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## Form ADV Part 2A Brochure

March 1, 2017

This Brochure provides information about the qualifications and business practices of Q3 Asset Management. If you have any questions about the contents of this Brochure, please contact us at 248.566.1122 or [info@q3tactical.com](mailto:info@q3tactical.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or any state securities authority.

Any reference to or use of the terms “registered investment adviser” or “registered,” does not imply that Q3 Asset Management or any person associated with Q3 Asset Management has achieved a certain level of skill or training in order to become SEC registered.

Additional information about Q3 Asset Management and its registered personnel is available on the SEC’s Adviser Public Search website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).  
Q3 Asset Management’s CRD number is 137839.

## Material Changes

The Securities and Exchange Commission ("SEC") requires Registered Investment Advisers to update their Forms ADV 1 and ADV 2 Brochures promptly throughout the year with material changes and no less than once per year, within 90 days of the Registered Investment Adviser's fiscal year end. Q3 Asset Management updated this ADV 2 Brochure on March 1, 2017. There have been no material changes since our last brochure (August 1, 2016).

Please contact our office anytime during normal business hours should you have any questions.

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#### Item 4 Advisory Business

Q3 Asset Management Corporation, (“Q3 Asset Management,” “Q3AM” or “Adviser”) was founded in 2006 and is a Registered Investment Adviser headquartered in Birmingham, Michigan. The Adviser is owned in equal parts by Bradford Giaimo, President and Chief Compliance Officer and Adam Quiring, Vice President. Q3AM is registered with and is regulated by the United States Securities and Exchange Commission (“SEC”).

Q3AM offers professional fee-based financial and investment advisory services. The term “fee-based” in this case means that Q3AM is only compensated in the form of advisory fees. Q3AM does not accept commissions in connection with securities or insurance recommendations. However, some of the Investment Adviser Representatives of Q3AM may be independently insurance licensed and will accept normal commissions paid by insurance companies should clients purchase insurance through them. Investment Adviser Representatives are those persons who are registered with Q3AM and are authorized to provide investment advisory services on behalf of Q3AM.

Q3AM specializes in quantitative analysis. Our research emphasizes technical screens as opposed to fundamental screens. Most of our analysis is designed to be applied to mutual and exchange traded funds. Many of Q3AM’s investment strategies maintain the ability to shift to a defensive posture during certain market environments. Some of our portfolio designs and/or strategies may utilize inverse or leveraged mutual funds from time to time. Performance results are best analyzed over a complete market cycle of 4 to 7 years based on the fact that our investment strategies may not correlate with the broader market.

#### **Q3AM offers advisory services on three levels:**

- I. Investment Management Services to and within Q3AM’s investment programs established through referral relationships with other financial professionals.
- II. Services provided to other financial professionals and;
- III. Asset management; consultation and financial planning services provided to Q3AM’s private clients.

**I. Investment Management Services Through Referral Relationships with other Financial Professionals.** Q3 Asset Management offers ongoing investment management services to clients that are referred to Q3AM through other financial professionals. These management services encompass various strategies with differing objectives to enable investor participants to receive personalized investment advice in an effort to help them achieve their stated investment goals. Additional details are available under the *Client Referrals and Other Compensation* section of this Brochure.

**II. Services Provided to Other Financial Professionals:** Q3 Asset Management is available to provide sub-advisory services to other financial professionals. Additional details of this service

can be found in Item 14 of this Brochure. Additionally, unaffiliated financial professionals may utilize Q3AM's strategies through a number of Turnkey Asset Management Providers (TAMPs). Details of this arrangement can also be found in Item 14 of this Brochure. Q3AM also offers its services to one or more annuity companies whereby the Adviser provides investment management services to one more investment models that insureds can elect to place a percentage of their annuity holdings. Details of the service are provided in the annuity company disclosure materials.

Q3AM may provide trading signals (buy and sell recommendations) to other unaffiliated financial professionals. This service is provided via subscription or consulting services available *only* to professionals for analysis. The proprietary data is not to be released to the general public via the subscribers. Since this is a professional service not available to the investing public, detailed information about the service is not provided herein.

### **III. Asset Management, Consultation Financial Planning and Market Timing Services -**

**Q3AM's Private Clients:** Q3 Asset Management's client services are primarily provided to individuals; pension and profit sharing plans; trusts, estates and charitable organizations; corporations or other business entities; and occasionally to associations or groups. See detailed description in Item 5.

*Asset Management:* Q3AM offers professional management of various securities in an effort to meet specified investment goals for the benefit of the investors. Asset Management provides for ongoing management of a client's portfolio and services are continuous until terminated by either party. Portfolios are reviewed no less than quarterly and the Adviser remains available to consult with the client during the Adviser's normal business hours.

*Consultation:* Q3AM offers the opportunity to meet with, discuss and offer advice based upon a client's particular investment needs and interests. Consultation Services are provided on a stand-alone basis. These services are not ongoing and thus terminate upon the delivery of services unless otherwise agreed as set forth in the written client agreement.

*Financial Planning:* Clients are welcome to request Financial Planning Services on a stand-alone basis. Q3AM works closely with its clients in an effort to determine how to best achieve their strategic goals and investment objectives based upon information provided by the client. These services are not ongoing and thus terminate upon the delivery of services unless otherwise agreed as set forth in the written client agreement.

Q3AM's Consultation Services or Financial Planning Services are available on an hourly basis. Advice may be provided on general or specific issues relating to such topics as financial management, risk management, asset allocation, investment research, financial issues relating to divorce or marital issues, estate planning, tax issues, retirement planning, educational funding, goal setting, or other needs as identified by the client. Q3AM may offer services regarding certain financial planning components

but since the Adviser focuses on Investment Management Services, Q3AM does not hold itself out as a comprehensive financial planning firm. Many of Q3AM's investment strategies fall under the classification of Market Timing. This means that any investment strategy designed, if recommended during the course of these services, would be one that should be actively managed and could be out of the market, in the market, short the market, in bonds, or any combination of these. Thus, the Adviser's strategies may not be appropriate for all investors. Often with short-term services such as those outlined, Q3AM will provide only general advice and recommendations. In each case, clients are welcome to accept and/or act on any advice or recommendations in whole or in part, entirely at their discretion.

When the Adviser's services focus on certain areas of client interests and needs or is otherwise limited, clients must understand that their overall financial and investment needs and objectives may not be considered as a result of time and/or service restraints placed on Q3AM's services. Clients requiring assistance on issues relating to matters outside of investment advisory topics should consult their personal tax and/or estate adviser, legal counsel, or other professionals for expert opinions. When providing services in connection with investments within a retirement plan, the advice and recommendations are limited to Plan offerings and contracted service providers (e.g., custodial firms).

Consultation and/or Financial Planning Services may include recommendations for updates and reviews. Additional or follow-up services are available as initiated by clients via a new or amended client agreement.

Q3AM provides clients with the opportunity to place reasonable restrictions on the management of their account. A client may desire to place or keep certain assets within their account(s) that are selected by the client and are not the subject of investment advice by Q3AM. These are "self-directed" assets. The Adviser will generally not consult or provide due diligence services in connection with these investments. Q3AM shall have no responsibility to review or manage any "self-directed" assets in client's account(s) and Adviser will have no liability to client for any loss relating to the "self-directed" assets. Q3AM will therefore not manage or provide consultation on this facet of the client's portfolio unless specifically agreed to in writing.

Q3 Asset Management's assets under management, as of its last fiscal year end (December 31, 2016), totaled \$264,480,926 in 5545 discretionary accounts. Up to 10% of the Adviser's managed assets belong to clients who meet the SEC's definition of high net worth individuals. The remaining managed assets are owned by other than high net worth individuals.

