

## Item 1: Cover Page

### **Part 2A Appendix 1 of Form ADV: *Wrap Fee Program Brochure***

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#### **Wealth Management Platform**

**03/30/2017**

This wrap fee program brochure provides information about the qualifications and business practices of Dempsey Lord Smith, LLC. If you have any questions about the contents of this brochure, please contact us at 706 238 9575 or [Jerry.Dempsey@Dempseyi.com](mailto:Jerry.Dempsey@Dempseyi.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. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training. Additional information about Dempsey Lord Smith, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 141238.

## Item 2: Material Changes

The Dempsey Lord Smith, LLC Wrap Fee Program Brochure is an updated version of the Wrap Fee Program Brochure dated 06/30/2016, that has been prepared according to the applicable regulation.

Since our last annual amendment update dated 02/08/2016, we have substantially amended our Wrap Fee Program Brochure to improve the clarity and conciseness. In the below summary, we identify material but not all changes made to the Wrap Fee Program Brochure.

- In Item 4, we have amended the disclosures pertaining to each of the options available under the Wealth Management Platform - Managed Account Solutions Program. While the management of the programs has not changed, we felt this was an area that we could enhance disclosure to DLS Clients.
- In Item 4, we have added additional disclosure to clarify the frequency of billing, how fees are computed, and refund provisions.
- Item 4, we have added a section entitled "General Disclosures". This section indicates that wrap fee program fees maybe more or less than purchasing services for brokerage, investment advisory, etc., separately and to more clearly indicate the fee DLS may collect in its role.
- In Item 5, we added disclosure as to the specific minimum requirements for the various options available under the Wealth Management Platform.
- In Item 6, DLS has provided additional disclosure about management style, methods of analysis, investment strategies, risk of investing, and the firm's proxy voting policy when DLS is acting as the portfolio manager.
- In Item 9, DLS has added information concerning disciplinary matters involving the State of North Dakota and the State of North Carolina Insurance Department.
- In Item 9, we have added disclosure that we may receive compensation for referring a Client to a third party asset manager. In Item 9, DLS has added a sentence to indicate that it does not have any financial condition that would impair its ability to meet contractual agreements with Clients.

In addition to the changes above noted, DLS encourages Clients to review the Wrap Fee Program Brochure to gain a better understanding of the firm and its services. We are also in this section providing you disciplinary information about the firm and its management. This is also indicated in Item 9.

- 1) In April 2016, the State of North Carolina Insurance Department alleged DLS did not timely disclosure two regulatory actions. The matter was resolved with the firm paying a fine of \$500.
- 2) In January 2015, the State of North Dakota alleged DLS and its broker-dealer representative sold securities to citizens of North Dakota while not registered to conduct business in the state. The firm was fined \$500
- 3) In June 2015, FINRA initiated an action alleging DLS failed to establish escrow accounts that met regulatory requirements in connection with three contingent private placements. Specifically, FINRA alleged that DLS allowed investor money to be commingled in escrow accounts with an attorney that were established by the issuer rather than in an

escrow account established at a bank. FINRA further alleged: 1) in connection with the solicitation and sell of bonds issued by an affiliate, that Jerry E. Dempsey, Jr. forwarded seven emails to prospective investors that were unfair and unbalanced and/or promissory; and 2) the firm failed to enforce its written supervisory procedures when it failed to ensure a proper escrow account was established for each of the contingent private placements and to ensure that all communications by its representatives complied with FINRA's advertising rules. Without admitting or denying the allegations, the matter was resolved with a fine of \$10,000 (\$5,000 of which was joint and several with Jerry E. Dempsey, Jr.) was issued and the firm was censured. Once made aware of the error, the firm immediately corrected this error and will not participate in any future private placements whereby a bank is not acting as escrow agent. DLS further notes that no Clients were harmed.

- 4) One of Dempsey Lord Smith, LLC's four principals, Ernest Liddell Smith was involved in an arbitration case in 2001 involving investment advisory Clients. The arbitration cases involved are NASD Case # 02-04368, 02-02098, 02-03579, 02-06599, 02-05937, and 02-02962, and relate to Mr. Smith's employment with the D.L. Pimper group in Rome, Georgia. The arbitration cases were filed against Mr. Pimper and his asset allocation program from roughly 1993-1999 for allegedly not earning their investment advisory fees, theft by deception, civil rico, GA securities act violations, misrepresentation, breach of fiduciary duty, breach of contract, and failure to supervise. The cases have all been settled for \$1,000,000 with no further actions. Mr. Smith was involved in this case because he was the Series 24 at the branch when these charges were filed against Mr. Pimper. Mr. Smith was fined, his case was dismissed with prejudice, and he did not pay any portion of the settlement. DLS principals fully understand that fair and ethical business practices must be upheld always, and we do not tolerate unfair treatment of our Clients. We would also like to make the following facts known with regards to these arbitration cases: 1) Mr. Smith did not set up Mr. Pimper's asset allocation program, and had no authority to change the referenced business practices; and 2) Mr. Pimper was subsequently found not guilty of all of these charges in these cases.

