



## Woodlands Asset Management, Inc.

("WAMI")

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### 1. Cover Page

#### FORM ADV – PART 2A

#### "Disclosure Brochure"

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*Last update 03/20/17*

*Please see the Glossary at the end of this document for definitions.*

**This brochure provides information about the qualifications and business practices of WAMI. If you have any questions about the contents of this brochure, please contact us at 281-367-2483 and/or [rbernard@woodlandssecurities.com](mailto:rbernard@woodlandssecurities.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 WAMI may be found at the SEC's website at <http://www.adviserinfo.sec.gov>.**

## 2. Summary of Material Changes

The following summarizes the material changes in WAMI's Disclosure Brochure from the previous annual amendment dated 03/20/2017:

1. **Assets under Management:** Increased from \$238,500,000 to \$268,000,000 from the previous year.
2. Removed Other Office in Lufkin (from the front cover) since they are Solicitor/Agents of WAMI and disclosed in the Part 2B Supplemental Information Brochure.
3. Removed Hilltop Securities Inc. as another custodian of client assets (since it is not currently being used).
4. **Other Financial Industry Activities:** Removed some closed entities. And Connie Smith, an employee, is no longer a CPA, however, still conducts accounting work.

### 3. Table of Contents

4. Advisory Business.....	4
5. Fees and Compensation.....	5
6. Performance Based Fees and Side-by-Side Management.....	7
7. Types of Clients and Accounts .....	8
8. Methods of Analysis, Investment Strategies, and Risk of Loss .....	9
9. Disciplinary Information.....	10
10. Other Financial Industry Activities and Affiliations.....	11
11. Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading.....	12
12. Brokerage Practices.....	13
13. Review of Accounts .....	15
14. Client Referrals and Other Compensation .....	16
15. Custody .....	16
16. Investment Discretion .....	16
17. Voting Client Securities .....	17
18. Financial Information.....	17
GLOSSARY.....	18

## 4. Advisory Business

### A. Our Business

Woodlands Asset Management, Inc. (“WAMI”), a federally registered investment advisory firm, was formed in 1994. Morris Monroe is the sole owner, President, and Chief Compliance Officer (CCO). Morris Monroe is also the owner of Woodlands Securities Corporation (WSC), an affiliated broker/dealer and member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). WSC is not currently used as the broker/dealer to execute any client account transactions.

It is the policy of WAMI to conduct its business in a manner that meets the highest standards of commercial honor and just and equitable principles of trade and adhere to regulatory rules and federal laws. Inherent in all client relationships is the fundamental responsibility to deal fairly with clients and provide full and fair disclosure of all material facts, including conflicts of interest. This will enable clients to make informed decisions about entering or continuing the advisory relationship.

*Federally registered investment advisor means registered with the Securities and Exchange Commission (SEC) and does not imply any specific training or education. It also does not mean any recommendation, sponsored, or approved by the SEC or the United States or any of its agencies or officers.*

### B. Description of Services

WAMI’s goal is to help clients set realistic, long term investment objectives. To help achieve those objectives, WAMI is primarily involved with managing client accounts through diversified mutual fund models and fixed income accounts on a discretionary basis. WAMI provides investment supervisory management for a fee that is calculated as an annual percentage of account assets. WAMI’s services may also include incidental investment advice through consultations that do not include a fee. In addition, WAMI also uses outside advisers for some accounts and WAMI receives a portion of the fee for such accounts. The type of account will depend on a customer’s financial objectives and risk tolerance. Please see Section 7 for more information.

WAMI also recommends similar mutual fund type models within a variable annuity for clients looking for an investment vehicle that provides tax deferral. WAMI provides ongoing, discretionary management of the account and receives an annual fee as the advisor to the variable annuity based on the account value.

WAMI has consulted 401k plans by designing mutual fund models for the participants to choose within their plan (similar to the mutual fund models WAMI uses for its clients). The service includes model compositions and adjustments. The mutual fund models are an additional investment option made available through the plan’s third-party administrator’s platform. WAMI may receive an annual fee (based on total Plan assets) from each participant for such service (based on their prorata share of such Plan assets).

### C. Client Advice

The type of account and advice provided to a client depend on initial consultations and their responses to WAMI’s new account form and investment questionnaire. Advice may be more specific to a client if they are placed in a fixed income account or more general if placed in a model or outside adviser. In addition, a client may impose restrictions on investing in certain securities or types of securities if this is communicated to WAMI in writing.

#### **D. Wrap Fee Programs**

**Not applicable.** A wrap fee program is any advisory program in which a specified fee or fees not based directly upon transactions in a client's account is charged for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and the execution of client transactions.

#### **E. Client Assets**

As of December 31, 2017, WAMI had approximately \$268,000,000 of assets under management comprised of discretionary assets (and one non-discretionary account) for approximately 450 clients.

