



**Kovack Advisors, Inc.
Wrap Fee Program Brochure
March 30, 2017**

Kovack Advisors, Inc.
6451 North Federal Highway, Ste 1201
Fort Lauderdale, FL 33308
(866) 564-6574
www.kaitamp.com

This Disclosure Statement provides clients with information and data that should be considered before participating in any Choice Program identified herein. This information has not been approved by any governmental authority. Registration with the SEC does not imply a certain level of skill or training.

This wrap fee program brochure provides information about the qualifications and business practices of Kovack Advisors, Inc. If you have any questions about the content of this brochure, please contact us at 866-564-6574 or kaigroup@kovackadvisors.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Kovack Advisors, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov

Item 2

Material Changes

This section is used to identify any material changes since the Kovack Advisors last annual update.

There are no changes to report.

Item 3

Table of Contents

Item 1 Cover Page

Item 2 Material Changes

Item 3 Table of Contents

Item 4 Services, Fees and Compensation

Item 5 Account Requirements and Types of *Clients*

Item 6 Portfolio Manager Selection and Evaluation

Item 7 *Client* Information Provided to Portfolio Managers

Item 8 *Client* Contact with Portfolio Managers

Item 9 Additional Information

Item 10 Requirements for State-Registered Advisors

Item 4

Services, Fees and Compensation

Kovack Advisors, Inc. (KAI) is registered with the U.S. Securities and Exchange Commission (SEC) as a Registered Investment Advisor. KAI may act as investment advisor for retail and institutional clients. KAI maintains contractual relationships with Investment Advisor Representatives (IAR) who are registered with the SEC and states as required and may provide financial advice to clients. The IAR will evaluate your investment needs and objectives to determine your suitability for the various programs offered through KAI.

KAI offers "Choice" account programs. These programs provide you with multiple options for working with your IAR.



CHOICE UMA or Unified Managed Account ("UMA") provides an Advisor the opportunity to combine multiple programs types into one "unified" or "core" account. Through the use of "sleeves", assets can be assigned so that a client can combine the unique benefits of individual security ownership through individually managed accounts with those of traditional mutual funds and ETFs, without having to open multiple accounts.

- Account sleeves can include approved UMA Managers.
- Professional "overlay" management of all investment products and underlying securities
- Minimum account size is \$50,000 per sleeve



CHOICE SMA is the classic institutional investment program. A Separately Managed Account ("SMA") provides clients direct access to some of the world's leading investment managers and ownership of all underlying investments. Advisors may choose from a diverse list of non-proprietary institutional money managers allowing for the most appropriate selections based on individual wants and needs. Individual ownership gives clients their own cost basis, allowing greater flexibility, more control and significant tax advantages over other investment vehicles. CHOICE SMA can be ideal for clients seeking a long-term, customized, goals-driven approach to investment management.

- All accounts are managed by professional third party investment managers
- All contractual relationships, i.e., custodian, broker-dealer, investment manager, etc., are managed by Kovack Advisors, Inc.
- All transactions, settlements, income receipts and reconciliation are automated

- Minimum account size typically is \$100,000



CHOICE ETF is a professionally managed multi-strategy Exchange Traded Fund (“ETF”) investment program. KAI brings together in a single portfolio, multiple asset classes and investment strategies, which offer multiple sources of potential return and may improve a client's risk-reward profile relative to less diversified approaches. In addition, the portfolio is monitored on an ongoing basis and adjusted to stay on track with a client's goals as the markets change. CHOICE ETF provides the following unique benefits:

- Diversification
- Goal-Based Asset Allocation
- Risk Management
- Disciplined Rebalancing
- Tax Aware Implementation
- \$50,000 Account Minimum



CHOICE Fund is a professionally managed multi-strategy Mutual Fund investment program. KAI brings together in a single portfolio multiple asset classes, investment strategies and investment managers, each with their own area of expertise. Multi-strategy portfolios offer multiple sources of potential return and may improve a client's risk-reward profile relative to less diversified approaches. In addition, the portfolio is monitored on an ongoing basis and adjusted to stay on track with a client's goals as the market changes. CHOICE Fund provides the following unique advantages:

- Diversification
- Goal-Based Asset Allocation
- Multi-Manager Portfolio Construction
- Manager Monitoring
- Risk Management
- Disciplined Rebalancing
- Tax Aware Implementation
- \$30,000 Account Minimum



Choice Annuity Account is designed to use with an investor's existing Variable Annuity (“VA”) investments. This program helps manage and control risk through the active management of VA

investments.