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## Item 4: Services, Fees, and Compensation

### OVERVIEW

Dempsey Lord Smith, LLC is a state-registered investment adviser with its principal place of business in Rome, Georgia. DLS began conducting business in 2007. DLS is owned by the following individuals: Jerry Eskel Dempsey, Jr. (CEO); John Hayward Lord (CCO); Ernest Liddell Smith (Vice President, Sales & Marketing); and Duvan Ledbetter Brock (Vice President, Recruiting and Sales). Jerry Eskel Dempsey owns 28% of the firm while the remaining individuals each have a 24% ownership interest in DLS. As of December 31, 2016, DLS managed \$105,899,689 of Client's assets, all of which are managed on a discretionary basis.

Among the various services offered by DLS, the firm offers the Wealth Management Platform, a wrap fee program designed to provide Clients portfolio management services through third party asset managers and/or DLS. Wrap fee programs bundle together several service providers - an investment adviser, a broker/dealer, a clearing firm and a custodian - and offer most of these services for a single advisory fee.

### PROGRAMS

#### WEALTH MANAGEMENT PLATFORM – MANAGED ACCOUNT SOLUTIONS PROGRAM

##### Overview

DLS offers Clients the opportunity to receive professional portfolio management through third party asset managers as part of a wrap fee program. DLS is a participant in the Managed Accounts Solution Program ("MAS Program") offered by Envestnet Asset Management, Inc. ("Envestnet"). Envestnet is a registered investment adviser that operates a technology platform to assist DLS in providing a variety of managed account offerings, recommending asset allocations or specific third party asset managers and/or investment products to our Clients. Envestnet is not affiliated with DLS. A complete description of the MAS Program and the services provided by Envestnet are outlined in Envestnet's ADV Part 2 Brochure, which you should read carefully.

DLS will obtain pertinent information concerning the Client such as financial condition, investment objectives, tax status, and general risk characteristics. As appropriate, we also review and discuss a Client's investment history, family composition, and background. The information may be collected by DLS through questionnaires, account forms completed by the Client, or through communication with the Client. Upon obtaining sufficient information, DLS will provide the Client with an asset allocation strategy.

DLS will then proceed with performing management searches of various third party asset managers. Based on the Client's individual circumstances and needs, DLS determines which third party asset manager's portfolio management style is appropriate for that Client. Factors considered in making this determination include account size, risk tolerance, the opinion of each Client and the investment philosophy of the selected asset manager. Once a third party asset manager is selected, the third party asset manager will create and manage the Client's portfolio based on information supplied to the manager by DLS to tailor the portfolio to the Client. The Client may or may not be able to impose restrictions or guidelines on the management of the Client's assets, including limitations on the purchase or sale of securities, types of securities, or industry sectors. The type of securities that may be utilized by the third party asset manager

may vary from manager to manager based on investment style, limitations on types of securities the manager utilizes, and overall philosophy of a third party asset manager.

DLS monitors the performance of the third party asset manager(s). If we determine that a third party asset manager is not providing sufficient management services to the Client, or is not managing the Client's portfolio in a manner consistent with the Client's information, then we may recommend the Client replace managers. Client meetings are available on a regular basis, or as determined by the Client, to review the account. At least annually, we meet with the Client to review and update, as necessary, the Client's information. However, should there be any material change in the Client's personal and/or financial situation, we should be notified immediately to determine whether any review and/or revision of the Client's strategy is warranted.

Assets of the Client will be managed on a discretionary basis by the third party asset manager. Managing assets on a discretionary basis allows the manager to purchase, sell, invest, reinvest, exchange, and trade the assets in the account(s) of the Client, subject to any restrictions imposed by the Client. This means the manager will have the authority to determine what securities and investments are to be bought or sold, the amount of transactions, and the timing of transactions without first seeking approval of the transaction by the Client. See the ADV Part 2 of Envestnet for complete details.

Assets will be custodied at National Financial Services, LLC. At a minimum, Clients will receive account statements from the custodian no less than quarterly concerning all transactions, balances and portfolio holdings within their account.

The following paragraphs provide details on each option available under the Managed Account Solutions Program.

#### Separately Managed Account

DLS offers a Separately Managed Account Program through our relationship with Envestnet. This provides our Clients with access to more than 200 investment strategies available from over 75 portfolio managers selected by Envestnet through their due diligence and portfolio manager evaluation processes. The Separately Managed Account Program is designed to provide our Clients the ability to tailor an investment portfolio to their specific financial needs such as diversification or tax-conscious investing, along with affording Clients further customization of their portfolio by placing reasonable investment restrictions on the types of assets allowed within the account. Portfolio managers are recommended based on the Client's investment objectives and other information provided. Manager changes would be recommended if DLS's or Envestnet's due diligence reviews indicate the portfolio manager is no longer suitable for a particular investment strategy or if a Client's investment objectives change. The minimum account value for the Separately Managed Account Program is \$50,000.

#### Multi-Manager Account

DLS offers a managed account option available through Envestnet where one or more Sub-advisers are selected to manage the Client's assets on a discretionary basis. This investment strategy delivers the benefits of a traditional separately managed account in a single diversified portfolio. Envestnet exercises investment discretion over the account and each account is initially structured based upon the Client's risk tolerance and objectives. The minimum account value for the Multi-Manager Account Program is \$50,000.