## Item 5 Fees and Compensation

Advisory fees for asset management services are agreed upon at the time of engagement. Fees are charged quarterly in arrears and are based upon the market value of the portfolio, set forth by the client's custodian, as of the last market day of the relevant calendar month. The last market day is defined as the last day of a billable month that the stock market is open. The Adviser's quarterly fees are:

<u>Portfolio Size</u>	<u>Investment Management Fee</u>
Up to \$500,000	0.625% Quarterly
\$500,000+	0.500% Quarterly

Where services are initiated at any time other than the beginning of a calendar quarter, advisory fees will be pro-rated. Any additions of \$25,000 or more deposited to existing accounts will be pro-rated. Partial withdrawals of \$25,000 or more will also be pro-rated for fee purposes. Should a client have more than one account with Q3AM, balances will be aggregated when determining fees. Q3AM reserves the right to modify fees outlined in the aforementioned fee scale, depending upon the nature of the engagement, complexity of services, time to be incurred, for pre-existing relationships, or other special situations and at our discretion. Investment Management Fees do not include custodial fees, service fees and/or transaction fees that may be levied by various custodians, broker-dealers, mutual funds and insurance companies. Clients may pay more or less than other client's receiving similar services.

In the rare case where there is an absence of a portfolio value Q3AM and the client will utilize at least one independent third party to assess the value of the particular holding. Q3AM reserves the right to modify the asset management fee for existing clients with 30 days' notice. This may occur when your circumstances or service needs have changed significantly. In such cases, a new or amended Client Agreement will be provided to the client to sign. Clients are welcome to terminate services at any time by written notice to Q3AM.

Payment of investment management fees may be paid directly by you or payment of fees may be made through a debit directly to your account by the qualified custodian holding your funds and securities. Direct-bill payments will be due as of the date posted on the invoice. If you have more than one account, you may choose to have all fees deducted from a particular account. For fee deductions, Q3AM adheres to the following criteria in accordance with the United States Securities and Exchange Commission's Investment Advisers Act of 1940, as amended, when payment is made via a qualified custodian: (1) The client provides written authorization permitting the fees to be paid directly from the client's account held by the independent and qualified custodian and the authorization is limited to withdrawing contractually agreed upon investment advisory fees; (2) The client will directly receive regular (monthly or quarterly) reports directly from the qualified custodian which reflect the Adviser's fee deduction; (3) The frequency of advisory fee withdrawals shall be specified in the written authorization / agreement; (4) The custodian of the account shall be advised in writing of the

limitation on the Adviser's access to the account; (5) The client shall be able to terminate the written billing authorization or agreement at any time.

Since custodians do not verify the accuracy of the advisory fee calculation, you should review each custodial statement and promptly contact Q3AM if any questions should arise. Clients must ensure they are receiving account statements directly from their custodial firm(s) and promptly report address changes to both Q3AM and their custodial firm(s). In the event a client finds that custodial account statements are not being received, they should immediately notify their custodian and Q3AM.

Fees for Consultation or Financial Planning are determined at the time of engagement based upon the time and effort required and/or the nature and complexity of services. Q3AM's hourly fee is \$200. The Adviser may require prepaid fees equal to ½ the proposed project fee in order to schedule services. In these cases, the project balance is due upon the delivery of services. As with the Adviser's asset management services, Q3AM will not collect fees in excess of \$1200 for services to be performed six months or more in advance. Should the client's situation change during the course of services such that new advice, recommendations or research are required or the Adviser must re-work the advice, recommendations or other services, additional fees. Should services deviate dramatically, the Adviser will require an amended or new Client Agreement. Q3AM will not engage in additional services that result in fees without the client's approval.

### **Termination**

For any of the Adviser's client services, if you did not receive Q3AM's Form ADV 2 Brochure at least 48 hours prior to execution of the Client Agreement, you may terminate services without penalty (no fees due) within 5 business days of signing the Agreement.

Investment Management Services are ongoing until the client receives notice of termination or renewal. Either party may immediately terminate the agreement by providing written notice to the other. Where Investment Management Services are terminated prior to the conclusion of the calendar quarter, the Adviser will calculate the quarterly investment management fee (which is payable in arrears) and will only bill for services provided up until the effective date of termination.

Consultation or Financial Planning Services terminate upon the conclusion of services. Clients may terminate services at any time prior to conclusion by providing via written notice to the Adviser. Where the engagement is terminated prior to the conclusion of services, the Adviser will promptly refund the unused portion of a pre-paid fee or will only invoice for services provided up until the date of termination.

The advisory fees noted herein represent fees for our advisory services only. Investors may pay transaction, brokerage, commissions and other fees as well (e.g., custodial fees, account opening, maintenance, transfer, termination, cash wire transfer, retirement plan, trust fees, and all such applicable third party fees). Clients invested in exchange-traded funds and mutual



funds that we agree to manage, will pay a layered fees only in that they pay for Q3AM's private portfolio management services in addition to the management fee that their respective fund (investment company) pays their manager to manage the assets within their company's fund. These fund fees are separate and distinct and part of an exchange-traded or mutual fund offering – *Q3AM does not receive any portion of these fees*. For more information on brokerage fees please see the “*brokerage practices*” section of this Brochure.

Q3AM does not accept compensation that is based on a share of capital gains on, or capital appreciation of, the funds of a client (these are referred to as “performance fees”).

Under certain circumstances, the Adviser may offer its programs or strategies to other investment firms through a subscription, consulting engagement or other service agreement. Under such a scenario, fees will vary based upon the services provided.

Q3AM strives to avoid trading errors within client accounts and uses best efforts in doing so. For any trade error that is determined to be the Adviser's responsibility, accounts will be restored to the position prior to the error. Q3AM will reimburse accounts for losses resulting from trade errors, but shall not credit accounts for such errors resulting in market gains. The gains and losses will be reconciled within the Adviser's error account at the custodial firm.

#### **Item 5A. Charitable Giving Program**

Q3AM initiated a Charitable Giving Program in January 2013. Under the terms of this program Q3AM may donate \$10 for each new account established. While this program creates an incentive for Adviser Representatives to open an account, the funds donated per new account (\$10) are nominal and do not pose a material conflict of interest between Adviser Representatives and our clients. There is no obligation to the Client or a referring Adviser. Q3AM will choose at least one charity, per period. If an Adviser Representative or Solicitor chooses he or she can designate a charity of their own, then, at the end of the period, Q3AM will make a donation in their name to that particular charity.

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

Q3AM's Investment advisory fees are not “performance based” and the Adviser does not engage in side-by-side management.

#### **Item 7 Types of Clients and Minimum Conditions**

Q3 Asset Management's client services are primarily provided to individuals; pension and profit sharing plans; trusts, estates and charitable organizations; corporations or other business entities; and occasionally to associations or groups.

Q3 Asset Management imposes a minimum portfolio size of \$75,000. Q3AM reserves the right to waive the minimum based upon individual circumstances, pre-existing relationships, where

the minimum can be met within a specified time period, or at Q3AM's officers' sole discretion. Investment advisory services are not appropriate for all persons and/or entities. Therefore, Q3AM reserves the right to decline to provide services to any person or firm.

If an account is subject to the Employee Retirement Income Security Act of 1974, as amended, ("ERISA"), the Adviser acknowledges that Adviser is a fiduciary within the meaning of the Act and the ERISA Client is a named fiduciary with respect to the control or management of the assets in the Account. In each instance, the client will agree to obtain and maintain a bond satisfying the requirements of Section 412 of ERISA and to include the Adviser and the Adviser's principals, agents, and employees under those insured under that bond and will deliver to the Adviser a copy of the governing plan documents. If the Account assets for which the Adviser provides services represent only a portion of the assets of an employee benefit plan, client will remain responsible for determining an appropriate overall diversification policy for the assets of such plan.