## **5. Fees and Compensation**

#### **A. WAMI Fees**

WAMI's Investment Agreement governs the relationship between WAMI and its client, including the fee that the client pays to WAMI for its services. WAMI uses one main custodian to hold client funds and securities; Schwab Advisor Services (of Charles Schwab & Co., Inc.).

#### WAMI Managed Accounts

Accounts are charged in advance and based on an annual percentage of assets under management. Fees are negotiable and are charged and collected quarterly with the first quarter fees due in advance based on the starting account balance when all assets have been credited to the account at the custodian (i.e. either from a transfer or a deposit). Thereafter, fees are calculated based on the custodian's value of client's account(s) at the end of the quarter.

#### Outside Managers

In addition, WAMI may recommend the use of outside advisers or managers, in particular for equity accounts through Schwab's Managed Account Marketplace platform and a Third-Party Asset Management Provider ("TAMP"). The outside managers have full discretionary authority on such accounts. Annual fees for these accounts are negotiable but are typically charged an annual fee up to 2% of assets under management. The fee is collected quarterly and split between TAMP and WAMI. Trades may be entered as block trades for accounts of TAMP where some clients may or may not receive a slightly better price/share than others.

Below are the typical annual fees charged for the different types of accounts:

<b>Model Portfolios</b>
Up to 2.5%
<b>Fixed Income</b>
Up to 1.5%
<b>Equities – Outside Third-Party Manager</b>
Up to 2.0%
<b>Variable Annuities</b>
Up to 1%
<b>401Ks</b>
Up to 1%

## B. Payment of Fees

Fees are deducted from the client's account each quarter as each client has authorized WAMI and custodians to do so through the Investment Agreement and application forms. The process for the custodians is described below:

1. **Schwab Accounts:** WAMI will submit an invoice to Schwab for the fees to be deducted from all the client accounts. Clients will have electronic access to their invoice along with their quarterly performance report prior to the fee being deducted from their account (or upon request, may be mailed). In addition, any fees deducted will also be included on Client account statements from the custodian.
2. **Variable Annuities:** If deducted from the variable annuity account, the insurance company will calculate and pay WAMI fees on a quarterly basis for the asset value of the contract at quarter end and will be deducted from the annuity. If deducted from the annuity, the fee will be designated as a withdrawal and the client will receive a 1099 from the insurance company after the end of the year for those fees paid during the preceding year. In addition, if the Client is below the age of 59 ½, a 10% penalty will be incurred (for qualified contracts, the penalty applies to the entire withdrawal; for non-qualified, only on the gains on the annuity and not the principal). As an alternative, the client may pay the fee directly to WAMI with a check or authorize WAMI to deduct the fee from another account at Schwab to avoid the annuity fee withdrawals.

## C. Other Fees

In addition to WAMI fees, there are other fees that clients may incur:

- One-time Setup Fee – Although WAMI has not charged a setup fee in the past, the Investment Agreement allows the option for WAMI to do so at its discretion. Therefore, accounts may be charged a one-time setup fee, which will be charged to the account after acceptance by WAMI and the client and is not refundable upon later cancellation by either client or WAMI. Under certain conditions it may be credited toward the first quarterly fees charged to the account.
- Miscellaneous and Termination Fees – Custodial fees: there will be certain fees charged for account processing or requests by the custodian (i.e. sending out physical certificates, wire requests, IRA annual maintenance fee, etc.). In addition, accounts will incur a fee upon termination of the account. These fees are charged by the custodian and are not negotiable.
- Mutual Fund 12b-1 Fees and Other Fees – WAMI does not receive any 12b-1 or service fees. Mutual funds pay fees called 12b-1 fees or administrative or shareholder servicing fees to broker/dealers for the distribution of their funds. These fees are deducted from the Net Asset Value of the funds that may be held in client portfolios on a continuing basis. These types of fees are routinely borne by all mutual fund shareholders as an indirect expense to their account. These fees are paid to Schwab directly. Mutual funds also charge other expenses and management fees. These fees are set by the mutual fund company and are not negotiable.
- 401k Accounts: If applicable, a 401k plan invoice is submitted quarterly to the TPA (for one-fourth of the annual fee). The TPA will deduct the prorata amount from each participant's account and forward one check to WAMI for the plan's total invoice.
- Broker/Dealer Fees – While WAMI manages client accounts, the trades are conducted through a broker/dealer. The broker/dealer collects fees to cover the cost of the transaction. For accounts at

Schwab as the custodian, Schwab is also the broker/dealer. These charges are not negotiable and are in addition to the management fee charged by WAMI. In addition to these charges, there will be broker/dealer handling or processing fees, prime brokerage fee for fixed income products purchased outside of Schwab, Schwab assisted trade fees, and SEC exchange transaction fees assessed and adjusted periodically.