#### Wrap Strategists Mutual Fund & ETF Wrap Portfolio (“Wrap Strategists”)

Wrap Strategists consists of independent professional third party asset managers (i.e. “strategists”) who provide models of mutual funds and/or ETFs. The strategies include, but are not limited to the following: ICON Advisers, Inc. (mutual funds), Russell Investments (mutual funds), Fund Evaluation Group (managed portfolios), Standard & Poor’s Investment Advisory Services (MAP mutual fund portfolios), Standard & Poor’s Investment Advisory Services (MAP ETF Portfolios), Symmetry Partners (mutual fund portfolios), PMC ETF Solution, and PMC Tactical ETF (Core and Total Return portfolios). This program offers the Client professional money management, performance reporting, and associated service and support. The minimum investment in this program is typically \$5,000 or more depending on strategist selected.

#### Advisor Directed Unified Managed Account

Through our relationship with Envestnet, DLS offers the Advisor-Directed Unified Managed Account (“UMA”) Program, which allows Clients access to multiple investment strategies through the use of Separate Account Managers (“SAMS”), mutual funds and/or ETFs to facilitate diversification within an individually managed account. The Advisor-Directed UMA features Envestnet as overlay portfolio manager, whose role includes managing the asset allocation of the account on a discretionary or non-discretionary basis and coordinating trading across investments. Each Advisor-Directed UMA is initially structured based upon the Client’s stated goals and objectives. The minimum account value for the Advisor Directed UMA Program is \$50,000.

#### PMC “SIGMA” and Select Mutual Fund Solution Program (“PMC”)

PMC is a mutual fund wrap program consisting of portfolios sub-managed by Envestnet Asset Management, Inc. (Envestnet). This program offers the Client professionally managed portfolios of mutual funds to meet the financial goals and objectives of the Client. Envestnet will use both proprietary PMC mutual funds, and when deemed appropriate, non-proprietary mutual funds to construct the mutual fund portfolios. The minimum investment in this program is \$25,000.

#### Strategic Adviser Portfolios Program (“SAP”)

SAP is a mutual fund wrap program consisting of portfolios sub-managed by Strategic Advisers, Inc., a wholly-owned subsidiary of Fidelity Investments. This program offers the Client professionally managed portfolios of mutual funds to meet the financial goals and objectives of the Client. The minimum investment in this program is \$50,000.

### **WEALTH MANAGEMENT PLATFORM – DLS WRAP FEE PROGRAM**

#### Overview

DLS offers Clients the opportunity to receive professional portfolio management through DLS as part of a wrap fee program. DLS and its personnel will manage the assets of the Client as part of the wrap fee program.

DLS will obtain pertinent information concerning the Client such as financial condition, investment objectives, tax status, and general risk characteristics. As appropriate, we also review and discuss a Client’s investment history, family composition, and background. The information may be collected by DLS through questionnaires, account forms completed by the Client, or through communication with the Client. Upon obtaining sufficient information, DLS will provide the Client with an asset allocation strategy.

DLS will seek to tailor the Client’s portfolio to their individual needs. The Client may impose reasonable restrictions or guidelines on the management of the Client’s assets, including

limitations on the purchase or sale of securities, types of securities, or industry sectors. Assets managed by DLS may be invested in a wide variety of securities, including but not limited to mutual funds, equities, bonds, exchange traded funds, and other security types. The minimum investment in this program is \$10,000.

Assets of the Client may be managed on a discretionary basis or non-discretionary basis by the third party asset manager. Managing assets on a discretionary basis allows the manager to purchase, sell, invest, reinvest, exchange, and trade the assets in the account(s) of the Client, subject to any restrictions imposed by the Client. This means the manager will have the authority to determine what securities and investments are to be bought or sold, the amount of transactions, and the timing of transactions without first seeking approval of the transaction by the Client. For non-discretionary portfolio management, all portfolio decisions require prior approval by the Client.

In choosing a wrap fee program as opposed to another program managed by DLS, the sole difference is that all custodial, brokerage, and other non-product fees are included in the wrap fee as opposed to other programs. Portfolios are not managed any different. DLS receives a portion of the wrap program fee.

Accounts of Clients receiving this service will be maintained through our firm, a broker-dealer registered with the Securities & Exchange Commission ("SEC"), Financial Industry Regulatory Authority ("FINRA"), and applicable states. Accounts maintained through DLS are introduced to and custodied by National Financial Services ("NFS"), who holds Client assets as well as executes and settles transactions. Clients will receive account statements from the custodian no less than quarterly concerning all transactions, balances and portfolio holdings within their account.

## **FEES & EXPENSES**

### **FEE SCHEDULE**

The Client will be assessed the following annual fees in receiving portfolio management services. The following fees are negotiable between DLS and Client; however, no fee may exceed the stated level below listed.

Assets Under Management	Maximum Annual Fee %
\$0 - \$9,999,999+	2.50% (2.00% in Alabama)

The specific annual fee is identified in the contract between DLS and Client. Related Client accounts may be grouped for the purposes of determining the annualized fee. Discounts, not generally available to our advisory Clients, may be offered to family members and friends of associated persons of our firm.