If Q3AM provides individual advisory services to a client whose portfolio of assets includes assets held within a retirement plan, the client must understand that the Adviser's advice and recommendations are limited to the offerings in the plan and the plan's service provider(s).

#### **Item 8 Method of Analysis, Investment Strategies and Risk of Loss**

***Investing in securities involves risk of loss that you should be prepared to bear. Additionally, because many of Q3 Asset Management's strategies have a low correlation to the broader market, it's possible that a client's account may depreciate in value over periods of time when the market appreciates in value.*** Q3AM attempts to measure an investor's risk tolerance, time horizon, goals and objectives through a data-gathering process in an effort to determine an investment plan or portfolio to best fit the investor's profile. The client's participation and delivery of accurate and complete information are critical to this process. These investment strategies may not be appropriate for every type of investor.

Q3AM provides advisory services for portfolios ranging from conservative to aggressive, designed to help meet the varying needs of investors. The Adviser (in conjunction with the Solicitor when applicable) selects the strategy combination suited to their individual needs after clients have defined their objectives, risk tolerance and time horizons. Portfolio holdings are generally derived through methods associated with quantitative analysis. Q3AM places more emphasis on "technical" screens rather than "fundamental" screens.

Generally speaking, technical analysis does not attempt to measure a security's intrinsic value, but instead uses charts and other tools to identify patterns that can suggest future activity. The field of technical analysis is based on three assumptions:

1. The market discounts everything.
2. Price moves in trends.
3. History tends to repeat itself.

In general terms, technical analysis deals with reading stock charts and this process is broadly described as a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity. It is a discipline for forecasting the direction of prices through the study of past market data, primarily price and volume. Technical analysts lean towards the belief that the historical performance of stocks and markets are likely indications of future performance.

Technical analysis can be difficult, as analysts need to learn various indicators and patterns and understand how they relate to investor sentiment and behavior. Analysts also have to devise methods of how these issues may impact stock price. Like other analysis methods, technical analysis is not 100% percent accurate or reliable. Relative success depends on the analyst, the analysis tools and the stock or market itself. Often there can be contradicting results which may result in a situation where no trade can be made. An example of this exists when the overall market is heading in one direction and the particular share price is pointing to the opposite direction.

The interpretation of technical indicators is subjective. The same indicator could be interpreted as bullish by one side of the camp and as bearish by the other side of the technical camp. The subjective aspect of technical analysis gives way to another drawback of technical analysis which is the validation of a biased view. The analyst may have already formed a view based on the state the economy is currently or the situation of the market and sector the company is operating in.

Investors should not expect to remain fully invested at all times as most of the Adviser's programs maintain the ability to move into "money market" or "defensive" positions. Additionally, some of the Adviser's programs maintain the ability to invest in "inverse" or "leveraged" products which may carry a higher level of risk. Many of Q3AM's strategies may utilize short-term trading strategies in an effort to capitalize upon shorter term market moves and as a result it's possible that a high number of transactions may occur over a relatively short period of time. More transactions may result in higher fees in individual accounts. The Adviser's strategies may not be appropriate for every type of investor.

As part of Q3AM's internal research, we often conduct quantitative back tested simulations to see how a particular model may have performed over different market periods. Most quantitative models go through a least one stage of development known as "backtesting." This process is an empirical analysis which attempts to judge if a particular investment technique would have been successful had it been applied in the past. If it appears from the test that the methods being analyzed would have been successful in meeting the hopefully well-defined goals of our investors, then the method is often tried in simulated trading in purportedly current investment conditions. It is important to understand that hypothetical performance results have certain inherent limitations. Unlike an actual performance record, simulated trades do not represent actual trading. Also, since the trades have not actually been executed, the

results may have over or under compensated for the impact, if any, of certain market factors such as lack of liquidity. No graph, chart, formula or other device can, in and of itself be used to determine which securities to buy or sell, or when to buy or sell such securities, or can assist persons in making those decisions. An investor may have done better or worse than results derived from back testing. It is therefore important to remember that investment decision models which have produced excellent results in backtests and simulations may achieve very poor results when actually implemented. Simply put, the biggest challenge with backtests and simulations is that no matter how rigorously they are performed, there is the final, overriding assumption that the investing world of tomorrow will behave like the world of today or yesterday. Therefore, no representation is being made that any account will or is likely to achieve profits or losses similar to those derived through a backtest. For a list of all recommendations made in the preceding twelve months, please contact Q3AM's office directly.

Q3AM may engage the services of unaffiliated and independent Signal Providers to provide buy and sell signals, research, or other information that we may use to manage a particular strategy. Such Signal Providers will not act as fiduciaries with respect to any client as they engaged to provide market-related services to the Adviser. In providing individualized investment advice, Q3AM may invest a client's assets in accordance with the recommendations of one or more Signal Providers or may invest the account in any manner it deems appropriate based on the client's personal objectives. All fees incurred by the subscription to various Signal Providers is paid by Q3AM (in the form of a flat fee and/or as a percentage of the fees generated within a particular program). Thus, a portion of the advisory fee paid by a client to Q3AM may be used to compensate such third party providers or consultants. These service providers do not in any way, engage in providing insider-trading data and Q3AM has strict policies against the use of insider-trading information.

Q3AM offers a number of strategies that fall under the "tactical" category. In general, a tactical management strategy seeks to actively rebalance client assets held in various categories in order to take advantage of short-term moves in the market and/or market sectors. These strategies attempt to add value by taking advantage of certain market conditions. Some of these strategies maintain the ability to invest in aggressive investment vehicles including sector, inverse and leveraged funds. The performance of these strategies may not correlate with a rising stock market and may be volatile. While we believe that the non-correlation of these strategies may reduce overall portfolio volatility when used in conjunction with other strategies, they may not be appropriate for some investors. The following strategies are included as part of this group: Cipher, Xantus, Eclipse, Mesa, Mesa High Yield, Adaptive High Yield, Melange, Treasury Long/Short, Bull Cipher, High-Yield Long/Short, and Alternative Edge. The objective of these programs is not necessarily to outperform the market each year, but to post consistent returns through both bull and bear markets. There is no assurance that objectives will be realized. Additional "tactical" strategies may be offered by the Adviser and information is available upon request.

Q3AM also offers a number of strategies that fall under the "dynamic & strategic asset allocation" category. Most of these strategies are available in a conservative, moderate or growth risk profile. Each of these strategies maintains the ability to revert to a defensive position during certain market environments. Such defensive positions may include a higher allocation to fixed income investments (including but not limited to government bond funds).

The following strategies are part of this group: Enhanced Allocation, Enhanced Allocation – Sector, Strategic Allocation, Strategic Allocation – Sector, Voyage, Strategic Core, Cash Balance Strategy, Faith Based and Dynamic Income. The performance of these strategies may not correlate with a rising stock market and the programs may invest in aggressive mutual funds or exchange traded funds, including sector funds. The objective of these programs is not necessarily to outperform the market each year, but to post consistent returns through both bull and bear markets. There is no assurance that objectives will be realized. In a dynamic or strategic asset allocation strategy, an Adviser can generate high rates of return if it is accurate about its expectations of market trends and if these trends persist over long periods. However, dynamic and strategic asset allocation models could underperform market averages, especially in choppy or volatile markets. Additionally returns can be impacted by high trading costs associated with frequent portfolio rebalancing. Additional “dynamic and strategic asset allocation” programs may be offered by the Adviser and information is available upon request.