#### **D. Advance Payments and Refunds**

Account fees are charged and collected quarterly with the first quarter fees due in advance based on the starting account balance when all assets have been credited to the account at the custodian. Since accounts are billed in advance, if an account is terminated prior to the following quarter end, the client would receive a prorated refund.

#### **E. Supervised Persons Compensation**

A supervised person refers to any of WAMI's officers, partners, directors (or any other person of similar status and performing similar functions), employees, or any other person who provides investment advice on behalf of WAMI and is subject to its supervision and control. These persons do not receive any commissions or other compensation from selling any investment products through WAMI. However, some of these supervised persons are also solicitors who receive a portion of the annual fee charged to clients for introducing accounts to WAMI. In addition, some of the supervised persons are paid salaries through WSC and some are also registered representatives of WSC and receive selling compensation through WSC, which is discussed further in Section 10.

1. Custodians and Broker/Dealers: Because WAMI uses one main custodian for its client accounts, Schwab, clients may not choose to use any other custodian or broker/dealer while maintaining an account with WAMI. This poses a conflict of interest to clients since transactions cannot be directed to a different broker/dealer. Therefore, they may pay higher fees or expenses and may have less favorable execution prices associated with their account.
2. Commissions: WAMI does not receive any revenues from sales commissions for selling securities.
3. Markups: A markup is a sales charge generally imposed on a fixed income product and represents the difference in price the security was purchased at and the price the client pays. For WAMI's fixed income accounts, WAMI does not charge the client a markup for any purchases.

## **6. Performance Based Fees and Side-by-Side Management**

**Not applicable.** Performance based fees are fees based on a share of capital gains on or capital appreciation of the assets of a client and WAMI does not engage in charging such fees. Side-by-side management refers to either an advisory firm or a supervised person managing both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee at the same time or side-by-side. WAMI does not engage in such type management.

## 7. Types of Clients and Accounts

### A. Types of Clients

The majority of WAMI's clients are individuals or natural person accounts (approx. 95%). The remaining accounts are Partnerships, Corporations, or other organizations.

### B. Types of Accounts

WAMI is primarily involved with managing client accounts through diversified mutual fund models and fixed income accounts. The type of account will depend on a client's financial objectives and risk tolerance. In addition to the types of accounts it manages, WAMI also uses outside advisers for some of its clients' portfolios. Below is a brief description of the four main types of client accounts offered by WAMI (clients may have a mixture or combination of such accounts):

#### 1. Mutual Fund Models

To provide a diversified asset allocation, WAMI uses three main models of mutual funds that satisfy different risk versus reward characteristics. Based on an initial consultation and responses to WAMI's new account form and client questionnaire, a model will be assigned. There are three main model types:

- **Conservative** - typically comprised of approximately 50% Equity funds and 50% Bond funds and Cash.
- **Moderate** - typically comprised of approximately 60% Equity funds and 40% Bond funds and Cash.
- **Aggressive** - typically comprised of approximately 90% Equity funds and 10% Cash.

In addition, there may be some variations of the above models depending on the size of an account or for defensive measures. Variations include different weights in the percentages and include Exchange Traded Funds (ETF). An ETF is a basket of assets like a mutual fund that tracks an index but is traded on an exchange like a stock. ETFs experience price changes throughout the day as they are bought and sold. They have a prospectus like a mutual fund and usually have lower expense ratios than the average mutual fund. There are tax consequences of owning and selling ETF shares (including if shares are sold within one year of purchase; any gain will be taxed as ordinary income).

#### 2. Fixed Income Accounts

For clients who have a greater need for a fixed income stream and/or protection of principal, WAMI offers accounts that are invested directly in debt instruments. These may be comprised of corporate bonds, municipal bonds, certificates of deposits, treasuries, and agency securities. Some accounts may have both a fixed income component and a model.

#### 3. Outside Adviser Accounts

WAMI may use an outside adviser, primarily for equity accounts, to manage a client's account through Schwab's Managed Account Marketplace platform through a Third-Party Asset Management Provider ("TAMP"). TAMP has full trading discretion. Trades may be entered as block trades for related accounts of TAMP where some clients may or may not receive a slightly better price/share than others.



#### 4. Variable Annuities

For clients seeking tax deferral, WAMI may utilize a variable annuity. A variable annuity is an insurance contract in which, at the end of the accumulation stage (when investor contributions or premiums are allocated among investment portfolios in the subaccount, and earnings accumulate), the insurance company guarantees a minimum payment. Purchases can be a single payment or a series of payments.

The contract has a subaccount which offers a range of investment options. The value of the investment will vary depending on the performance of the investment options chosen. The earnings in the account are tax deferred which means no taxes are paid on the income and investment gains from the annuity until the money is withdrawn. Taxes will then be paid on the earnings at ordinary income tax rates. WAMI will recommend funds in the sub account of the variable annuity similar or identical to the funds in the mutual fund models.