### **BILLING PROCESS**

For assets managed by a third party asset manager, fees are paid quarterly in advance. See the ADV Part 2 Brochure for the third party asset manager for the policies concerning refunds, and the mechanism for how Clients remit fees owed for third party asset management services.

For assets managed by DLS as portfolio manager, fees are paid monthly or quarterly in advance or in arrears. DLS with mutual agreement by the Client will determine the frequency and timing of fees. At the end of each month or quarter, depending on the frequency of billing, fees are



calculated based on the total asset value of the Client's account at the end of each month or quarter, depending on the frequency of billing. This is then multiplied by the annual fee percentage divided by 365 and multiplied by the days in the billing cycle. For fees paid in arrears, Clients are only billed for the days those accounts are managed. The fees will be deducted directly from the Client's account or from a single account if the Client has multiple accounts. If the Client is being billed in advance and decides to terminate the services of DLS, the Client will be entitled to a pro-rata refund of the fees paid in advance for unearned services. Refunds will be paid by check and/or deposited into the account of the Client. Client may also request a refund of any unearned fees billed in advance by contacting DLS.

In a wrap fee arrangement, Clients pay a single fee for advisory, brokerage and custodial services. Client's portfolio transactions will be executed without commission charge in a wrap fee arrangement. This is unlike non-wrap fee programs where a Client may be subject to ticket, commission, and account maintenance charges. However, individual products, such as mutual funds and exchange-traded funds, may possess management and other administrative charges which are in addition to a wrap fee. We will review with Clients any separate fees that may be charged to Clients.

In evaluating such an arrangement, the Client should also consider that, depending upon the level of the wrap fee charged, the amount of portfolio activity in the Client's account, and other factors, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately.

## **GENERAL DISCLOSURES**

In selecting a wrap fee program, Clients should be aware that wrap fee programs maybe more or less than purchasing all services separately. Wrap fee programs bundle together several service providers - an investment adviser, a broker/dealer, a clearing firm and a custodian - and offer these services for a single advisory fee, it is possible that Clients could incur more expenses through the wrap fee than if they were otherwise charged separately for investment advice, brokerage commissions, and custodial charges.

DLS and its personnel are compensated for a Client's participation in the wrap fee program. The amount of this compensation may be more than what DLS and its personnel would have received if the Client participated in other programs. DLS and its personnel may have a financial incentive to recommend the wrap fee program over other programs or services. Of the total maximum fee of 2.5%, DLS may receive up to 2.25% for all assets managed by DLS and up to 1.25% for all assets managed by a third party asset manager with the remaining difference paid in custodial fees and, when applicable, third party asset manager fees.

## **Item 5: Account Requirements and Types of Clients**

### **MINIMUM ACCOUNT REQUIREMENTS**

As indicated in Item 4, minimum account sizes have been adopted for participating in the various programs within the Wealth Management Program. These are:

- Separately Managed Account - \$50,000;
- Multi-Manager Account - \$50,000;
- Wrap Strategists Mutual Fund & ETF Wrap Portfolio ("Wrap Strategists") - \$5,000;

- Advisor Directed Unified Managed Account - \$50,000;
- PMC “SIGMA” and Select Mutual Fund Solution Program (“PMC”) - \$25,000;
- Strategic Adviser Portfolios Program (“SAP”) - \$50,000; and
- DLS Wrap Fee - \$10,000.

Minimum account sizes may be waived. As a condition for program participation, Clients are required to direct us to utilize National Financial Services, LLC for settlement and execution of transactions as well as custodian of Client assets.

## **TYPES OF CLIENTS**

DLS provides advisory services to individuals, high net worth individuals, pension and profit sharing plans, charitable organizations, corporations or other businesses, and state or municipal government entities.

## **Item 6: Portfolio Manager Selection and Evaluation**

### **THIRD PARTY ASSET MANAGERS**

#### Selection of Managers

DLS will collect information from Clients concerning their objectives, profile, circumstances, etc. to gain a better understanding as to the desires of the Client. On the basis of this information and recommended strategies to the Client, DLS will evaluate third party asset managers in conjunction with considering internal portfolio management services of DLS. Of particular importance, the portfolio management style of third party asset managers will be evaluated as to its appropriateness for that Client. Factors considered in making the determination as to manager(s) include account size, risk tolerance, the opinion of each Client and the investment philosophy of the manager.

#### Evaluation of Managers

Investment advisory representatives of DLS review third party asset manager(s) at least quarterly. Reviews include, but are not limited to, analysis of the performance of Client assets; investment philosophy of manager(s); investment strategies and any significant departures; material changes in the organization of the third party asset manager. In conducting such reviews, investment advisory representatives of DLS will also consider any changes in the facts and circumstances of the Client. Additional criteria may be utilized in reviewing third party asset managers.

