiley may also invest your assets using a predefined strategy, or he may invest your assets according to one or more model portfolios developed by him. Once Mr. Smiley constructs an investment portfolio for you, or selects a model portfolio, he will monitor your portfolio's performance on an ongoing basis, and will rebalance the portfolio as required by changes in market conditions and in your financial circumstances.

If you participate in discretionary portfolio management services, Mr. Smiley requires you to grant him discretionary authority to manage your account. Discretionary authorization will allow him to determine the specific securities, and the amount of securities, to be purchased or sold for your account without your approval prior to each transaction. Discretionary authority is typically granted by the investment advisory agreement you sign with Mr. Smiley, a power of attorney, or trading authorization forms. You may limit his discretionary authority (for example, limiting the types of securities that can be purchased for your account) by providing him with your restrictions and guidelines in writing. If you enter into non-discretionary arrangements with Mr. Smiley, he must obtain your approval prior to executing any transactions on behalf of your account.

Mr. Smiley's fee for portfolio management services is based on a percentage of your assets he manages and is set forth as follows.

#### **Assets Under Management    Annualized Fee**

Up to \$250,000**	1.50%
\$250,001 to \$750,000	1.00%
\$750,001 to \$1,500,000	0.80%
\$1,500,001 to \$3,000,000	0.60%
\$3,000,001 to \$6,000,000	0.40%
\$6,000,001 to \$9,000,000	0.20%
Over \$9,000,000	0.10%

\*\*A minimum quarterly fee of \$1,000 will be assessed. Existing clients may have differing arrangements not subject to the minimum quarterly fee.

The annual portfolio management fee is billed and payable quarterly in arrears based on the value of your account on the last day of the calendar quarter (March 31, June 30, September 30, and December 31).

If the portfolio management agreement is executed at any time other than the first day of a calendar quarter, the fees will apply on a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the quarter for which you are a client. Mr. Smiley's advisory fee is negotiable, depending on individual client circumstances.

At his discretion, Mr. Smiley may combine the account values of family members living in the same household to determine the applicable advisory fee. For example, he may combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts. Combining account values may increase the asset total, which may result in your paying a reduced advisory fee based on the available breakpoints in his fee schedule stated above.

Mr. will send you an invoice for the payment of his advisory fee, or he will deduct the fee directly from your account through the qualified custodian holding your funds and securities. Mr. Smiley will deduct his advisory fee only when you have given him written authorization permitting the fees to be paid directly from your account. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account. You should review all statements for accuracy. Mr. Smiley will also receive a duplicate copy of your account statements.

You may terminate the portfolio management agreement upon five days' written notice to Mr. Smiley. You will incur a pro rata charge for services rendered prior to the termination of the portfolio management agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter for which you are a client.

Mr. Smiley encourages you to reconcile his invoices with the statement(s) you receive from the qualified custodian. If you find any inconsistent information between his invoice and the statement(s) you receive from the qualified custodian, please call the main office number located on the cover page of this brochure.

### **Selection of Other Advisers**

Mr. Smiley may recommend that you use the services of a third party money manager ("money manager") to manage your entire, or a portion of your, investment portfolio. After gathering information about your financial situation and objectives, he may recommend that you engage a specific money manager or investment program. Factors that he takes into consideration when making his recommendation(s) include, but are not limited to, the following: the money manager's performance, methods of analysis, fees, your financial needs, investment goals, risk tolerance, and investment objectives. Mr. Smiley will periodically monitor the money manager(s)' performance to ensure its management and investment style remains aligned with your investment goals and objectives.

The money manager(s) will actively manage your portfolio and may assume discretionary investment authority over your account. Mr. Smiley will not manage or obtain investment discretion or trading authority over the assets in your accounts managed by money manager(s). However, Mr. Smiley will actively monitor the accounts on a continuous basis.