## **8. Methods of Analysis, Investment Strategies, and Risk of Loss**

### **A. Methods of Analysis and Investment Strategies**

WAMI has a process using specific tools, methods, and expertise to help formulate investment advice and manage assets. These include:

1. For the approximate 32,000 mutual funds available in the market, WAMI uses a software program for investment analysis in choosing the funds for the various models, selection of managers, and when to purchase or sell. This analysis involves very specific or general search criteria across different sectors, asset classes and peer groups, and provides performance and technical analysis. The process allows some of the following evaluations:
  - How a fund's performance numbers measure against others in its peer group;
  - How a fund's rankings over a fixed period measure against other funds that meet WAMI's selected criteria;
  - Comparing a fund's amount of risk to performance numbers that measure risk;
  - Screening managers for risk measurements, fees and expenses, annualized returns, and ranking in their peer group; and
  - What processes and strategies the manager of each fund uses to meet its stated style and objectives.
2. WAMI uses technical analysis tools and other various methods to evaluate investments. These include:
  - Relative Strength Index – measures speed and change of price movements within a certain sector and is generally used to identify the current trend and determine whether to allocate more or less to a particular fund;
  - Moving Averages – shows the average value of a security's price over a set period and is generally used to measure momentum and define areas of possible support that keep the price from decreasing and resistance points from keeping price increases; and
  - Active allocation - evaluations are made on a frequent basis to manage the changes and swings within the markets.

3. WAMI monitors the funds and makes adjustments. A weekly review of the relative strength and other analysis of the asset classes in the portfolios is conducted. Periodically, the performance of each manager against its respective peer groups is reviewed. And a regular review of valuation, investor sentiment, monetary policy, and moving averages are conducted.
4. When an account is assigned to a model, the assets are gradually invested into the specific allocation and reviewed at least quarterly. If there are any changes to the funds due to the above analysis, trades will be entered to either buy or sell portions of the funds in the accounts or make any determined changes to the model composition.
5. For fixed income accounts, typically investment-grade debt securities are purchased with laddered, or varying, maturities, using intermediate terms (generally between 4 and 10 years to maturity). However, depending on a client's risk tolerance, a few lower, or non-investment grade bonds may be purchased or bonds with other maturity terms.

## **B. Risks Involved**

All investments and investment types have certain risks (i.e. market risk, credit risk). It is important to understand that investing in securities involves risks of loss that clients should be prepared to bear. However, there may be other risks associated with client accounts because of WAMI's investment strategies or analysis. These may include general advice to the model portfolios that is not specific to a client. Other risks may include the risks associated with the various fund managers in the model portfolios; however, WAMI strives to diversify among manager styles and mutual fund classes to mitigate some of that risk.

## **C. Use of Particular Types of Securities**

Model portfolios are primarily invested in mutual funds, cash equivalents, and ETFs and generally do not invest in other security types which may limit potential growth from other type investments or hedge against losses. However, WAMI does take into consideration this risk and may invest in other security types and or fund allocations when deemed beneficial to the model accounts.

Risks inherent to mutual funds, ETFs, and Variable Annuities include market risk and the possibility of losing value. Prospectuses also contain further information on their risks. Each of these securities also contain internal expenses.

Fixed income accounts invest in debt securities to provide an income stream or protection of principal for clients. While the investment risk to clients may include the limitation of the account to debt products, these accounts are customized specifically to each client and their needs. Therefore, other security types can be added, but in general, the customer opens this type account aware of the security type and for the income and/or principal protection benefits. Among the risks specific to debt instruments are default and credit risk, interest rate risk, and call risk if the bond is callable (where the issuer can call in the bond prior to maturity). See the Glossary for further explanations of these risks.

# **9. Disciplinary Information**

**Not applicable.**

Disciplinary information refers to any legal or regulatory issue related to WAMI or any of its supervised persons within the past ten years or any events that are material to a client's or prospective client's evaluation of WAMI's advisory business even if the occurrence was beyond ten years.

## 10. Other Financial Industry Activities and Affiliations

### A. Broker/dealer Affiliation and Activities

Morris Monroe, president and owner of WAMI, is also president and owner of Woodlands Securities Corporation (WSC), a FINRA registered broker/dealer. Registered Agents of WAMI are also licensed Registered Representatives of WSC where they conduct transaction-based securities business and receive commissions.