#### Replacement of Managers

If we determine that a third party asset manager is not providing sufficient management services to the Client, or is not managing the Client's portfolio in a manner consistent with the Client's information, then we may recommend the Client replace managers. Clients may also express dissatisfaction, in which DLS may perform a more in-depth review of the manager and their performance relative to the Client's profile in addition to recommending the replacement of the manager. Common reasons for the removal of or recommendations by DLS to replace a portfolio manager are: poor performance, significant departure from the manager's stated investment discipline, or material changes in the organization. Performance information may be provided directly to Clients by certain third party asset managers. DLS does not conduct reviews of reported portfolio performance, nor do we engage any third-party to conduct such reviews. Accordingly, the information being reported may or may not be calculated on a uniform and consistent basis.

## **DLS AS PORTFOLIO MANAGER**

### Management Style

DLS may serve as the portfolio manager for all or a portion of Client assets in a wrap fee program. DLS will seek to tailor the Client's portfolio to their individual needs. The Client may impose reasonable restrictions or guidelines on the management of the Client's assets, including limitations on the purchase or sale of securities, types of securities, or industry sectors. Assets managed by DLS may be invested in a wide variety of securities, including but not limited to mutual funds, equities, bonds, exchange traded funds, and other security types.

### Fee Disclosure

In choosing a wrap fee program as opposed to another program managed by DLS, the sole difference is that all custodial, brokerage, and other non-product fees are included in the wrap fee as opposed to other programs. Portfolios are not managed any different. DLS receives a portion of this wrap program fee.

### Conflicts of Interest

In DLS choosing to have portfolio management services be provided by DLS as opposed to a third party asset manager, this is an inherent conflict of interest. DLS will receive more revenue (i.e. a higher portion of the wrap program fee than otherwise would be the case if a third party asset manager was receiving a portion of this. To address this conflict, we employ the same evaluative techniques and processes in evaluating and reviewing itself as we discuss above with third party asset managers so that Clients are not disadvantaged on the basis of differences in revenue our firm may receive. We seek to mitigate some of the associated conflicts of interest by applying these uniform standards to ensure that Clients' assets are managed in a fair and equitable manner. Further, DLS and its personnel are responsible for complying with firm policies and procedures in addition to acting in the best interest of a Client.

### Performance-Based Fees and Side-by-Side Management

DLS does not charge or accept performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a Client) or manage accounts which impose performance-based fees.

### Methods of Analysis

DLS may utilize a wide variety of sources and tools for analyzing securities and providing advice. This includes, among others, print media (newspapers, journals, and magazines); third party research available through NFS or other sources; corporate rating services; annual reports; company press releases; filings with the SEC; sales literature of product sponsors; and information generally available through the Internet. Software or web-based programs for security analysis may also be utilized. DLS may use technical, fundamental, qualitative, or a combination of analysis methods in making recommendations to a Client and/or making investment transactions for a Client's account.

Technical analysis is the forecasting of future price movements of a given security based on an examination of past price movements. With this method of analysis, there is a general belief that one can identify a trend and conduct transactions based on a trend to generate profits. Price movements may be examined based on the movements on a security or relative to other securities, industry benchmarks, and competitors. Further, price movements may be applied to

varying time frames. The primary tools used in technical analysis are charts of price movements.

Fundamental analysis is a method of evaluation that attempts to measure the value of a security by examining economic, industry, and company condition. Fundamental analysis typically focuses on key statistics in a company's financial statements to determine the valuation of a security. Common tools used in fundamental analysis are the review of financial ratios and financial statements.

Qualitative analysis is a method of evaluating non-quantifiable factors of a security such as the quality of management, labor relations, and the strength of research and development factors not readily subject to measurement. The risk of qualitative analysis is that by itself it does not factor in the attributes of fundamental or technical analysis. It is a limited approach that must be utilized with fundamental and/or technical analysis in making recommendations or selections of securities.

#### Investment Strategies

DLS may employ a variety of investment strategies and securities to tailor a portfolio that meets the needs of its Clients. Accordingly, there is no uniform investment strategy applied for all Clients. However, common investment strategies utilized in managing Client's assets as part of a wrap fee program include: 1) tailoring a portfolio for growth and income; and 2) tailoring a portfolio for income. The below paragraphs provide descriptive information associated with these strategies in addition to risks." In pursuing various investment strategies, long term purchases, short term purchases, short sales, and margin transactions may be utilized by DLS. Risks associated with these actions is also discussed further under "Risk of Loss and Additional Risks".

- 1) Growth & Income Strategies - DLS and its personnel may recommend, purchase, and sale securities to achieve growth and income using a variety of security types. The expectation is to achieve some capital appreciation while providing a steady stream of income that can either be reinvested or be used at the Client's discretion, whether to pay for living expenses or otherwise. A growth and income strategy involve risks: 1) In pursuing both a growth and income strategy, it is likely that the capital appreciation from increases in prices of securities will likely be less than if a growth strategy by itself was employed. 2) In pursuing both a growth and income strategy, it is likely that the income generated from such a strategy will be less than if an income strategy by itself was employed due to the selection of securities to achieve income. 3) In pursuing income, it is not uncommon to utilize fixed income securities, such as bonds, to achieve income. Fixed income securities are subject to interest rate risk, prepayment risk, market risk, and, in the case of bonds issued by municipalities and corporations, depending on the type of bond, the potential of default risk. 4) In pursuing income, it is common to invest in stocks of companies that offer higher dividends. While these companies' stock price may go up or down, the choice by a company to offer a dividend rate reduces that company's ability to utilize the money paid out in a dividend for other investments in the company, such as research and development, expansion, etc., that could yield greater capital appreciation in the stock.
- 2) Income Strategies - DLS will often pursue an investment strategy that will seek to maximize income relative to the Client's risk profile. An income strategy is pursued typically to provide a Client a steady stream of income that can either be reinvested or