You will be required to sign an agreement directly with the recommended money manager(s). You may terminate your advisory relationship with the money manager according to the terms of your agreement with the money manager. You should review each money manager's disclosure brochure

for specific information on how you may terminate your advisory relationship with the money manager and how you may receive a refund, if applicable. You should contact the money manager directly for questions regarding your advisory agreement with the money manager.

Mr. Smiley will provide you with quarterly performance reports identifying the securities held in your account, along with an analysis of the performance of the account for the quarter. In the event that Mr. Smiley determines that one or more money manager is not performing in accordance with expectations or is no longer appropriate based on your circumstances and objectives, he will recommend that a money manager be terminated and/or replaced with another money manager. Mr. Smiley will review the recommendation with you, and you will make the final determination whether to terminate or replace the money manager.

Fees you pay to money managers are separate and distinct from the fees you pay to Mr. Smiley. Mr. Smiley will not share in fees you pay to money managers. Money manager fees are established and payable in accordance with the money manager's Form ADV Part 2 or other equivalent disclosure document provided by each money manager to whom Mr. Smiley refers you. Fees may or may not be negotiable with the recommended money manager. Detailed disclosures will be provided in the relevant money manager's disclosure documents. You will never be charged an annual fee of more than 3.0% of assets under management, which includes fees paid to Mr. Smiley, money managers and their Associated Persons.

The annual monitoring fee is billed and payable quarterly in arrears based on the value of your account on the last day of the calendar quarter (March 31, June 30, September 30, and December 31). Mr. Smiley will charge an annual fee billed quarterly in arrears based on the market value of the account assets on the last day of the preceding quarter. The fee is based on a percentage of assets under management by money managers and is negotiable. The annualized fees are based on the following tiered fee schedule:

<b>Assets Under Management</b>	<b>Annualized Fee</b>
--------------------------------	-----------------------

Up to \$250,000	1.50%
\$250,001 to \$750,000	1.00%
\$750,001 to \$1,500,000	0.80%
\$1,500,001 to \$3,000,000	0.60%
\$3,000,001 to \$6,000,000	0.40%
\$6,000,001 to \$9,000,000	0.20%
Over \$9,000,000	0.10%

**\*\*A minimum quarterly fee of \$1,000 will be assessed. Existing clients may have differing arrangements not subject to the minimum quarterly fee.**

If the advisory agreement is executed at any time other than the first day of a calendar quarter, the fees will apply on a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the quarter for which you are a client. Mr. Smiley's advisory fee is negotiable, depending on individual client circumstances.

At his discretion, Mr. Smiley may combine the account values of family members living in the same household to determine the applicable advisory fee. For example, he may combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts. Combining account values may increase the asset total, which may result in your paying a reduced advisory fee based on the available breakpoints in his fee schedule stated above.

Mr. will send you an invoice for the payment of his advisory fee, or he will deduct the fee directly from your account through the qualified custodian holding your funds and securities. Mr. Smiley will deduct his advisory fee only when you have given him written authorization permitting the fees to be paid directly from your account. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account. You should review all statements for accuracy. Mr. Smiley will also receive a duplicate copy of your account statements.

You may terminate the advisory agreement upon 30-days' written notice to Mr. Smiley. You will incur a pro rata charge for services rendered prior to the termination of the portfolio management agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter for which you are a client.

Mr. Smiley encourages you to reconcile his invoices with the statement(s) you receive from the qualified custodian. If you find any inconsistent information between his invoice and the statement(s) you receive from the qualified custodian, please call the main office number located on the cover page of this brochure.

### ***Advisory Services to Retirement Plans***

As disclosed above, Mr. Smiley offers various levels of advisory and consulting services to employee benefit plans ("Plan"). The services are designed to assist plan sponsors in meeting their management and fiduciary obligations to plan participants under the Employee Retirement Income Securities Act ("ERISA") to the extent the Plan is subject to ERISA. Pursuant to adopted regulations of the U.S. Department of Labor, Mr. Smiley is required to provide the Plan's responsible plan fiduciary (the person who has the authority to engage us as an investment adviser to the Plan) with a written statement of the services provided to the Plan, the compensation received for providing those services, and Mr. Smiley's status (which is described below).