Q3 Asset Management offers a program referred to as “CPS” (“Custom Portfolio Select”) where Q3AM will select the strategy combination on behalf of the Client and/or Solicitor. The Adviser can tailor each investment portfolio to an investor’s stated specifications and the resulting portfolio reflects a particular investment objective and risk tolerance. The program is offered in a Conservative, Moderate or Growth risk profile. At their sole discretion, Q3AM may or may not adjust the strategy mix over time. As with any of the Adviser’s strategies, market fluctuations are to be expected and there is no guarantee that the individually designed strategy will be effective and no allocation can provide a guarantee against loss.

Numerous publicly available sources of economic, financial and investment research are used by the Adviser to aid in investment decisions. Asset allocation software and historical performance modeling software may also be utilized. Q3AM clients are encouraged to discuss any questions that may arise regarding investment policies throughout the course of our engagement.

Q3AM generally does not consider tax consequences when purchasing or selling a security. The sale of investments may cause taxable gains or losses to the client. Additionally, “wash sales” may occur from time to time. You are welcome and encouraged to consult your independent personal tax adviser about tax consequences resulting from transactions or any particular investment held in your account. The majority of Q3AM’s programs trade frequently. Frequent trading of securities may affect investment performance through increased brokerage costs and through tax implications.

Some mutual fund families may impose redemption charges on funds held for less than a minimum period, as determined by the mutual fund family. While best efforts are made to avoid these fees, clients may from time to time incur such charges.

A client may direct Q3AM to invest all or a portion of the client’s account into a money market fund (“Money Market Request”). When this occurs, the client reduces the potential for market appreciation within the account. Furthermore, after advisory fees the account could lose value

under such a scenario. Q3AM takes no responsibility for advising clients on when to move out of the money market fund and back into the designated investment programs.

When investors invest their funds, they take certain risks. With insured bank investments, such as certificates of deposit (CDs), investors face inflation risk, which means that an investor may not earn enough over time to keep pace with the increasing cost of living. With investments that aren't insured, such as stocks, bonds, and mutual funds, investors face the risk that they might lose money, which can happen if the price falls and the asset is sold for less than the purchase price. No single strategy can be relied upon to outperform the market. The Adviser seeks to utilize investment strategies that are designed to capture market rates of both return and risk. Frequent trading, when done, can affect investment performance, particularly through increased brokerage and other transaction costs and taxes. Certain investment options generally hold greater risk and clients should be aware that there is a chance of material risk of loss using any of those strategies. Those employed by the Adviser (if in keeping with the investor's selected strategies) might include:

1) Short sales - market transactions in which an investor sells borrowed securities in anticipation of a price decline and is required to return an equal number of shares at some point in the future. Short selling is an advanced trading strategy with many unique risks and pitfalls. Novice investors are advised to avoid short sales because this strategy includes unlimited losses. A share price can only fall to zero, but there is no limit to the amount it can rise. Another is: 2) Margin transactions - in which a customer who purchases securities may pay for the securities in full or may borrow part of the purchase price from his or her securities firm. This strategy is risky and requires some investment sophistication. These risks include the following: Loss of more funds than the investor deposited in the margin account. The brokerage firm can force the sale of securities in an account if the equity falls below the maintenance margin requirements under the law—or the firm's higher "house" requirements. The brokerage firm can sell the securities without notice ("margin call") and an investor is not entitled to a time extension on market calls. 3) option writing – there are various types of option strategies and each carries a risk of investment loss. The purchase or sale of options may involve a high degree of risk and speculation and only experienced investors and those who endure loss of principal should engage in these strategies.

Bond investments involve certain risks such as (but not limited to): Interest rate, reinvestment, inflation, selection, timing and price . Additional risks for some government agency, corporate and municipal bonds may include: Legislative risk (a change in the tax code could affect the value of taxable or tax-exempt interest income); Call risk (some corporate, municipal and agency bonds have a "call provision" entitling their issuers to redeem them at a specified price on a date prior to maturity. Declining interest rates may accelerate the redemption of a callable bond, causing an investor's principal to be returned sooner than expected and in that scenario, investors have to reinvest the principal at the lower interest rates. If the bond is called at or close to par value, as is usually the case, investors who paid a premium for their bond also risk a loss of principal. In reality, prices of callable bonds are unlikely to move much above the call price if lower interest rates make the bond likely to be called. Additionally, there may be a

liquidity risk involved if investors may have difficulty finding a buyer when they want to sell and may be forced to sell at a significant discount to market value. Liquidity risk is greater for thinly traded securities such as lower-rated bonds, bonds that were part of a small issue, bonds that have recently had their credit rating downgraded or bonds sold by an infrequent issuer. Bonds are generally the most liquid during the period right after issuance when the typical bond has the highest trading volume. Additional risks for corporate and municipal bonds may include: Credit risk; default risk; event risk and duration risk.

A client through their Solicitor may adjust the client's mix of strategies upon request. Under most circumstances either the client or Solicitor is asked to complete a "Strategy Change Request Form." The Client's existing suitability profile questionnaire will be used to make sure that the requested strategy mix is in line with the client's risk tolerance.

As previously noted in Item 4, Q3AM may suggest the client work closely with the client's own attorney, accountant, insurance agent, and the client's custodian. Clients requiring assistance on issues relating to matters outside of investment advisory topics should consult their personal tax Adviser, legal counsel, or other professionals for expert opinions. While some of Q3AM's Adviser Representatives are separately licensed as insurance agents, clients are welcome but are never obligated to purchase insurance through them or utilize any product or company that may be recommended.

#### **Item 9    Disciplinary Information**

There are no legal or disciplinary events to report in connection with Q3AM or its Adviser Representatives. The Adviser's registration record contains no information that would impact a client's or prospective client's evaluation of Q3 Asset Management. The Adviser and its Adviser Representatives have not been involved in any investment-related litigation, arbitration, regulatory or self-regulatory proceedings or other disciplinary actions. The Adviser, its Officers and its Adviser Representatives have never been party to or the subject of a bankruptcy, license suspension or revocation, or a registration suspension or revocation.

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

Q3 Asset Management does not maintain registration relationships or legal affiliations with any of the following:

- 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 adviser
- 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.

Q3 Asset Management does not operate and does not have a material relationship with a hedge fund or other type of private pooled investment vehicle.

One of Q3AM's Adviser Representatives (Kenneth D. Stephenson), owns and operates a state-regulated Registered Investment Adviser in North Carolina (Quest 10 Wealth Builders). Mr. Stephenson is dually registered with Q3AM solely to provide client referral services to Q3AM, as required by the North Carolina securities regulator. Q3AM and Quest 10 Wealth Builders are not legally related advisory firms and operate distinct and separate practices. In this light, Quest 10 Wealth Builders and Mr. Stephenson are not involved in the day-to-day business activities or the operations of Q3AM. Q3AM is not involved in the operations of Quest 10 Wealth Builders or any of Mr. Stephenson's business entities.

Two of Q3AM's Adviser Representatives, (David Witkowski and Kenneth Stephenson) are independently licensed insurance agents with several insurance companies. Mr. Stephenson operates his own insurance business, Complete Financial Solutions, Inc., which is not affiliated with Q3AM. The time spent on this outside business activity may vary throughout the year but generally accounts for no more than 10% of the Adviser Representative's time. These licensees earn normal commissions paid by insurance products when such products are placed directly with clients. Insurance products are often recommended to clients to help minimize clients' exposure to identified risks and to meet personal and/or business needs. Although clients are under no obligation to purchase insurance products recommended, clients may do so when needs arise. Clients are always welcome to utilize the insurance provider of their choice and may implement recommendations in whole or in part, entirely at their discretion.