be used at the Client's discretion, whether to pay for living expenses or otherwise. An income strategy involves risks: 1) The pursuit of an income strategy will frequently reduce the likelihood of capital appreciation due to the composition of securities recommended or purchased by DLS. 2) In pursuing income, it is not uncommon to utilize fixed income securities, such as bonds, to achieve income. Fixed income securities are subject to interest rate risk, prepayment risk, market risk, and, in the case of bonds issued by municipalities and corporations, depending on the type of bond, the potential of default risk. 3) In pursuing income, it is common to invest in stocks of companies that offer higher dividends. While these companies' stock price may go up or down, the choice by a company to offer a dividend rate reduces that company's ability to utilize the money paid out in a dividend for other investments in the company, such as research and development, expansion, etc., that could yield greater capital appreciation in the stock.

### Risk of Loss & Additional Risks

Investing in securities involves risk of loss that Clients should be prepared to bear. There can be no guarantee of success with the strategies or programs offered by DLS. Past performance is not a guarantee of future returns. As risk is present in any form of investing, some of the more common risks that a Client may be exposed to are:

- Interest-Rate Risk: Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- Market Risk: The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's underlying circumstances. For example, political, economic and social conditions may trigger market events.
- Inflation Risk: When any type of inflation is present, a dollar today will buy more than a dollar next year, because purchasing power is eroding at the rate of inflation.
- Currency Risk: Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- Reinvestment Risk: This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- Dividend Risk: The risk that the dividend rate offered by a company for an investment in their stock may change due to decisions by the company on whether eliminate or decrease a dividend offered with an investment in a stock.
- Business Risk: These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- Default Risk: The inability of an issuer of repay fixed income securities or meet continuing payment obligations.
- Liquidity Risk: Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- Financial Risk: Excessive borrowing to finance a business' operations increases the

risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

- Long-term Trading - Long term trading allows for a longer time period for prices of securities to fluctuate. This may result a Client receiving an execution price at the time of exiting a position that is lower than the price of the security at some point during the holding of such security. Further, by holding a security for a longer length of time, DLS may not be able to take advantage of short-term trading that could be profitable to a Client.
- Short-term trading – Short term trading, particularly frequent trading, can affect investment performance particularly through increased brokerage and other transaction costs and taxes due to differential in tax rates between short-term and long-term holdings. Clients are advised to be mindful of these potential negative consequences. Further, short-term trading creates the potential for sudden losses in addition to gains.
- Margin Risk - The use of margin transactions results in higher costs and generally holds a greater risk. The increased costs are due to interest owed by a Client in borrowing money for effecting and maintaining transactions in securities. The use of margin allows DLS the ability purchase an increased number of securities, which due to their inherent risk, can result in greater fluctuation in the value of a portfolio or exposure to any one security.
- Short Sales – Short sales are when a Client sells a security for which it does not own in anticipation that the price of the underlying security will go down in value so that it can be repurchased to close the outstanding short sale and obtain a profit in the security. The risk is that the underlying security may go up in value and cannot be bought at a price lower than for which it was sold thus resulting in a loss to the Client.

#### Voting Client Securities

DLS does not vote proxies on behalf of Clients. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the Client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the Client's investment assets. We do not offer any consulting assistance regarding proxy issues to Clients.

### **Item 7: Client Information Provided to Portfolio Managers**

Initially, DLS will obtain pertinent information concerning the Client such as financial condition, investment objectives, tax status, and general risk characteristics. As appropriate, we also review and discuss a Client's investment history, family composition, and background. The information may be collected by DLS through questionnaires, account forms completed by the Client, or through communication with the Client. DLS will also collect from the Client any reasonable restrictions they may wish to impose in the management of their assets.

DLS and its personnel will communicate investment objectives, risk tolerance, and other Client profile information, including restrictions, to the portfolio manager at the outset of the relationship. More so, DLS will communicate to the portfolio manager any strategies decided upon between the Client and DLS.

Thereafter, DLS and its personnel will promptly communicate changes in the Client's investment profile to the portfolio manager in writing upon learning of or being advised by the Client of any changes in their profile or financial circumstances or strategies. It is the responsibility of the Client to inform DLS of any changes to information previously provided to DLS that might impact the strategies and management of the Client's assets.

## **Item 8: Client Contact With Portfolio Managers**

DLS does not place any restrictions on a Client's ability to contact and consult their portfolio manager. However, Clients utilizing third party asset managers generally do not come in contact with their portfolio managers. DLS typically serves as the communication conduit between the Client and the third party asset manager. Clients are required to contact their DLS financial consultant with any questions they may have regarding their account(s).