The services Mr. Smiley provides to your Plan are described above, and in the service agreement that you have previously signed. Mr. Smiley's compensation for these services is described herein at Item 4 and Item 5, and also in the service agreement. He does not reasonably expect to receive any other compensation, direct or indirect, for the services he provides to the Plan, unless the plan sponsor directs him to deduct his fees from the plan or directs the plan record-keeper to issue payment for his fees out of the plan. If he receives any other compensation for such services, such as insurance commissions, he will (i) offset the compensation against his stated fees, and (ii) he will promptly disclose to you the amount of such compensation, the services rendered for such compensation and the payer of such compensation.

In providing services to the Plan, Mr. Smiley's status is that of an investment adviser registered under the Investment Advisers Act of 1940, and he is not subject to any disqualifications under Section 411 of ERISA. In performing fiduciary services, he is acting as a fiduciary of the Plan as defined in Section 3(21) under ERISA, and, to the extent applicable, as a discretionary fiduciary of the Plan as defined in Section 3(38) under ERISA.

### **Types of Investments**

Mr. Smiley primarily offers advice on equity securities, warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities, U.S. Government securities, options contracts on securities and commodities, futures contracts on securities and commodities, and interest in partnerships investing in real estate.



Additionally, he may advise you on any type of investment that he deems appropriate based on your stated goals and objectives. Mr. Smiley may also provide advice on any type of investment held in your portfolio at the inception of his advisory relationship.

You may request that Mr. Smiley refrain from investing in particular securities or certain types of securities. You must provide these restrictions to him in writing.

### **Assets Under Management**

As of January 2, 2017, we provide continuous management services for \$95,270,332 in client assets on a discretionary basis, and \$7,216,441 in client assets on a non-discretionary basis.

## **Item 5 Fees and Compensation**

Refer to the *Advisory Business* section in this Brochure for information on advisory fees, fee deduction arrangements, and refund policy according to each service Mr. Smiley offers.

### **Additional Fees and Expenses**

As part of Mr. Smiley's investment advisory services to you, he may invest, or recommend that you invest, in mutual funds and exchange traded funds. The fees that you pay to Mr. Smiley for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds or exchange traded funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses. You will also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through which your account transactions are executed. Mr. Smiley does not share in any portion of the brokerage fees/transaction charges imposed by the broker-dealer or custodian. To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, exchange traded funds, Mr. Smiley, and others. For information on his brokerage practices, please refer to the "Brokerage Practices" section of this Brochure.

### **Compensation for the Sale of Securities or Other Investment Products**

Mr. Smiley provides is licensed as an independent insurance agent. He will earn commission-based compensation for selling insurance products, including insurance products he sells to you. Insurance commissions earned by Mr. Smiley are separate and in addition to advisory fees. This practice presents a conflict of interest because persons he may have an incentive to recommend insurance products to you for the purpose of generating commissions rather than solely based on your needs. However, you are under no obligation, contractually or otherwise, to purchase insurance products through Mr. Smiley.

## **Item 6 Performance-Based Fees and Side-By-Side Management**

Mr. Smiley does not accept performance-based fees or participate in side-by-side management. Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client's account. Mr. Smiley's fees are calculated as described in the *Advisory Business* section above, and are not charged on the basis of a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

## Item 7 Types of Clients

Mr. Smiley offers investment advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, and other business entities. In general, he does not require a minimum dollar amount to open and maintain an advisory account. However, minimum fees may apply as described above in Item 4.

## Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

Investment strategies and advice may vary depending upon each client's specific financial situation. As such, Mr. Smiley determines investments and allocations based upon your predefined objectives, risk tolerance, time horizon, financial horizon, financial information, liquidity needs, and other various suitability factors. Your restrictions and guidelines may affect the composition of your portfolio.