### B. Other Affiliations, Activities, and Conflicts of Interest

1. **Accountant:** Connie Smith, an employee of WSC, conducts accounting work for WAMI and affiliated companies.
2. **Insurance Agents:** Registered Agents of WAMI are also licensed insurance agents and receive selling compensation for insurance products outside of WAMI.
3. **Aviation and Consulting Business:** Morris Monroe, president and owner of WAMI, is also a licensed pilot and has formed the entities IV-MLM Holdings, MLM Consulting LLC, and IV-M Aviation LLC for the use of aircraft (and tax benefits) and for various other business and consulting activities (i.e. real estate due diligence, Issuer due diligence, WFSI related activities, etc.).
4. **Limited Partnerships and Private Offerings:** Morris Monroe and Registered Agents of WAMI through the affiliated broker/dealer WSC, sponsor limited partnerships or private offerings that are offered to WSC clients and who may also be clients of WAMI. In addition, Morris Monroe is affiliated with the General Partner of certain limited partnerships or Issuer of private offerings. In addition to clients, related persons may participate in such investments as well. These include the following:
  - **Woodlands Financial Services, Inc. (WFSI)** –An Automobile finance company and Issuer of various private debt offerings since 1993. Morris Monroe is also a director and owner of WFSI since inception. Related to WFSI is **Timberloch Capital LLC**, in which Morris Monroe is a company member, which was originally formed to provide insurance for automobiles, financed by WFSI, however, now serves as a General Partner for Six Pines Partners and Woodlands Income Partners Ltd.
  - **WSC Holdings Willis Industrial Property, LLC (“WSC Holdings”)** – Morris Monroe is a member of this real estate related company which serves as the General Partner of a limited partnership.

- **Residences at Riverdale LP** - Morris Monroe is a special Limited Partner of this real estate limited partnership and WSC Holdings (in which Morris Monroe is a company member) holds 10% as a Class B Limited Partner.
- **Six Pines Partners LP** – Morris Monroe is a member of the General Partner, **Timberloch Capital LLC**. This limited partnership was formed to purchase the office building where WAMI, WSC, and WFSI are tenants.
- Personal Investments and real estate related limited partnerships or LLCs – Morris Monroe is a member of **Woodlands Income Partners Ltd.** In addition, **MLM Family Investments, LLC** was formed by Morris Monroe for estate planning purposes and is used for personal investments.

Other industry activities and affiliations pose certain conflicts of interest to WAMI's clients. These persons have other financial interest or receive other compensation for their activities which may be incentive to focus more time on those activities rather than advisory business.

Participation in a general partnership, limited partnership, or LLC poses conflicts because of the personal financial interest, gain, and or compensation received. For all limited partnerships offered through WSC as the selling agent, an offering document is given to clients that discloses all conflicts of interest and enables client evaluation of the investment considering such conflicts.

Both WAMI and WSC maintain written supervisory policies and procedures to manage their related persons. In addition, WAMI discloses pertinent information in this Disclosure Brochure as well as information for registered persons of both WAMI and WSC in the FINRA database. Further information about related Registered Agents of WAMI and WSC are also accessible to the public on FINRA's Broker Check website at <http://BrokerCheck.finra.org/>.

### **C. Selection of Other Investment Advisers**

WAMI may recommend the use of another investment advisor through Schwab's Third-Party Asset Management Provider ("TAMP") platform. Primarily these outside advisers are used to manage equity accounts and are charged by the TAMP an annual fee up to 2% of managed assets. This fee will be split between WAMI and the outside adviser. This poses a conflict of interest because WAMI is receiving other fees in addition to its revenue for managing accounts. In addition, a client might be able to contract with some of the TAMP advisers directly and not through WAMI thereby receive a lower fee. However, WAMI can offer this service to clients who may not meet the TAMP adviser's minimum account balance.

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

### **A. Code of Ethics Summary**

WAMI recognizes its fiduciary responsibility to its clients. It is the duty and responsibility of WAMI, shareholder(s), and related persons to comply with federal securities laws and place the interest of WAMI's clients first. Related persons shall refer to shareholders, officers, registered agents, and employees. All personal securities transactions are to be conducted consistent with WAMI's Code of Ethics, and in such a manner to avoid any actual or potential conflict of interest or to abuse an individual's

position of trust and responsibility. Personal transactions may not involve market timing or late trading of mutual funds. No person associated with WAMI should take inappropriate advantage of his or her position and must adhere to all federal and state securities laws and standards of business conduct. WAMI will provide a complete copy of its Code of Ethics to a client upon request or it can be accessed on WAMI's website at <http://www.woodlandssecurities.com/wami-code-of-ethics/>.

#### **B. Recommend Client Transactions with Personal Financial Interest**

Both WAMI and WSC share similar clients. Related persons of both companies are involved in recommending investments. Some of those investments may involve recommendations where related persons have some financial interest. They may either receive selling compensation for securities transactions through WSC or have further financial interest as mentioned in Item 10(C) above as a sponsor of private offerings and/or affiliation with the General Partner or Issuer. Again, the latter would be disclosed to clients and included in any related offering document information. WSC broker/dealer affiliation and compensation are also disclosed in WAMI's Investment Agreement in Section 3, "Affiliations."