## **Item 9: Additional Information**

### **DISCIPLINARY INFORMATION**

We are required to disclose any legal or disciplinary events that are material to a Client's or prospective Client's evaluation of our advisory business or the integrity of our management. The following are disciplinary events relating to our firm and/or our management personnel:

- In April 2016, the State of North Carolina Insurance Department alleged DLS did not timely disclose two regulatory actions. The matter was resolved with the firm paying a fine of \$500.
- In January 2015, the State of North Dakota alleged DLS and its broker-dealer representative sold securities to citizens of North Dakota while not registered to conduct business in the state. The firm was fined \$500
- In June 2015, FINRA initiated an action alleging DLS failed to establish escrow accounts that met regulatory requirements in connection with three contingent private placements. Specifically, FINRA alleged that DLS allowed investor money to be commingled in escrow accounts with an attorney that were established by the issuer rather than in an escrow account established at a bank. FINRA further alleged: 1) in connection with the solicitation and sell of bonds issued by an affiliate, that Jerry E. Dempsey, Jr. forwarded seven emails to prospective investors that were unfair and unbalanced and/or promissory; and 2) the firm failed to enforce its written supervisory procedures when it failed to ensure a proper escrow account was established for each of the contingent private placements and to ensure that all communications by its representatives complied with FINRA's advertising rules. Without admitting or denying the allegations, the matter was resolved with a fine of \$10,000 (\$5,000 of which was joint and several with Jerry E. Dempsey, Jr.) was issued and the firm was censured. Once made aware of the error, the firm immediately corrected this error and will not participate in any future private placements whereby a bank is not acting as escrow agent. DLS further notes that no Clients were harmed.
- One of Dempsey Lord Smith, LLC's four principals, Ernest Liddell Smith was involved in an arbitration case in 2001 involving investment advisory Clients. The arbitration cases involved are NASD Case # 02-04368, 02-02098, 02-03579, 02-06599, 02-05937, and

02-02962, and relate to Mr. Smith's employment with the D.L. Pimper group in Rome, Georgia. The arbitration cases were filed against Mr. Pimper and his asset allocation program from roughly 1993-1999 for allegedly not earning their investment advisory fees, theft by deception, civil rICO, GA securities act violations, misrepresentation, breach of fiduciary duty, breach of contract, and failure to supervise. The cases have all been settled for \$1,000,000 with no further actions. Mr. Smith was involved in this case because he was the Series 24 at the branch when these charges were filed against Mr. Pimper. Mr. Smith was fined, his case was dismissed with prejudice, and he did not pay any portion of the settlement. DLS principals fully understand that fair and ethical business practices must be upheld always, and we do not tolerate unfair treatment of our Clients. We would also like to make the following facts known with regards to these arbitration cases: 1) Mr. Smith did not set up Mr. Pimper's asset allocation program, and had no authority to change the referenced business practices; and 2) Mr. Pimper was subsequently found not guilty of all of these charges in these cases.

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

In addition to DLS being a registered investment adviser, our firm is registered as a broker-dealer with the SEC, FINRA, and applicable states and as an insurance agency with various states. Management of DLS is registered not only as investment advisory representatives but also as broker-dealer representatives and as insurance agents. Non-management personnel are frequently registered as investment advisory representatives, broker-dealer representatives, and as insurance agents. The role of management and non-management personnel as broker-dealer representatives and insurance agents creates a conflict of interest.

Personnel of DLS, acting in the capacity of a broker-dealer representative, receive commissions for sale of securities that are not part of the programs and services offered as an investment adviser. This could influence the objectivity and decision-making of personnel to offer securities on a commission basis instead of a fee basis to optimize their revenue as well as that of DLS. Conversely, personnel may be influenced to recommend investment advisory services instead of services on a commission basis as a broker-dealer representative as DLS and its personnel may be able to generate greater revenue on an on-going basis through a fee-based account offered as an investment advisory representative.

Personnel of DLS, acting in the capacity of an insurance agent, receive commissions for the sale of various insurance and annuity products. For Clients that receive investment advisory services, the commissions are in addition to any fees owed for investment advisory services. This could influence the objectivity of DLS personnel in making decisions and recommendations as to how a Client shall invest or utilize their money as DLS personnel have an incentive to recommend actions that generate more revenue for DLS and them rather than what is in the best interest of the Client.

Management of DLS must delegate time between their roles in managing the insurance, investment advisory, and broker-dealer aspects of the business. This creates a conflict of interest as management may need to spend more time in one area versus another thus impacting the oversight and management of the investment advisory portion of the business. Management will devote their time as needed between these functions, but the majority of their time is currently devoted to broker-dealer activities. To address this conflict, DLS has hired individuals and, as needed third party consultants, whose focus is to assist with the compliance of the firm with applicable regulations.



DLS endeavors to put the interests of Clients first as part of its fiduciary duty. DLS has taken several actions and practices to mitigate conflicts of interests. DLS has: 1) adopted a Code of Ethics, which is detailed in Item 11, for which all DLS personnel registered as an investment advisor are required to uphold and follow; 2) adopted supervisory procedures to further define supervision and policies for which DLS personnel are required to follow; 3) implemented a compliance program for monitoring and reviewing the advisory business of DLS; 3) developed requirements for disclosure and approval of outside business activities by DLS personnel; 4) prohibited the management of annuity sub-accounts for a fee so we do not receive commissions and on-going advisory portfolio management fees for sub-accounts; 5) implemented regular education on ethics and other pertinent topics; and 6) established a risk committee for, among other things, determining potential conflicts of interests and how they can be mitigated.