No investment strategy or method of analysis can assure that any trade or investment will result in a profit. Furthermore, each client must understand that any trade or investment could result in a loss and that the value of any client portfolio could decline below the original investment.

Mr. Smiley may use one or more of the following methods of analysis or investment strategies when providing investment advice to you:

- **Fundamental Analysis** - involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience and expertise of the company's management, and the outlook for the company's industry. The resulting data are used to measure the intrinsic value of the company's stock compared to the current market value. Risks associated with fundamental analysis include that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.
- **Technical Analysis** - involves studying past price patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks. The risk of market timing based on technical analysis is that charts may not accurately predict future price movements. Current prices of securities may reflect all information known about the security and day-to-day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy.
- **Cyclical Analysis** - a type of technical analysis that involves evaluating recurring price patterns and trends. Economic/business cycles may not be predictable and may have many fluctuations between long-term expansions and contractions. The lengths of economic cycles may be difficult to predict with accuracy and therefore the risk of cyclical analysis is the difficulty in predicting economic trends and consequently the changing value of securities that would be affected by these changing trends
- **Long-Term Purchases** - securities purchased with the expectation that the value of those securities will grow over a relatively long period, generally greater than one year. Long-term purchases may be affected by unforeseen long-term changes in the company in which you are invested or in the overall market.
- **Short-Term Purchases and Trading** - securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations. Mr. Smiley may use trading (in general, selling securities within 30 days of purchasing the same securities) as an investment strategy when managing your account(s). Trading is not a fundamental part of Mr. Smiley's overall investment strategy, but Mr. Smiley may use this strategy occasionally when Mr. Smiley determine that it is

suitable given your stated investment objectives and tolerance for risk. In some cases, Mr. Smiley may use investment strategies that involve buying and selling securities frequently in an effort to capture significant market gains or in an effort to avoid significant losses during a volatile market. However, frequent trading can negatively affect investment performance, particularly through increased brokerage and other transactional costs and taxes.

### **Tax Considerations**

Strategies and investments may have unique and significant tax implications. However, unless Mr. Smiley specifically agrees otherwise, and in writing, tax efficiency is not Mr. Smiley's primary consideration in the management of your assets. Regardless of your account size or any other factors, Mr. Smiley strongly recommends that you continuously consult with a tax professional prior to and throughout the investing of your assets.

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

### **Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. Mr. Smiley does not represent or guarantee that his services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. Mr. Smiley cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

### **Recommendation of Particular Types of Securities**

As disclosed under the *Advisory Business* section above, Mr. Smiley advises on a variety of types of securities. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with it.

Generally, Mr. Smiley will recommend a diverse portfolio consisting of equity securities, mutual funds, exchange traded funds (ETFs), and/or fixed income investments, such as bonds.

There are numerous ways of measuring the risk of equity securities (also known simply as "equities" or "stock"). In very broad terms, the value of a stock depends on the financial health of the company issuing it. However, stock prices can be affected by many other factors including, but not limited to: the class of stock (for example, preferred or common); the health of the market sector of the issuing company; and, the overall health of the economy. In general, larger, better-established companies ("large cap") tend to be safer than smaller start-up companies ("small cap") are, but the mere size of an issuer is not, by itself, an indicator of the safety of the investment.

Mutual funds and ETFs are professionally managed collective investment systems that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities, or any combination thereof. The fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. While mutual funds and ETFs

generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market, primarily invests in small cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of security (i.e., equities) rather than balancing the fund with different types of securities. Exchange traded funds differ from mutual funds since they can be bought and sold throughout the day like stock and their price can fluctuate throughout the day. The returns on mutual funds and ETFs can be reduced by the costs to manage the funds. In addition, while some mutual funds are "no load" and charge no fee to buy into, or sell out of, the fund, other types of mutual funds charge such fees, which can also reduce returns. Mr. Smiley primarily recommends "no-load" funds. Mutual funds can also be "closed end" or "open end." So-called "open end" mutual funds continue to allow in new investors indefinitely, which can dilute other investors' interests.