#### **C. Participation in Client Transactions**

Related Persons of WAMI also participate in similar securities as WAMI clients. However, at no time should personal transactions be of such size to affect security pricing indirectly. To the extent that WAMI related persons are aware of trades in individual issues being considered, recommended, or traded for WAMI clients, they shall make every effort to trade in their own accounts after trades are executed for clients. However, since the price of a mutual fund is determined at the end of the day, related persons may invest in mutual funds at any time but not involve any market timing or late trading. Debt securities are priced the same to WAMI clients and related persons and can also be traded on the same day. These can pose potential conflicts of interest since a related person may have incentive to recommend securities they own to clients for any potential price improvement or profit. However, personal transactions are reviewed by WAMI personnel at least quarterly to ensure related person transactions do not pose a risk to clients.

#### **D. Personal Trading**

It is a policy of WAMI that related persons must avoid security transactions and activities for their own accounts which might conflict with or be detrimental to the interests of clients, or which are designed to profit by market effect of WAMI's advice to its clients. To the extent that related persons are aware of trades in individual issues being considered, recommended, or traded for WAMI clients, related persons will make every effort to trade in their own accounts after trades are executed for clients, or if before, not of significant difference in price. However, at no time are WAMI client trades or WAMI related person trades expected to be of such volume as to affect the price of an individual issue.

## **12. Brokerage Practices**

#### **A. Broker/Dealers for Client Transactions**

WAMI does not maintain custody of the accounts that it manages (although it may be deemed to have custody of assets if given authority to deduct fees from an account – see Item 15 Custody below). Assets must be maintained at a "qualified custodian," generally a broker/dealer or a bank. WAMI requires most accounts to be held or maintained at Schwab Advisor Services ("Schwab"). The custodian will hold client assets in a brokerage account and buy and sell securities when instructed by WAMI. When an

account is opened, a separate account agreement will be executed directly with the custodian. WAMI is independently owned and operated and not affiliated with Schwab. The securities transactions must be executed through a broker/dealer, who is also Schwab.

This poses conflicts of interest. Using Schwab as the broker/dealer is a condition for maintaining a client account. Consequently, clients may pay higher fees or receive less favorable execution prices.

Brokerage practices include:

### **1. Research and other Benefits**

WAMI receives certain benefits from using Schwab for custody, trading, investment research, a broad range of investment products, reporting and related services for client accounts. The investment products available through the custodian include some to which might not otherwise be accessible or that would require a significantly higher minimum initial investment by WAMI clients. WAMI receives custodian proprietary software, research, and technology, information and consulting services from Schwab. For example, custodian proprietary software and websites enable WAMI to conduct many functions related to client accounts. These functions include viewing account information, entering trades, creating reports, facilitating payment of fees from clients' accounts, accessing statements and confirmations, and assisting with back-office functions, recordkeeping, and client reporting to name a few. WAMI does not pay for research or the Schwab web-based access to client accounts due to the amount of managed assets at Schwab.

However, Schwab contributes a portion of the fee for a portfolio management software which provides WAMI with additional functions for managing client accounts. These functions include pricing of securities, portfolio and performance reports, model allocations and rebalancing, client fees, recordkeeping and other back office functions.

In addition, Schwab also offers other services intended to help WAMI manage and further develop its business enterprise. These services include educational conferences and events; consulting on technology, compliance, legal, and business needs; publications and conferences on practice management and business succession; access to employee benefits providers, human capital consultants, and insurance providers.

Schwab provides some of these services itself. In other cases, it will arrange for third-party vendors to provide the services. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab also provides other benefits, such as occasional business entertainment for WAMI personnel. These services are not allocated to any particular client or group. While the benefit of these services might pose a conflict of interest for a company that uses them as criteria for choosing a broker/dealer, it is not the case for WAMI since it does not actively seek other broker/dealers for client transactions. However, WAMI believes the selection of Schwab as custodian and broker is in the best interests of its clients. The selection is primarily supported by the scope, quality, and price of Schwab's services and not Schwab's services that benefit only WAMI.

### **2. Brokerage for Client Referrals**

**Not applicable.** WAMI does not receive client referrals from a broker-dealer or third party.

### **3. Directed Brokerage**

WAMI requires clients to use one broker/dealer, Schwab to execute transactions. In addition, clients may not direct trades to another broker/dealer. As mentioned earlier, this poses conflicts of interest. See Item 12(A) above.

## **B. Aggregation of Client Transactions**

Equity accounts, that are managed by an outside adviser as described in Section 7, aggregate trades for client accounts. This allows for those trades to be bunched together and receive the same execution price. ETF transactions may be bunched together by WAMI. Fixed income accounts managed by WAMI may be aggregated when possible, however, due to the individual nature of each account, may not be done on a regular basis. When purchased individually, the client may pay a higher price or receive a less favorable execution than when aggregated with other accounts.