Q3AM is contracted as an Adviser to a sub-account of the Midland National's Vector II Variable Annuity. Midland National compensates Q3AM to the extent that the firm's investors utilize Q3AM's services. Such compensation amounts to 0.35% annually paid monthly in arrears. Fees paid are part of the mortality & expense charges of the contract, as outlined in the Client's agreement with Midland National.

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

A copy of Q3AM's Code of Ethics is available upon request. We take the issue of regulatory compliance seriously and are committed to maintaining compliance with federal and applicable state securities laws. Additionally, we have a position of public trust and it is our goal to maintain that trust; provide excellent service and advice that is suitable. Q3AM places great



value on ethical conduct. Therefore, *the ultimate goal of our internal policies is to challenge our staff to live up not only to the letter of the law, but also to the ideals set forth by the Adviser.*

You may, or may not, be familiar with the roles fiduciaries play in various legal situations and in certain industries. As a Registered Investment Adviser, Q3AM is a fiduciary to each and every client.

As fiduciaries, Investment Advisers owe their clients several specific duties. According to the SEC, an Investment Adviser's fiduciary duties include:

- Providing advice that is suitable;
- Providing full disclosure of material facts and potential conflicts of interest (such that the client has complete and honest disclosure in order to make an informed decision about services of the Adviser and about investment recommendations);
- The utmost and exclusive loyalty and good faith;
- Best execution of transactions under the available circumstances;
- The Adviser's reasonable care to avoid ever misleading clients;
- Only acting in the best interests of clients.

It is Q3AM's policy to protect the interests of each of our clients and to place their interests first and foremost in each and every situation. Q3AM will abide by honest and ethical business practices to include, but is not limited to:

- ❖ Q3AM will make investment decisions with reasonable grounds to believe that the decisions are suitable for the client on the basis of information furnished by the customer and we will document suitability.
- ❖ Q3AM and its Adviser Representatives will not borrow money from clients.
- ❖ Q3AM will not recommend the purchase of a security without the reasonable belief that the security is registered, or the security or transaction is exempt from registration in states where we provide investment advice and based upon information the Adviser receives.
- ❖ Q3AM will not recommend that the client place an order to purchase or sell a security through a broker/dealer or agent, or engage the services of a broker/dealer that is not licensed, based upon information available to the Adviser.
- ❖ Q3AM's staff will report all required personal securities transactions to Bradford Giaimo, President and Chief Compliance Officer of Q3 Asset Management Corporation as required. The following is a list of *exempt* securities at this writing:

- Transactions effected pursuant to an automatic investment plan;
- Securities held in accounts over which the access person has no direct or indirect influence or control;
- Transactions/holdings in direct obligations of the US Government;
- Money market instruments — bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments;
- Shares of money market funds;
- Transactions and holdings in shares of open-ended mutual funds are not reportable, since the Adviser does not have a material relationship with an investment company which would otherwise require reporting;
- Transactions in units of unit investment trust are not reportable if the UIT is invested exclusively in unaffiliated mutual funds.

All applicable securities rules and regulations will be strictly enforced. Q3AM will not permit and has instituted controls against insider trading. Our representatives and administrative personnel who do not follow the Q3AM Code of Ethics, Q3AM's written policies and procedures or who in any way violate the rules and regulations of the SEC, or applicable rules and regulations of the state securities act, will be disciplined or terminated. Such persons could also face action by the SEC and/or a state securities regulator.

Q3 Asset Management emphasizes your unrestricted right to decline to implement any advice rendered, in whole or part. Where Q3AM is granted discretionary authority (in writing) of a client's account, the client is welcome to set investment parameters and/or limitations. Such direction is followed until such time the client amends those instructions.

Q3 Asset Management Corporation, or individuals associated with Q3AM, may have similar investment goals and objectives and (as a result) may buy or sell securities for their personal accounts that may be identical to or different from those recommended to clients. Thus, at times the interests of the Adviser's or staff members' accounts may coincide with the interests of clients' accounts. However, at no time will Q3AM, or any related person receive an added benefit or advantage over our clients with respect to these transactions. Q3AM and its associated persons will not place itself in a position to have added benefit as a result of advice given to clients. The staff of Q3AM shall not buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment, unless the information is also available to the investing public on reasonable inquiry.

Bradford Giaimo & Adam Quiring, the Principals of Q3AM are responsible for the monitoring of personal trading conducted by staff.

## Item 12 Brokerage Practices

Consultation/Financial Planning clients are welcome to utilize the service provider(s) of their choice and are welcome to implement recommendations in whole or in part, entirely at their discretion. For clients utilizing Q3AM's Investment Management Services, Q3AM will generally utilize one of their preferred providers. These custodians currently include Trust Company of America and TD Ameritrade. While clients may request a service provider of their choice, Q3AM cannot guarantee best execution in such a case.

Q3AM is independently owned and operated and has no affiliation with either of the recommended custodial firms. The Adviser Representatives of Q3AM are not registered representatives of any broker/dealer firm.

We believe that excellent customer service and trade execution available through its preferred services providers is competitive when compared to many non-service oriented and internet-based brokers that may otherwise be available to the general public. Q3AM's selected service providers feature a broad line of products and services for the many types of investors we work with.

At times, for accounts utilizing the preferred platforms, the custodial firm may effect clients' over-the-counter securities transactions on an agency basis. Typically, the service providers execute transactions based upon a number of factors. These factors include: Size of order, trading characteristics of the security, favorable execution prices, access to reliable data, availability of efficient transaction processing and possible price reductions. In filling these orders, the service provider may transact with a market-making broker-dealer ("market maker") on the other side of the trade. A market maker may mark-up/down the price of securities for which it makes a market, which is a cost that will be incurred by the client in addition to any agency commissions assessed by the client's service provider. Normally, best price and execution is obtained for over-the-counter securities transactions by executing directly with the market maker on a principal basis. Therefore, in some cases, clients may incur transaction costs, in addition to any commissions charged by their services provider, when trades in over-the-counter securities are affected on their behalf through that broker on an agency basis. The Adviser does not receive any portion of transaction-related fees. The Adviser's choice to utilize the service provider's platform or similarly termed service available through the selected service provider may limit or eliminate the Adviser's ability to obtain best price and execution in each case.

In certain cases, a security may be purchased through another service provider and in such cases, the security purchased is then transferred to the client account at one of our preferred providers, and a "trade away" delivery fee may be assessed to the client account.

Q3AM recognizes its duty to obtain best price and execution for its clients under the circumstances available. The decision to recommend the preferred service providers is based upon the customer service provided to investors and the services available to the Adviser and

providing such recommendation is consistent with the Adviser's fiduciary duty to the client. The Adviser may also consider the following:

- ❖ Quality of overall execution services provided;
- ❖ Promptness of execution;
- ❖ Research (if any) provided;
- ❖ Promptness and accuracy of reports on execution;
- ❖ Ability and willingness to correct errors;
- ❖ Promptness and accuracy of confirmation statements;
- ❖ Ability to access various market centers;
- ❖ The broker-dealer's facilities and technology;
- ❖ The market where the security trades;
- ❖ Any expertise in executing trades for the particular type of security;
- ❖ Commission charged;
- ❖ Reliability of the broker-dealer;
- ❖ Ability to use ECNs to gain liquidity, price improvement, lower commission rates and anonymity;
- ❖ Execution and operational capabilities of the broker-dealer.
- ❖ Creditworthiness, financial condition, and business reputation of the broker-dealer;

While it is possible that clients may pay higher commissions or transaction fees through its preferred service providers, Q3AM has determined they currently offer a high level of value to the Adviser and clients for the brokerage and technology provided. Q3AM periodically reviews other alternatives that are available.