Municipal securities (or "municipal bonds"), while generally thought of as safe, can have significant risks associated with them including, but not limited to: the credit worthiness of the governmental entity that issues the bond; the stability of the revenue stream that is used to pay the interest to the bondholders; when the bond is due to mature; and, whether or not the bond can be "called" prior to maturity. When a bond is called, it may not be possible to replace it with a bond of equal character paying the same amount of interest or yield to maturity.

Corporate debt securities (or "bonds") are typically safer investments than equity securities, but their risk can also vary widely based on: the financial health of the issuer; the risk that the issuer might default; when the bond is set to mature; and, whether or not the bond can be "called" prior to maturity. When a bond is called, it may not be possible to replace it with a bond of equal character paying the same rate of return.

## **Item 9 Disciplinary Information**

Mr. Smiley has been registered and providing investment advisory services since 2000, and has no reportable disciplinary information.

## **Item 10 Other Financial Industry Activities and Affiliations**

Mr. Smiley does not have any relationship or arrangement that is material to his advisory business or to his clients with any of the types of entities listed below.

- broker-dealer, municipal securities dealer, or government securities dealer or broker
- investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund)
- futures commission merchant, commodity pool operator, or commodity trading advisor
- banking or thrift institution
- accountant or accounting firm
- lawyer or law firm
- insurance company or agency
- pension consultant
- real estate broker or dealer
- sponsor or syndicator of limited partnerships

### **Recommendation of Other Advisers**

As described above in the "Advisory Services" section, Mr. Smiley may recommend that you use a third party money manager ("money manager") based on your needs. He will not receive compensation from the money manager for recommending that you use their services. You are not obligated, contractually or otherwise, to use the services of any recommended money manager.

## **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Mr. Smiley strives to comply with applicable laws and regulations governing his practice. Therefore, his Code of Ethics includes guidelines for professional standards of conduct for all persons. Mr. Smiley's goal is to protect your interests at all times and to demonstrate his commitment to fiduciary duties of honesty, good faith, and fair dealing with you. Mr. Smiley is also expected to adhere strictly to these guidelines. Additionally, he maintains and enforces written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account. Mr. Smiley's Code of Ethics is available to you upon request. You may obtain a copy of his Code of Ethics by contacting Mr. Smiley at (704) 399-7010.

### **Personal Trading Practices**

Mr. Smiley may buy or sell securities for you at the same time he buy or sell such securities for his own account. Mr. Smiley may recommend securities to you at the same time he purchases such securities for his own account.

A conflict of interest exists in such cases because Mr. Smiley has the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To mitigate this conflict of interest, it is Mr. Smiley's policy that he will never have priority over your account in the purchase or sale of securities.

## **Item 12 Brokerage Practices**

While you are free to choose any broker-dealer or other service provider, Mr. Smiley recommends that you establish an account with a brokerage firm with which Mr. Smiley has an existing relationship. Such relationships may include benefits provided to Mr. Smiley, including but not limited to, research, market information, and administrative services that help Mr. Smiley manage your account(s). Mr. Smiley believes that recommended broker-dealers provide quality execution services for clients at competitive prices. Price is not the sole factor Mr. Smiley considers in evaluating best execution. Mr. Smiley also considers the quality of the brokerage services provided by recommended broker-dealers, including the value of research provided, the firm's reputation, execution capabilities, commission rates, and responsiveness to clients. In recognition of the value of research services and additional brokerage products and services recommended broker-dealers provide, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

Mr. Smiley does not maintain custody of your assets that he manages; although he may be deemed to have custody of your assets, if you give him authority to withdraw assets from your account (see *Item 15 - Custody*, below). Your assets must be maintained in an account at a "qualified custodian," generally a broker/dealer or bank. Mr. Smiley recommends that clients use Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer, member SIPC, as the qualified custodian. Mr. Smiley operates independently and he is not affiliated with Schwab by common ownership or control. Schwab will hold your assets in a brokerage account, and will buy and sell securities when you or Mr. Smiley instructs them to. While Mr. Smiley recommends that you use Schwab as custodian/broker, you will decide



whether to do so and will open your account with Schwab by entering into an account agreement directly with them. Mr. Smiley does not open the account for you, although he may assist you in doing so. Even though your account is maintained at Schwab, Mr. Smiley can still use other brokers to execute trades for your account as described below (see "*Your Brokerage and Custody Costs*").