# **13. Review of Accounts**

## **A. Client Account Reviews**

Review of client accounts is multilevel:

1. Operations Department: Trades and account alerts are reviewed daily. Trades are also reviewed monthly. Operations review client quarterly invoices and reports. A random sampling of accounts is selected each quarter to review for accuracy, exceptions, or anomalies. In addition, Operations reviews client accounts intermittently to ensure they are in line with any applicable model. In addition, a random selection of accounts is reviewed quarterly to ensure the correct fee was charged and any quarterly reports provided to clients are in line with customer statements.
2. Compliance: Reviews accounts at the opening and a more thorough review of a sampling of accounts annually. Among the items reviewed are investment objectives, financial profile, transactions, and correct fee charged. In addition, Compliance ensures clients receive a letter within 30 days of opening an account that verifies their objectives and financial information as well as every three years thereafter.
3. Investment Committee: Reviews and analyzes mutual funds in the model accounts, when to buy and sell, and monitor and adjust as more fully described in Section 8.
4. Advisers: Morris Monroe and Chris Moss in Lufkin randomly review clients' quarterly reports. In addition, accounts are reviewed through personal meetings or telephonically and/or at client's request.

## **B. Other Trigger Reviews**

There may be factors that trigger a review in addition to those mentioned above. This may include large swings or variability in the market that may trigger additional review of client accounts or model portfolio composition. In addition, WAMI will conduct a review of an account if requested specifically by a client.

## **C. Client Reports**

WAMI provides access to a quarterly report to clients that includes various graphical, portfolio performance, and an invoice which are prepared by an independent third party. Clients also receive an account statement directly from the custodian. It's important for clients to carefully review those statements and compare to the quarterly reports and inform WAMI of any discrepancies.

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

WAMI pays a solicitor fee to its Registered Agents for referring accounts to WAMI. This fee is a percentage of the annual management fee that WAMI collects from the applicable client and paid to the solicitor quarterly. Client acknowledges such fee by signing WAMI's Investment Agreement with the Solicitor/Agent Disclosure Form included. WAMI does not pay any other fees for client referrals to any other individuals or companies.

WAMI receives an economic benefit from Schwab in the form of the support products and services it makes available to WAMI and other independent investment advisors whose clients maintain their accounts at Schwab. These products and services, how they benefit WAMI, and the related conflicts of interest are described above (see Item 12—Brokerage Practices). The availability of Schwab's products and services is not based on WAMI giving particular investment advice, such as buying particular securities for clients.

## **15. Custody**

WAMI does not maintain custody of client accounts. However, under government regulations, WAMI is deemed to have custody of client assets if, for example, the client authorizes WAMI to instruct the custodian (i.e. Schwab) to deduct the advisory fees directly from their account or if clients grant WAMI authority to move money to another person's account.

WAMI uses primarily one outside custodian to maintain or hold its client funds and securities; Schwab Advisor Services. A separate custodian/insurance company is used for variable annuity holdings. Account statements will be sent to clients directly from the custodian at least quarterly. They will be sent to the email or postal mailing address the client provided to the respective custodian. Clients should carefully review those statements promptly when received. WAMI also urges clients to compare custodian's account statements with the quarterly portfolio reports received or viewed from WAMI's third party provider.

## **16. Investment Discretion**

Clients engage WAMI to manage their account with an Investment Agreement ("Agreement") as well as through the custodial forms. The Agreement also grants WAMI full discretionary power to manage the assets by deciding which securities and when to engage in transactions in the account without prior approval of the client. There are rare cases of non-discretionary accounts where the client directs the account. These are typically for WAMI employee or employee-related accounts or 401K participants who may choose from WAMI advised models or their own choices. Clients may impose restrictions or limitations on this authority by notifying WAMI in writing. This may include but not limited to:

1. Restrictions on purchasing certain securities or security types (i.e. tobacco companies);



2. Restrictions on selling certain securities held in the account.
3. Restrictions or limitations on amount of cash to be maintained in the account.

## 17. Voting Client Securities

WAMI does not vote client securities. Shareholders have the benefit and right to vote on certain corporate matters and may attend annual or special meetings to cast their vote on such matters. However, most shareholders do not wish to attend such meetings so corporations mail voting or proxy material to give shareholders the option to vote. Clients will receive any proxy materials or other solicitations directly from the account custodian or transfer agent. However, clients may contact WAMI with any questions about any solicitations.

## 18. Financial Information

**Not Applicable.** WAMI is not required to provide a balance sheet as part of its Disclosure Brochure. However, WAMI will provide one to clients upon written request.