Clients are welcome to suggest use of their preferred service provider, in which case the Adviser may not be able to provide best execution, because of limitations that may be placed on the Adviser by the client's service provider. Brokerage direction is provided via the Client Agreement. The Adviser will continue to place trades through the client's selected service provider until such time new, written direction is received.

Where Q3AM is contracted as the Sub-Adviser within certain unaffiliated investment programs, Q3AM will not have brokerage discretion to determine what service providers are utilized by the program sponsors.

Item 12 ("Brokerage Recommendations"): Q3AM is contracted to provide management services via fund investments held at ProFunds, an unaffiliated fund company. In such cases, Q3AM's investment advisory program is generally available through unaffiliated financial services providers. Q3AM's investment advisory services are *only* available in ProFunds' Investor Class account types. ProFunds are not suitable for all investors because of the sophisticated techniques the funds may employ. Some of ProFunds' mutual funds entail certain risks, including risk associated with the use of derivatives (swap agreements, futures contracts and similar instruments), imperfect benchmark correlation, leverage and market price variance, all of which can increase volatility and decrease performance. For more on correlation, leverage

and other risks, please read each investment prospectus carefully. The frequent exchanges permitted by ProFunds investment policies can decrease performance, increase expenses and cause investors to incur tax consequences. Each investor considering ProFunds offerings should carefully review the investment objectives, risks, charges and expenses of ProFunds before investing.

### **Soft Dollars and Other Considerations**

Q3AM is enrolled in its preferred custodial firms' institutional programs which provide custodial and account services to independent Registered Investment Advisers. Generally speaking, soft dollars are benefits (primarily investment research and brokerage services) that Investment Advisers may receive in exchange for directing trade activity to a particular brokerage firm. Q3AM receives general research, business-related products and back-office administrative support services in addition to execution from its recommended broker/dealers in connection with client securities transactions. Therefore, the Adviser does receive benefits from its selected custodial firms that it would not otherwise receive if it were not a Registered Investment Adviser.

As fiduciaries, Investment Advisers are obligated to act in the best interest of their clients, and cannot use client assets (including client commissions) to benefit themselves, absent client consent. Advisers who obtain brokerage and research services with client commissions do not have to purchase those services with their own funds, which creates a conflict of interest for the Advisers. However, Section 28(e) of the Securities Exchange Act of 1934 provides a safe harbor for firms that exercise investment discretion over accounts to pay for research commission dollars generated by account transactions ("soft dollars").

Q3AM receives only general research, management software and back-office administrative support services from its preferred custodial services providers. Q3AM's custodial service providers make available certain account trading software to Advisers. Additionally, the Adviser may receive traditional "non-cash benefits" from service providers such as customized statements; receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desks servicing Adviser participants exclusively; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; ability to have investment advisory fees conveniently deducted directly from client accounts; access to an electronic communication network for client order entry and account information; access to mutual funds which generally require significantly high minimum initial investments or those that are otherwise only generally available to institutional investors; reporting features; receipt of regulatory compliance communications; and perhaps discounts or free access to business-related seminars and/or products. While the Adviser's preferred service providers do not directly provide any research, it may offer discounts on general products. Any general research received is used for the benefit of all clients.

Consistent with obtaining best execution, brokerage transactions may be directed to the preferred certain broker/dealers in return for investment research products and/or services which assist the Adviser in its investment decision-making process. Such research generally will be used to service all of the Adviser's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest.

While there is no direct linkage between the investment advice given and the participation in a custodial firm's institutional program, economic benefits are received which would not be otherwise, if the Adviser did not give advice to clients. The benefits received are considered by Q3AM to be nominal and do not impair the Adviser's independence. However, any benefits received from these institutions represent a conflict of interest. Clients should be aware however, that the Adviser's receipt of economic benefits from a broker-dealer or other service provider(s) creates a conflict of interest since these benefits may influence the Adviser's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services. However, in fulfilling its duties to its clients, the Adviser endeavors at all times to put the interests of its clients first.

Q3AM and its clients may pay slightly more than the lowest rate of commissions available in order to obtain various administrative and research services. However, the Adviser has determined in good faith and after periodic (and ongoing) review, that the fees are reasonable in relation to the full range and quality of the brokerage, administrative and research services provided, viewed in terms of either particular transactions or the Adviser's overall responsibilities with respect to the accounts over which it exercises investment discretion. The determinative factor is whether transaction fees represent the best qualitative execution services for our managed accounts.

Services that generally benefit only the Adviser are those other benefits intended to help the Adviser manage and further develop its business enterprise. These services include educational conferences and events as well as access to technology (software). Services include general compliance and business consulting as well as publications and conferences on practice management and business succession. The service providers may also offer access to employee benefits providers, human capital consultants and insurance providers. The custodial firm's institutional programs may provide these services themselves and in other cases, they will arrange for third-party vendors to provide services to the Adviser. These service providers may also discount or waive fees for some services or pay all or a portion of a third-party's fees. These service providers may also provide other benefits such as occasional business entertainment of our personnel.

Unaffiliated third party vendors may offer considerations such as invitations to attend industry-related conferences, seminars or workshops. The Adviser would generally not receive any considerations above paid admission and customary meals. The Adviser's President and Chief

Compliance Officer, Bradford Giaimo, is responsible for monitoring and recording considerations received by the Adviser as well as given.

Q3AM receives no referrals from a broker/dealer or third party in exchange for using the services offered by that broker/dealer or third party.

### **Trade Allocation Policies for Multiple Client Accounts**

When possible, the Adviser will aggregate securities transactions (“block trading”). Due to the individualized nature of services, however, large orders of securities are not always consistent with the nature of the Adviser’s services. Aggregation is undertaken in firms processing large orders of securities in order to realize more effective trade execution and the cost efficiencies that come from executing larger order sizes. In each case, the Adviser strives to allocate investment opportunities or trades among its clients in a manner that is fair and equitable and based upon the client investment objectives.

Normally, under this procedure, transactions will generally be averaged as to price and allocated according to the Adviser’s standard allocation procedure. This procedure considers the circumstances of each trade and always strives for fairness and cost-effectiveness to the client. In most cases when the Adviser executes only a partial fill of a targeted buy order, allocations will prioritize complete fills for clients with the most available cash as a percentage of portfolio assets. Likewise, when the Adviser executes only a partial fill of a targeted sell order, allocations will prioritize complete fills for clients with the least available cash as a percent of portfolio assets. To the extent that the Adviser determines to aggregate client orders for the purchase or sale of securities, including securities in which the Adviser’s Adviser Representatives may invest, the Adviser shall normally do so in accordance with applicable rules promulgated under the SEC’s Investment Advisers Act and no-action guidance provided by the staff of the SEC. An allocation statement will be prepared and any special circumstances or conditions will be outlined in connection with each event. The Adviser shall not receive any additional compensation or remuneration as a result of the aggregation.

Certain issues may impact the Adviser’s allocation under the particular circumstances and in such cases, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account’s assets after an order is placed); (iv) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.



Clients are encouraged to discuss any questions that may arise regarding investment policies throughout the course of our engagement. The Adviser receives no additional benefit as a result of the proposed aggregation.