A VA is a contract between the purchaser and an insurance company, under which the insurer agrees to make periodic payments either at the onset of the purchase or at some future date. The structure of a VA is such that the investor carries the risks and rewards associated with the underlying investments, which may include stocks, bonds, and money market instruments.

- Accounts are actively managed by the investment advisor representative.
- Minimum account size is \$50,000.

KAI, in its discretion, may waive the minimum account size.

The total account fee includes the IAR fee, the KAI administrative costs, and KAI advisory, clearing, custody, and trading fees. You may be charged trading charges or clearing charges dependent upon the agreement with your advisor representative and the clearing firm that you choose. Review the agreement with your IAR and the clearing firm's fee schedule for additional information.

ERISA Plans: In this Brochure, KAI disclosed potential conflicts of interest, such as receiving additional compensation from third parties, such as 12b-1 fees, sub-transfer agent fees, and revenue sharing, for providing marketing, recordkeeping, or other services in connection with certain investments. KAI adopted policies and procedures that are designed to ensure compliance with the prohibited transaction rules under the Employee Retirement Income Security Act of 1974 (ERISA), as amended. For example, KAI addresses the potential conflict of interest of advisors who receive compensation for services provided to ERISA plans with the following steps.

- First, the advisor representative negotiates the compensation with ERISA plan sponsors or participants and the compensation is either an annual fee for ongoing services based on a percentage of assets under management, a flat fee, or an hourly rate.
- Second, to the extent that an advisor receives additional compensation from a third party, the advisor representative must report it to KAI to enable the additional compensation to be offset against the fees that the ERISA clients would otherwise pay for the advisor representative's services.
- Third, KAI has established a policy not to influence any advisor representative's advice or management of assets at any time or for any reason based on any compensation that KAI or the advisor representative might receive from third parties. KAI does not allow advisor representatives to provide advice or manage assets for ERISA clients if they have conflicts of interest that KAI believes are prohibited by ERISA.

U.S. Department of Labor created new regulations on fee disclosures, effective July 16, 2011, for covered service provider to ERISA plans. Since KAI and its advisor representatives may be considered covered service providers KAI and its advisor representatives will disclose the following:

- Direct compensation received from ERISA clients,
- Indirect compensation such as 12b-1 fees received from third parties, and



- Transaction-based compensation such as commissions or other similar compensation shared with related parties servicing the ERISA plan.

KAI will make these fee disclosures before entering into, renewing, or extending the advisory service agreement with the ERISA client.

Item 5

Account Requirements and Types of *Clients*

KAI follows standard compliance procedures when opening or maintaining an account. KAI offers several different investment programs each with different minimum investment amounts. Your IAR will provide this information. KAI generally provides investment advice to the following types of clients: individuals, high net worth individuals, bank or thrift institutions, pension and profit sharing plans, charitable organizations, corporations or other business.

Item 6

Portfolio Manager Selection and Evaluation

KAI provides clients access to many different types of portfolio managers. As part of our ongoing due diligence process, KAI will compare portfolio managers against their peers using a portfolio manager database. In addition to peer comparison, KAI gathers material information from each available portfolio manager and periodically review this information for any material changes. KAI requires all portfolio managers to report any material change as soon as the change has occurred. Your IAR makes recommendations to you and will recommend the replacement of a portfolio manager based on your financial needs and risk tolerance.

Performance for all client accounts is calculated in accordance with Global Investment Performance Standards (GIPS). KAI reviews portfolio manager performance on a quarterly basis.

The services provided by KAI include financial planning services, portfolio management for individuals and/or small businesses, portfolio management for businesses or institutional clients other than investment companies, and a selection of other advisors. KAI does not specialize in a particular type of advisory service and does not provide investment advice limited to specific types of investments.

The individualized advice from your IAR is largely based on the information that you provide. On the KAI Investor Profile Questionnaire or Investment Policy Statement, you will provide your financial circumstances, investment objectives and any special instructions or limits you wish KAI to follow in managing your account(s). Also, you must notify KAI promptly of any significant change in your information. This would include any change that might affect the way account(s) should be managed such as significant changes in financial circumstances or investment objectives. You also agree to provide KAI with such additional information as KAI may request from time-to-time to assist in the management of the account(s).



In the review, analysis, and approval of Money Managers for the CHOICE programs, KAI performs due diligence in line with the policies and procedures at that time. KAI will generally consider the following: investment strategy and discipline, regulatory history and disciplinary history, experience, Firm/Product standards, ADV Part I and II, marketing material, trading capabilities, and reporting capabilities.