## **GLOSSARY**

**12b-1 fees:** An annual marketing or distribution fee on a mutual fund that is typically paid quarterly to a broker. The 12b-1 fee is considered an operational expense and, as such, is included in a fund's expense ratio. It is generally between 0.25% - 1.0% (the maximum allowed of a fund's net assets). The fee gets its name from a section in the Investment Company Act of 1940.

**ABP – Asset Based Pricing:** Refers to accounts that are charged an annual service fee by the broker/dealer that is conducting the transactions.

**Bond:** A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, municipalities, states and U.S. and foreign governments to finance a variety of projects and activities.

**Broker/Dealer:** Financial Industry Regulatory Authority ("FINRA") firms who generally buy and sell securities that are transaction-based for commissions.

**Call Risk:** Bonds with a call provision may be redeemed or called by the issuer, requiring the bond to be redeemed at their face value well before their maturity dates. A bond issuer often calls a bond when interest rates drop, allowing the issuer to sell new bonds paying lower interest rates, allowing the issuer to save money. The bond's principal is repaid early, but the investor may be left unable to find a similar bond with as attractive a yield.

**Credit Ratings:** Credit ratings are a means of evaluating default and credit risk. The Securities and Exchange Commission (SEC) has designated 10 rating agencies as Nationally Recognized Statistical Rating Organizations (NRSROs). Some of the more familiar ones are AM Best; Moody's Investors Service (Moody's); DBRS Ltd.; Egan-Jones Rating Co.; and Fitch Ratings (Fitch). These organizations review information about selected issuers, especially financial information, such as the issuer's financial statements, and assign a rating to an issuer's bonds—from AAA (or Aaa) to D, or no rating. Each rating organization has its own rating system and each bond may receive a different rating between the different organizations.

**Default and Credit Risk:** Refers to the likelihood of being repaid. There is a risk that the issuer's promise to repay principal and pay interest on the agreed upon dates and terms will be upheld. U.S. Treasury securities and other bonds backed by the "full faith and credit" of the US government, are generally deemed to be risk-free. However, most bonds face a possibility of default. This means that the bond issuer will either be late paying creditors (which include bondholders), pay a negotiated reduced amount or, in worst-case scenarios, unable to pay at all. Therefore, the issuer's credit rating is important to determine the credit worthiness of an issuer and their ability to pay principal and interest on time.

**Discretionary Authority:** The authority to buy and sell securities in the client's account without their consent. This authority is granted in the Investment Agreement or some other form.

**eDelivery:** Refers to receiving communications electronically (i.e. email) rather than in paper format through standard U.S. mail delivery.

**Equity:** Also referred to as stock is an investment security that represents an ownership interest.

**FINRA** – Financial Industry Regulatory Authority: The self-regulatory organization that oversees its member broker/dealers (Woodlands Securities Corporation, WSC, is a member of FINRA).

**Fixed Income:** Refers to an investment that provides real return rates or periodic income at regular intervals at reasonably predictable levels. This can include bonds, bond mutual funds, municipal bonds, and certificates of deposit among others.

**Interest Rate Risk:** The risk that changes in interest rates in the US or the world may reduce (or increase) the market value of a bond. Interest rate risk—also referred to as **market risk**—increases the longer the bond is held.

**Investment Adviser:** Any person or group that makes investment recommendations or conducts securities analysis in return for a fee through direct management of client assets (or via written publications).

**Late Trading:** The illegal practice of purchasing and then selling securities (usually shares of a mutual fund) after the close of a trading day, but making the transactions appear as though they occurred before the market close.

**Limit Order:** An order to buy or sell a certain number of units or shares of a security at a specific price limit or better.

**Market Order:** An order is entered to be executed at the current market price.

**Market Risk:** Refers to the risk of potential losses from a security's price that may fluctuate from day to day.

**Market Timing:** Refers to frequent trades involving purchases and redemptions in a particular mutual fund. A fund must describe its market timing policies in its prospectus (which discloses all pertinent information about a fund) and Statement of Additional Information.

**Mutual Fund:** Also referred to as an “investment company”, is an investment security that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

**Net Asset Value (NAV):** The price per share for a mutual fund that is calculated daily (after the close of trading) by dividing the total value of all the securities in its portfolio, less any liabilities, by the number of fund shares outstanding.

**NSCC – National Securities Clearing Corporation:** Provides clearance, settlement and information services to the financial industry.

**Related Person:** refers to WAMI shareholders, officers, registered agents, and employees.

**Supervised Person:** Refers to WAMI's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on behalf of WAMI and is subject to WAMI supervision or control.

**Supervisory Management:** Refers to an adviser who provides continuous or ongoing supervision and review of an account.

**Third Party Administrator:** Performs managerial and clerical functions related to an employee benefit plan (i.e. 401k plan) by an individual, committee, or company who is not a party to the benefit plan.

**Wrap Fee:** An advisory fee program under which a specified fee or fees not based directly upon transactions in a client's account is charged for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and the execution of client transactions.