Within the prime broker program or similar programs available via recommended brokerage firms, the brokerage firm may effect Clients' over-the-counter securities transactions on an agency basis. The brokerage firm executes transactions based upon a number of factors. These include: Size of order, trading characteristics of the security, favorable execution prices, access to reliable data, availability of efficient transaction processing and possible price reductions. In filling these orders, the brokerage firm may transact with a market-making broker-dealer ("market maker") on the other side of the trade. A market maker may mark-up/down the price of securities for which it makes a market, which is a cost that will be incurred by the Client in addition to any agency commissions assessed by the brokerage firm. Normally, best price and execution is obtained for over-the-counter securities transactions by executing directly with the market maker on a principal basis. The Adviser's choice to utilize the service provider's prime broker program available through the selected service provider may limit or eliminate the Adviser's ability to obtain best price and execution in each case. In certain cases, a security may be purchased through another service provider and in such cases, the security purchased is then transferred to the client account at the client's selected custodian, and a "trade away" delivery fee is assessed to the client account. Broker custody of client assets may limit or eliminate the Adviser's ability to obtain best price and execution of transactions in over-the-counter securities.

### **Item 13   Review of Accounts**

Investment Management involves continuous and ongoing services and provides for the monitoring and internal review of portfolio assets. Some individual strategies are reviewed as frequently as daily. Individual portfolios as a whole are generally reviewed no less than quarterly. Portfolio reviews could occur more frequently, depending upon activity, at the time of new deposits or significant withdrawals, reported material changes in client conditions, at the Adviser's discretion or according to client's stated direction. Reviews entail the analysis of securities, sensitivity to overall markets, economic changes, investment results to ensure the investment strategy and expectations are structured to continue to meet clients' stated objectives. Accounts utilizing the same investment strategy may be reviewed as a group. Reviews are performed by Adviser Representatives under the supervision of the Chief Compliance Officer, Bradford Giaimo. Each quarter clients will receive a detailed account statement directly from their custodian. Q3 Asset Management may provide quarterly written market updates to clients. Additionally, on a quarterly basis Q3AM will provide clients with the opportunity to impose reasonable restrictions on the management of their account. On an annual basis, Q3AM will provide clients with a suitability questionnaire so that they may adjust their risk profile if their situation has changed.

Financial Planning and Consultation Services do not entail ongoing advice and reviews unless the Adviser is engaged for additional services via written agreement.



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

Unaffiliated financial professionals may act as Solicitors on behalf of the Adviser. In such a case, Solicitors will receive ongoing compensation in the form of referral fees, as outlined in the investment management agreement and compensation disclosure document signed by the client. Generally, this compensation amounts to 40% to 60% of the total investment management fee charged to the client.

Solicitors may be utilized as “designated persons” for purposes of complying with Rule 3a-4 of the Investment Company Act. In this regard, the Solicitor will assist Q3AM by walking the client through the suitability questionnaire to gather information on the client’s financial situation, investment objectives and assist the client in documenting (in this same form), any reasonable restrictions the client wishes to impose in connection with the management of the client’s account. At least quarterly, Q3 will communicate with the client to notify the client in writing of the need to contact Q3 if there have been any changes in the client’s financial situation or investment objectives, or if the client wishes to impose any reasonable restrictions on the management of the account or reasonably modify any existing restrictions. In addition, the Solicitor shall make periodic contact with the client, at least annually, to assist them in understanding the investment management services offered by Q3AM and to obtain and/or update Client information and forward the same to Q3AM.

Clients should be aware that there is a conflict of interest when a Solicitor recommends the services of Q3AM since the Solicitor receives a portion of the investment advisory fees as long as the client remains with Q3AM.

Solicitors will ensure Q3AM’s Form ADV 2 and the Solicitor’s Compensation Disclosure Document is delivered to the client at the time of their recommendation. Additionally, investors will receive an Investment Management Agreement which outlines the services to be provided by Q3 Asset Management, the fees for services and the compensation disclosure. The fee Q3 pays to the referring solicitor can affect the investment management fee that clients pay. As previously noted, advisory fees are negotiable based upon various circumstances. Because Q3AM and/or Solicitors maintain the ability to reduce their fees, it’s possible that clients will pay a lower or higher fee rate when compared to others receiving similar services.

Q3AM reserves the right to engage or deny services to any investment adviser, Solicitor, financial intermediary or investor for any reason.

In situations where a Solicitor is involved, in order to initiate services, after the Solicitor refers an investor to Q3AM, the investor executes an Investment Management Agreement with Q3AM. While there may be cases where the referring Solicitor is retained by the investor as the investor’s primary Adviser (via a separate agreement between the client and the soliciting adviser) this does not minimize or change the responsibilities and ongoing investment management services Q3AM provides to its clients. The asset management services provided to

clients will be based upon the data summarized in the questionnaire portion of the investment management agreement. Client data may change based upon the directives provided to Q3AM and any changes in the client's financial situation and modifications in investment strategies as reported to Q3AM.

The Solicitor is responsible for a variety of ongoing activities as outlined in the Solicitor's Disclosure Document signed by the client. These activities include evaluating the investor's situation, gaining an understanding of investor's objectives, time horizon and risk tolerance; recommending an appropriate portfolio to the investor; communicating necessary directions relating to the portfolio management and changes desired within investor's accounts to Q3AM; and consulting with the investor periodically to ensure that the recommended portfolio is suitable for the investor based on information the investor provides. The Solicitor is also responsible for the performance reviews of the investor's account, the review of Q3AM's performance of services, for explaining portfolio strategies and transactions, and to remain available to answer investor questions. Please note that Q3AM reviews all data provided by the Solicitor including suitability assessments prior to establishing or making changes to accounts. Additionally, Q3AM is happy to assist clients with questions if they should ever have issues contacting their Solicitor.

In providing Investment Management Services and in accordance with its investment management agreement, Q3AM will manage investor funds in accordance with a model portfolio or other investment plan selected by the investor. Thereafter, the Adviser will provide ongoing monitoring and rebalancing of the portfolio in accordance with the directives and data provided.

Every investor is obligated to promptly notify Q3AM or their Solicitor, of any changes of a personal or financial nature that may materially affect investor's risk profile and consequently, the investment strategy and/or decisions employed in the managed portfolio. Q3AM, in conjunction with the Solicitor if applicable, will evaluate such information and make the necessary adjustments.

Unaffiliated Advisors may choose to utilize Q3AM's services through a direct Sub-Advisory relationship or through an unaffiliated Turnkey Asset Management Provider (TAMP). Under the terms of these arrangements, Q3AM does not execute an Investment Management Agreement directly with the end client as Q3AM is acting strictly as a Sub-Adviser within the investment program. The investor's primary Adviser is responsible for reviewing client suitability, strategy selection and handling all client communications.

Q3 Asset Management makes certain models available to financial professionals and plan sponsors for use in retirement plans, pursuant to the terms and conditions of a model management agreement between Q3AM and each respective retirement platform or plan. Unaffiliated financial professionals and plan sponsors may choose to incorporate Q3AM's services through a Sub-Advisory relationship with a number of retirement plan custodians, including Mid Atlantic Trust Company and Matrix Trust Company. These platforms allow investment professionals and plan sponsors to incorporate investment models through web-

based interfaces that allow for the creation, execution and ongoing management of the models. Those models and corresponding model changes are then delivered to the Plans and Plan participants' accounts. Q3 Asset Management's managed account services with retirement plans, including 401(k) plans, Multiple Employer Plans (MEPs) and Simple IRAs, allow for plan sponsors to include Q3 Asset Management's models as designated investment alternatives within their respective Plan(s). Plan Sponsors who rely on advice from a consulting adviser and decide to include Q3 Asset Management allocations within their plan, sign the model management agreement contract to provide Q3 Asset Management models and related services to the plan. Details of such arrangements are outlined in each respective agreement.