#### *How Mr. Smiley Selects Brokers/Custodians*

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

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability 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 (ETFs), etc.)
- Availability of investment research and tools that assist Mr. Smiley in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Prior service to Mr. Smiley and his other clients
- Reputation, financial strength, and stability
- Availability of other products and services that benefit Mr. Smiley, as discussed below (see "*Products and Services Available to Mr. Smiley From Schwab*")

#### *Your Brokerage and Custody Costs*

Schwab generally does not charge you separately for custody services. Schwab is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. This commitment benefits you because the overall commission rates and fees you pay are lower than they would be otherwise. In addition to commissions and fees, Schwab charges you a flat dollar amount as a "prime broker" or "trade away" fee for each trade that Mr. Smiley has executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. Schwab Institutional reduces its electronic equity trade commission for electronic trades in stocks and third-party exchange-traded funds for those accounts that have enrolled in eDelivery and have household assets less than \$1 million. Electronic Delivery (eDelivery) is defined as consenting to receive trade confirms and account statements electronically and not in paper format. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, Mr. Smiley has Schwab execute most trades for your account. Mr. Smiley has determined that having Schwab execute most trades is consistent with his duty to seek "best execution" of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see "*How Mr. Smiley Selects Brokers/Custodians*").

#### *Products and Services Available to Mr. Smiley From Schwab*

Schwab Advisor Services (formerly called Schwab Institutional) is Schwab's business serving independent investment advisory firms like Mr. Smiley's firm. They provide Mr. Smiley and his clients with access to its institutional brokerage—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help Mr. Smiley manage or administer his clients' accounts,

while others help him manage and grow his business. Schwab's support services generally are available on an unsolicited basis (Mr. Smiley does not have to request them) and at no charge to Mr. Smiley as long as his clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. If Mr. Smiley's clients collectively have less than \$10 million in assets at Schwab, Schwab may charge Mr. Smiley quarterly service fees of \$1,200. Following is a more detailed description of Schwab's support services:

#### *Services That Benefit You*

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

#### *Services That May Not Directly Benefit You*

Schwab also makes available to Mr. Smiley other products and services that benefit him but may not directly benefit you or your account. These products and services assist Mr. Smiley in managing and administering his clients' accounts. They include investment research, both Schwab's own and that of third parties. Mr. Smiley may use this research to service all or a substantial number of his clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of Mr. Smiley's fees from his clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

#### *Services That Generally Benefit Only Mr. Smiley*

Schwab also offers other services intended to help Mr. Smiley manage and further develop his business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to Mr. Smiley. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide Mr. Smiley with other benefits, such as occasional business entertainment of Mr. Smiley's personnel.

#### *Mr. Smiley's Interest in Schwab's Services*

The availability of these services from Schwab benefits Mr. Smiley because he does not have to produce or purchase them. Mr. Smiley does not have to pay for Schwab's services so long as his clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. Beyond that, these services are not contingent upon Mr. Smiley committing any specific amount of business to Schwab in trading commissions or assets in custody. The \$10 million minimum may give Mr. Smiley an incentive to recommend that you maintain your account with Schwab, based on his interest in receiving Schwab's services that benefit Mr. Smiley's business rather than based on your interest in receiving the

best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. Mr. Smiley believes, however, that his selection of Schwab as custodian and broker is in the best interests of his clients. Mr. Smiley's selection is primarily supported by the scope, quality, and price of Schwab's services (see "*How Mr. Smiley Selects Brokers/Custodians*") and not Schwab's services that benefit only Mr. Smiley. Mr. Smiley does not believe that recommending his clients to collectively maintain at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

### **Brokerage for Client Referrals**

Mr. Smiley does not receive client referrals from Schwab or any other broker-dealer in exchange for cash or other compensation, such as brokerage services or research.