DLS may recommend and/or select other third party asset managers for which we receive directly or indirectly compensation for doing so. This creates a conflict of interest as DLS has an incentive to recommend managers to collect management fees and potentially choose managers for whom DLS receives a greater amount of compensation. Firm policies and the Code of Ethics prohibit DLS and its personnel from recommending third party asset managers solely based on the compensation we receive for doing so. More so, DLS has established a fee schedule for which the fees it will receive thereby eliminating the possibility of choosing one manager over another due to the amount of fees collected by DLS and its representatives.

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

DLS has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. DLS and our personnel owe a duty of loyalty, fairness and good faith towards our Clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code. The Code of Ethics includes provisions relating to the confidentiality of Client information, a prohibition on insider trading, restrictions on initial public offerings, and personal securities trading procedures, among other things.

Neither DLS or its personnel maintain a material financial interest in any securities recommended to a Client for purchase. Personnel are prohibited from making recommendations in securities in which they have a material financial interest, such as companies in which they maintain a management position or own greater than 5% of outstanding shares and investing in initial public offerings. It is DLS's policy to not permit the firm or its investment advisory representatives to effect any agency cross securities transactions for Client accounts. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory Client and for another person on the other side of the transaction. It is DLS's policy to not effect principal transactions for Client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any Client.

DLS personnel may buy or sell for their personal accounts securities identical to or different from those recommended to our Clients. In addition, any related person(s) may own a certain security(ies), other than those in which they have a material financial interest as above

discussed, which may also be recommended to a Client. This creates a conflict of interest as there is a possibility that DLS personnel may obtain an execution price favorable to that of the Client.

To address this conflict, it is the expressed policy of DLS that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, thereby preventing such employee(s) from benefiting from transactions placed on behalf of advisory accounts. We may aggregate our employee trades with Client transactions where possible and when compliant with our duty to seek best execution for our Clients. In these instances, participating Clients will receive an average share price and transaction costs will be shared equally and on a pro-rata basis. In the instances where there is a partial fill of a particular batched order, we will allocate all purchases pro-rata, with each account paying the average price. Our employee accounts will be included in the pro-rata allocation.

DLS personnel are further prohibited from recommending or placing a transaction solely because they own the same security. DLS, as a matter of policy, requires all personnel to make recommendations and selections consistent with the Client's profile and needs. The firm has adopted policies and practices for the periodic review of Client accounts.

A copy of the Code of Ethics is available to Clients and prospective Clients upon request. You may request a copy by emailing [Jerry.Dempsey@Dempseyi.com](mailto:Jerry.Dempsey@Dempseyi.com) or by calling us at 706.238.9575.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

Our firm may pay referral fees to independent persons or firms ("Solicitors") for introducing Clients to us. Prior to the payment of such fees, DLS will enter into a Solicitor Agreement with the Solicitor outlining the terms, conditions, and responsibilities of the parties. We require a Solicitor to provide the prospective Client with a copy of this document and a separate disclosure statement that includes the following information: 1) the Solicitor's name and relationship with our firm; 2) the fact that the Solicitor is being paid a referral fee; 3) the amount of the fee; and 4) whether the fee paid to us by the Client will be increased above our normal fees to compensate the Solicitor. As a matter of firm practice, the advisory fees paid to us by Clients referred by solicitors are not increased as a result of any referral.

DLS has agreements in place where the firm may utilize third party asset managers to manage Client accounts. In such circumstances, DLS receives solicitor fees from the third party asset manager or custodian collecting investment advisory fees. The fees are a portion of the overall compensation paid by a Client to the third party asset manager for portfolio management services. This situation creates a conflict of interest to select third party asset managers offering higher compensation to DLS and the potential that the Client may have been able to obtain services directly from the third party asset manager at a lower cost. When recommending Clients to a third party asset manager, the Client's best interest will be the main determining factor of DLS. These fees do not include brokerage fees that may be assessed by the custodial broker dealer. Fees for these services are based on a percentage of assets under management not to exceed any limit imposed by any regulatory agency. DLS does not charge additional management fees for the use of third party asset managers.

Outside of providing investment advisory services, DLS and its personnel may receive additional compensation in the form of commissions, fees, prizes, trips, and bonuses for services rendered the sale of insurance and investment products in the role of an insurance or

broker-dealer firm or agent. This creates a conflict of interest. As a matter of policy and practice, DLS requires all personnel to act in a fiduciary capacity when working with advisory Clients. The firm has established a Code of Ethics and additional policies requiring DLS and its personnel to act in the best interest of a Client.

## **FINANCIAL INFORMATION**

DLS does not require or solicit Clients to pay fees that are greater than \$1200 billed six months or more in advance. DLS does not have any financial condition that is likely to impair its ability to meet contractual agreements with Clients. DLS has not been the subject of a bankruptcy petition at any time during the past ten years.