KAI provides portfolio management services for wrap fee programs. KAI does not manage accounts other than wrap fee accounts. Clients will pay KAI a fee for portfolio and investment management services. On a discretionary basis, KAI managed \$1,256,336,087 as of December 31st, 2016. On a non-discretionary basis, KAI managed as of \$434,422,494 December 31st, 2016.

KAI does not charge Performance Based Fees or allow Side-By-Side Management.

KAI has a diverse business model and is affiliated with a number of IARs. The individual IAR provides investment advice. The methods of analysis and investment strategies vary dependent upon the IAR.

KAI may forward proxy solicitation materials to you for response and voting. KAI does not offer legal or tax advice. It is your responsibility to consult with a legal or tax advisor as you see fit. Unless otherwise mutually agreed in writing, KAI may respond to proxies that are solicited with respect to annual or special meetings of shareholders securities held in the account(s) on a best efforts basis.

Item 7

Client Information Provided to Portfolio Managers

KAI may forward new account documents to other investment managers that you expresses an interest. Your information will be used as needed for settling of trades, transfer of fund or securities or other information necessary to satisfy your financial activity. Updated information will be sent to the investment managers as you provide.

Item 8

Client Contact with Portfolio Managers

You may communicate with investment managers directly provided you consult with KAI prior to contacting the investment manager.

Item 9

Additional Information

KAI has had no material disciplinary events to disclose.

The owners of KAI also own KSI a full service broker/dealer registered with the Financial Industry Regulatory Authority (FINRA). Additionally, KAI is affiliated with a law firm, Brian J. Kovack, PA.

Where permitted by law, KSI and its representatives may receive mutual fund 12b-1 fees, services fees, due diligence fees, marketing reimbursements, or other payments relating to a client's investment. KAI, as the investment advisor, sponsor, or other service provider to your investment advisory program, receives compensation for its services. You should be aware that these fees, payments, and other compensation may present a conflict of interest because KAI/KSI and its IARs may have a greater incentive to recommend those products or programs that provide additional compensation to KAI/KSI or your IAR.

All KAI management persons are registered with (KSI). Neither KAI nor any of its management persons are registered or have an application to register as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of these entities.

Other investment advisors may be recommended or selected for you. KAI may receive compensation directly or indirectly from those advisors. You should be aware that this compensation may create a material conflict of interest because KAI or its advisor representatives may have a greater incentive to recommend those products or programs that provide additional compensation.

KAI adopted the code of ethics due to SEC rule 204A-1. You may receive a copy of the KAI code of ethics by request. All related people of KAI (partners, officers, employees and immediate family members) owe a fiduciary duty to you when conducting their personal investment transactions. They must place your interests first. Also, they must avoid activities, interests and relationships that might interfere with the duty to make decisions in your best interest. Their personal securities transactions must avoid any actual or potential conflict of interest or any abuse of your trust and their responsibility. They must conduct all personal securities transactions in compliance with all applicable federal securities laws. They must not trade in a security while in possession of material, non-public information about the issuer or the market for those securities. If a related person of KAI wants to place a trade for the same security that they have recommended to you, they must place your trade first.

KAI periodically reviews the accounts and financial plans on at least a semi-annual basis. KAI reviewers may include KAI's Executive Vice President, President, Chairman, Vice President, and Compliance Officer(s). In the initial account set-up, you will choose a general investment category that includes your risk tolerance, investment objectives, and financial objectives. KAI Personnel will review the allocations in your account against your chosen investment category.

Other factors may trigger a review of your account on an as needed basis. For example, changes to your financial condition, risk tolerance and investment objectives may trigger a review of your account. Also, suspicious activity with regards to anti-money laundering regulations may trigger a review of your account.

You will receive quarterly statements from your custodian.

KAI does not receive any economic benefit from someone who is not a client for providing investment advice or other advisory services.



KAI may have relationships with unaffiliated people that refer clients to KAI for a fee. All referring parties sign an agreement with KAI. The referring parties will not provide investment advisory or supervisory services to you. The referring party must provide you with a copy of KAI's Form ADV, Schedule H, or brochure. Also, the referring party must provide you with a copy of KAI's referring party disclosure statements and client acknowledgement.

The referring party may receive a referral fee that is a portion of the annual investment advisory fee that you pay KAI. The fee to you is not greater than it would have been without a referring party.

KAI does not require or solicit prepayment of more than \$1200 in fees more than six months in advance. KAI has not been the subject of a bankruptcy petition at any time in the past ten years.

Item 10

Requirements for State-Registered Advisors

KAI is an SEC Registered Investment Advisor.