### **Directed Brokerage**

Mr. Smiley routinely recommends that you direct Mr. Smiley to execute transactions through Schwab. Given this practice, Mr. Smiley may be unable to achieve the most favorable execution of your transactions and you may pay higher brokerage commissions than you might otherwise pay through another broker-dealer that offers the same types of services.

In limited circumstances, and at Mr. Smiley discretion, some clients may instruct him to use one or more particular brokers for the transactions in their accounts. If you choose to direct Mr. Smiley to use a particular broker, you should understand that this might prevent him from aggregating trades with other client accounts. This practice may also prevent him from obtaining favorable net price and execution. Thus, when directing brokerage business, you should consider whether the commission expenses, execution, clearance, and settlement capabilities that you will obtain through your broker are adequately favorable in comparison to those that Mr. Smiley would otherwise obtain for you.

### **Block Trades**

Mr. Smiley combines multiple orders for shares of the same securities purchased for advisory accounts he manages (this practice is commonly referred to as "block trading"). Mr. Smiley will then distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account, but it is not based on account performance or the amount or structure of management fees. Subject to his discretion regarding factual and market conditions, when he combines orders, each participating account pays an average price per share for all transactions and pays a proportionate share of all transaction costs. Accounts owned by Mr. Smiley may participate in block trading with your accounts; however, his accounts will not be given preferential treatment.

Mr. Smiley combines multiple orders for shares of the same securities purchased for discretionary accounts; however, he does not combine orders for non-discretionary accounts. Accordingly, non-discretionary accounts may pay different costs than discretionary accounts pay. If you enter into non-discretionary arrangements with Mr. Smiley, he may not be able to buy and sell the same quantities of securities for you and you may pay higher commissions, fees, and/or transaction costs than clients who enter into discretionary arrangements with him.

## **Item 13 Review of Accounts**

Mr. Smiley will monitor your accounts on a periodic basis and will conduct account reviews at least annually to ensure the advisory services provided to you are consistent with current investment needs and objectives. Additional reviews may be conducted based on various circumstances, including, but not limited to:

- contributions and withdrawals;



- year-end tax planning;
- market moving events;
- security specific events; and/or,
- changes in your risk/return objectives.

Mr. Smiley provides you with an annual report in conjunction with account reviews. Reports he provides to you will contain relevant account and/or market-related information such as an inventory of account holdings and account performance. Mr. Smiley will also provide you with periodic or annual tax reports. You will receive trade confirmations and monthly or quarterly statements from your account custodian(s).

Mr. Smiley, Sole Proprietor of Penland Legacy Advisors will review financial plans as needed, depending on the arrangements made with you at the inception of your advisory relationship to ensure that the planning advice, asset allocation recommendations, and/or management of your accounts is consistent with your current investment needs and objectives. Generally, in conjunction with and incidental to other advisory services, Mr. Smiley will contact you to evaluate whether any updates may be needed based on changes in your circumstances. Changed circumstances may include, but are not limited to marriage, divorce, birth, death, inheritance, lawsuit, retirement, job loss, and/or disability, among others. Where warranted, Mr. Smiley will provide you with updates to the financial plan in conjunction with the review. Mr. Smiley recommends meeting with you at least annually to review and update your plan, if needed. Additional reviews will be conducted upon your request. Such reviews and updates will be subject to the then current hourly rate, if the reviews or updates are extraordinary in nature. Mr. Smiley will not provide regular written reports for financial planning and consulting services. If you implement financial planning advice through Mr. Smiley and/or Schwab, you will receive trade confirmations and monthly or quarterly statements from relevant custodians.