Under certain circumstances, Q3 will act as a "fiduciary" as defined under Section 3(21) of ERISA and Section 4975(e)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). When applicable, Q3 accepts its appointment as an "investment manager" within the meaning of Section 3(38) of ERISA (but only with respect to those plan assets constituting the portfolio models). Q3 will not have any authority or responsibility in the administration of the Plan (including the selection of portfolio models for the Plan) or interpretation of any Plan document. Q3 agrees it will act in a manner consistent with the requirements of a fiduciary under ERISA and the Code. Q3 further agrees any and all investment advisory and investment management powers, duties and responsibilities relating to the portfolio models shall be exercised exclusively by Q3 in accordance with the Plan.

Solicitors engaged by Q3AM are not employees or Adviser Representatives of Q3AM. Solicitors therefore, may be otherwise engaged in another investment advisory practice and/or are registered representatives of a broker/dealer. Solicitors may also be engaged in other business activities (such as insurance, accounting, etc.). Therefore, clients are advised that solicitors earn commissions and/or other fees that are charged to their clients when they provide services in these capacities. The business activities of Q3AM's contracted solicitors outside of their referral services to Q3AM are separate and distinct from the services they provide to Q3AM.

Q3AM offers a seminar reimbursement program to Solicitors that are interested in promoting the services of Q3AM to their prospective and current clients. Any seminar and subsequent reimbursement program-related activities require approval by the Adviser Representative's supervising Registered Investment Adviser's compliance department. Clients and prospective clients must receive disclosure that Q3AM is a sponsor of the event and such disclosure must include the fact that the solicitor will share in any advisory fees collected by Q3AM should an investor choose to utilize Q3AM's services. Acknowledgement of the arrangement will be included in the written agreement between the Client and Adviser.

Generally, Q3 Asset Management will reimburse the Adviser for up to 50% of the cost of an event and the reimbursement must pass through the Adviser Representative's supervising Investment Adviser. Generally, reimbursements shall be equal to \$100 for every \$100,000 in new business referred to Q3AM. For additional information investment professionals can request a copy of Q3AM's *Seminar Reimbursement Program* overview.

## **Item 15 Custody**

Q3AM does not take custody of client funds or securities with the exception that Q3AM will debit client accounts for contractually agreed investment advisory fees but only with the client's authorization. Client assets are held at an unaffiliated qualified custodian of the client's choosing. Q3AM's preferred custodial service providers are listed in Item 12 herein. Client funds are held separately in the name of each client. Clients can expect to receive regular account statements directly from their selected custodial firm. Clients must promptly notify their custodian and the Adviser if custodial statements are not being directly received by the Client.

## **Item 16 Investment Discretion**

Q3 Asset Management accepts limited discretionary trading authority when managing securities accounts on behalf of clients as evidenced via the Client Agreement and custodial forms completed by the client. We emphasize the unrestricted right of clients to decline to implement any advice rendered, in whole or part. Where Q3AM is granted discretionary authority of the client's accounts, clients are welcome to request investment parameters and/or limitations in writing. Prior to assuming limited discretionary authority, clients must complete our Investment Management Agreement and acknowledge receipt of this Form ADV 2 Brochure.

## **Item 17 Voting Client Securities**

Q3AM does not maintain authority to vote client securities. Clients retain the authority to vote proxies and are responsible for ensuring that proxy materials are sent directly to them or the third-party they may assign. While Q3AM does not vote proxies for clients, it is available to assist clients with questions and concerns relating to proxies. The Adviser does not engage in proxy-related discussions with non-clients and does not solicit proxies. In the event Q3AM's advice is solicited by its clients, the Adviser shall abide by the following conditions:

- Q3AM will disclose any significant relationship with the issuer, its affiliates or a security holder proponent of the matter on which proxy voting advice is given, as well as any material interest of our Adviser in the matter.
- The Adviser will not accept any form of special consideration from any person, other than the security holder recipient thereof, in exchange for furnishing voting advice, and;
- Voting advice will not be furnished on behalf of any person soliciting proxies, or on behalf of a participant in an election contest subject to SEC Rule 14a-11.
- Q3AM shall not communicate with the press concerning a proxy.
- Q3AM does not solicit proxies.

Deviations from these policies will result in a prompt amendment of this ADV 2 Brochure and may require Q3AM to comply with SEC Proxy Registration Rules.

## **Item 18 Financial Information**

Q3AM does not require prepayment of more than \$1200 in fees per client, six months or more in advance. As previously noted, the Adviser does not maintain custody of client funds or securities except for the ability to deduct investment advisory fees via custodial accounts with the client's written authorization. Q3AM is not legally affiliated to any custodial or brokerage firms. Therefore, a balance sheet is not required to accompany this disclosure.

## **Privacy Policy**

As an SEC regulated Registered Investment Adviser, Q3AM is covered under the definition of a "financial institution" in the Federal Gramm-Leach-Bliley Act (the "Act") and the SEC's Regulation S-P (the "Privacy Rule"). The Adviser is therefore subject to Act as well as the rules of privacy imposed on Investment Advisers and other financial services firms.

Privacy and the protection of nonpublic personal information is an issue that the staff of Q3 AM takes seriously.

To maintain compliance with Privacy Rules, every broker, dealer, investment company and investment adviser is required to adopt policies and procedures reasonably designed to safeguard customer and consumer records and information. Q3 Asset Management has adopted Privacy Policies and Procedures and Identify Theft Red Flag Rules Policies and Procedures in an effort to help protect clients and consumers.

In its role as Investment Adviser, Q3AM routinely collects nonpublic personal information from clients and prospective clients. This information generally will include but is not limited to:

- Information provided from applications, forms and other information provided to us either verbally or in writing, and include but are not limited to your name, address, phone number, account information, social security number, assets, employment, income and debt;
- Information about your transactions, accounts, trading activity and parties to transactions; health and beneficiary information (such as may pertain to financial / investment planning issues);
- Information from other outside sources;
- Any other data that is deemed to be nonpublic personal information as defined by the Act and state privacy rules.

Q3AM values our clients' trust and confidence. We will never sell the nonpublic personal information we obtain from consumers or clients.

All information provided by clients or prospective clients to Q3AM, (including the Adviser's personnel), and information and advice furnished by the Adviser to clients, shall be treated as confidential and shall not be disclosed to unaffiliated third parties, except as directed by clients with written authorization, by application to facilitate the investment advisory services offered by the Adviser via an affiliated or unaffiliated financial services provider (such as the client's custodial firm or broker/dealer), or as required by any rule, regulation or law to which the Adviser or its staff may be subject.

Q3AM maintains clients' records in a controlled environment and records (electronic and otherwise) are only available to authorized persons of the Adviser who have a need to access client information in order to deliver advisory services, provide administrative support, or to respond to client requests. The Adviser has made reasonable efforts and conducts periodic tests to ensure that its electronic network is hack-proof. The Adviser verifies incoming requests for account changes in an effort to ensure that these requests are coming directly from clients or authorized and legitimate sources.

Q3AM's position on protecting non-public personal information extends beyond the term of the Advisory Agreement. Client information is retained in a protected manner for the time period required by regulators (five years from the date of last use) and thereafter is safely destroyed via secure deletion, in-house shredding or via a contracted secure shredding service.

Consumers (defined as those persons or entities who are not clients) who provide information during an initial consultation or for other purposes but do not go on to become clients of the Adviser also receive privacy protection. Original information will be promptly returned in person or via the mail if the Adviser's services are not engaged. Alternatively, if nonpublic personal information is contained in copies of documents, notes or some other media, this information will be securely filed for a period of up to one year (depending upon likelihood of engagement) before being securely deleted, shredded in-house or destroyed via a secure shredding service.

Clients and consumers are encouraged to discuss any questions regarding Q3AM's Management's privacy and data security policies and procedures with Bradford Giaimo, President and Chief Compliance Officer.