## **Item 14 Client Referrals and Other Compensation**

As disclosed under the *Fees and Compensation* section in this Brochure, Mr. Smiley is a licensed insurance agent. For information on the conflicts of interest this presents, and how he addresses these conflicts, please refer to the *Fees and Compensation* section.

Mr. Smiley does not compensate any person for client referrals and/or obtain an economic benefit from someone outside his business for providing investment advice or other advisory services to clients.

## **Item 15 Custody**

Mr. Smiley directly debits your account(s) for the payment of his advisory fees. This ability to deduct advisory fees from your accounts causes him to exercise limited custody over your funds or securities. Mr. Smiley does not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of Mr. Smiley's advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy.

## **Item 16 Investment Discretion**

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

You may grant Mr. Smiley discretion over the selection and amount of securities to be purchased or sold for your account(s) without obtaining your consent or approval prior to each transaction. You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters for your account(s). For example, you may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio and/or restrictions or prohibitions of transactions in the securities of a specific industry or security. Please refer to the "Advisory Business" section in this Brochure for more information on his discretionary management services.

If you enter into non-discretionary arrangements with Mr. Smiley, he will obtain your approval prior to the execution of any transactions for your account(s).

## **Item 17 Voting Client Securities**

Mr. Smiley will determine how to vote proxies based on his reasonable judgment of the vote most likely to produce favorable financial results for you. Proxy votes generally will be cast in favor of proposals that maintain or strengthen the shared interests of shareholders and management, increase shareholder value, maintain or increase shareholder influence over the issuer's board of directors and management, and maintain or increase the rights of shareholders. Generally, proxy votes will be cast against proposals having the opposite effect. However, Mr. Smiley will consider both sides of each proxy issue. Unless he receives specific instructions from you, he will not base votes on social considerations.

In the event you wish to direct Mr. Smiley on voting a particular proxy, you should contact Mr. Smiley at (704) 399-7010 with your instructions.

Conflicts of interest between you and Mr. Smiley regarding certain proxy issues could arise. If Mr. Smiley determines that a material conflict of interest exists, he will take the necessary steps to resolve the conflict before voting the proxies. For example, he may disclose the existence and nature of the conflict to you, and seek direction from you as to how to vote on a particular issue; he may abstain from voting, particularly if there are conflicting interests for you (for example, where your account(s) hold different securities in a competitive merger situation); or, he will take other necessary steps designed to ensure that a decision to vote is in your best interest and was not the product of the conflict.

Mr. Smiley keeps certain records required by applicable law in connection with his proxy voting activities. You may obtain information on how he voted proxies and/or obtain a full copy of his proxy voting policies and procedures by making a written or oral request to Mr. Smiley.

## **Item 18 Financial Information**

Mr. Smiley is not required to provide financial information to his clients because he does not:

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

## **Item 19 Requirements for State-Registered Advisers**

We are a federally registered investment adviser; therefore, we are not required to respond to this item.

## **Item 20 Additional Information**

### **Your Privacy**

Mr. Smiley views protecting your private information as a top priority. Pursuant to applicable privacy requirements, he has instituted policies and procedures to ensure that he keeps your personal information private and secure.

Mr. Smiley does not disclose any nonpublic personal information about you to any nonaffiliated third parties, except as permitted by law. In the course of servicing your account, he may share some information with his service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

Mr. Smiley restricts internal access to nonpublic personal information about you to employees who need that information in order to provide products or services to you. He maintains physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure his integrity and confidentiality. He will not sell information about you or your accounts to anyone. He does not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of Mr. Smiley's privacy notice prior to or at the time you sign an advisory agreement with him. Thereafter, he will deliver a copy of the current privacy policy notice to you on an annual basis. Please contact Mr. Smiley at (704) 399-7010 if you have any questions regarding this policy.

### **Trade Errors**

In the event a trading error occurs in your account, Mr. Smiley's policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account. If a trade error results in a profit, you will keep the profit.