



## Ally Invest Advisors Inc.

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[www.ally.com/invest/managed-portfolios](http://www.ally.com/invest/managed-portfolios)

Form ADV Part 2A

Wrap Fee Program Brochure  
October 12, 2018

This wrap fee investment program brochure provides information about the qualifications and business practices of Ally Invest Advisors Inc. If you have any questions about the contents of this brochure, please contact our Compliance Department at (855) 880-2559.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Additional information about Ally Invest Advisors Inc. also is available on the SEC's website at <https://www.adviserinfo.sec.gov/>. A search of this site for firms or their associated personnel can be accomplished by name or a unique firm identifier, known as a Central Registration Depository ("CRD") number or an Investment Advisor Registration Depository ("IARD") number. The IARD/CRD number for Ally Invest Advisors Inc. is 170301.

Even though the firm and its associates may be registered with the SEC or notice-filed in other jurisdictions, that registration implies neither an endorsement by any regulatory authority nor a certain level of skill or training on the part of the firm or its associated personnel.



## Item 1 – Cover Page



## Item 2 - Material Changes

This interim update is being provided to update the Assets Under Management and provide updates to the following areas:

### **Item 4 – Services, Fees and Compensation**

Updated third-party relationships you will be subject to as an AIA client. Updated disclosures of how cash held in your Ally Invest Securities account may be invested and Payment for Order Flow practices.

### **Item 7 – Client Information**

Updated policy for client imposed reasonable restrictions their AIA Managed Portfolio.

### **Item 9 – Additional Information**

Updated disclosures on how affiliates of AIA may benefit from your account.

As with all firm documents, clients and prospective clients are encouraged to review this brochure in its entirety and are encouraged to ask questions at any time prior to or throughout the engagement.

For future filings this section of the brochure may address only those material changes that have occurred since the firm's last annual update. The firm may at any time update this document and either send a copy of its updated brochure or provide a summary of material changes to its brochure and an offer to send an electronic or hard copy form of the updated brochure. Clients are also able to download this brochure from the SEC's Website: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or may contact our firm by phone at (855) 880-2559 or by email [support@invest.ally.com](mailto:support@invest.ally.com) to request a copy.



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Form ADV Part 2  
Wrap Fee Brochure

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### **Important Information**

Throughout this document Ally Invest Advisors Inc. shall also be referred to by its business name, "AIA," or "the firm," "firm," "our," "we" or "us." The client or prospective client may be also referred to as "you," "your," etc., and refers to a client engagement involving a single *person* as well as two (2) or more *persons*. In addition, the term "advisor" and "adviser" are used interchangeably where accuracy in identification is necessary (i.e., Internet address, etc.).

## **Item 4 – Services, Fees and Compensation**

### **Description of Our Firm**

Based in Charlotte, North Carolina, AIA is a Delaware corporation. AIA is wholly owned by Ally Invest Group Inc. ("Ally Invest Group"), which is wholly owned by Ally Financial Inc. Ally Financial Inc. (NYSE: ALLY) is a leading digital financial services company with a legacy that dates back to 1919. AIA does not have any subsidiaries or controlling interests in another reportable business entity.

AIA is an SEC-registered Multi-State adviser pursuant to Rule 203A-2(d). AIA maintains its principal office at 11605 N. Community House Rd. Calhoun Bldg. Third Floor, Charlotte, North Carolina 28277.

As of October 12, 2018, our firm had approximately \$127,000,000 of reportable client assets under management through discretionary account agreements.

AIA offers the Ally Invest Advisors Inc. Wrap Fee Program to prospective and current clients.

### **Description of Services Offered**

The primary focus of AIA is to provide discretionary portfolio management services to our clients via our online investment services offering. We do this exclusively through web-based solutions and informational resources, and virtual interaction. We do not offer financial planning services.

AIA provides discretionary portfolio management services through investment portfolios made up of Exchange Traded Funds ("ETFs"). Each portfolio is designed to provide customers with an efficient way to be invested in the capital markets based on each client's individual investment time frame, risk tolerance and liquid net worth. To get started we ask prospective clients to respond to a sequence of interactive questions that we believe are important to the development of their portfolio, such as their investment time horizon, financial goals and objectives, income and/or net worth, among others. We will also inquire into their tolerance or appetite for risk. Following responses to a series of online multiple choice questions, the prospective client will receive a recommendation of an investment allocation comprised of ETFs believed to be appropriate for their situation. The recommendation will be delivered for viewing over the Internet via our website, and the prospective client is able to locally save a portable document format ("PDF") version or print a copy for their consideration. Should the prospective client wish to then engage AIA for its investment services, they must then enter into a written agreement with our firm to initiate the process.

Our wrap fee investment program provides our clients the opportunity to obtain professional portfolio management of their account for an inclusive fee that is based upon the client's assets under our management. This means clients are free to add or withdraw money from their accounts whenever they choose with no additional fees. For more information on how fees are calculated please see the section titled Fees below.



Brokerage services are provided through our broker/dealer affiliate, Ally Invest Securities LLC ("Ally Invest Securities"), and clearing and custody services are provided by Apex Clearing Corporation ("Apex"). Both of these entities are FINRA and SIPC members,<sup>1</sup> and independent SEC registered broker/dealers. Additional information about both of these entities and their services, as well as the benefits we receive from them is noted in further detail in Item 9 of this brochure.

Interested parties must access our secure website where they are offered our current firm brochure that describes our advisory firm, its services, potential fees, etc., as well as any material conflicts of interest that could be reasonably expected to impair the rendering of unbiased and objective advice. Our privacy policy is provided for reference on our website. Both the firm brochure and privacy policy statement are available to our clients/prospective clients in either PDF format for their download and/or may be printed on their own local printer.

## Investment Methodology

AIA portfolio management services are based on Modern Portfolio Theory ("MPT"). MPT assumes that investors are risk averse, and thus an investor will only take on increased risks if they are adequately compensated with higher expected returns. AIA employs a disciplined investment process which seeks to construct a set of efficient portfolios for different levels of risk appetite. The strategies are diversified across a broad mix of asset classes, geographies, major market sectors and segments.

AIA developed capital market forecasts of risk, return and correlation using a combination of historical and current market data. Our first step in evaluating the broad universe of asset classes for inclusion within our optimal portfolio mix, is to obtain and calculate their annual returns, volatility and cross-correlations. We then focus on three major qualifications: (1) efficiency from a mean-variance and conditional VaR perspective, (2) constraints of the selected asset classes, and (3) investor risk profile. However, these three major qualifications are subject to AIA constraints as the best risk/return characteristics may not always be practical or acceptable to the investor.

In determining the appropriate assets classes to be included in an optimal asset allocation, AIA takes into account the following:

- (1) Traditional mean-variance optimization (subject to AIA constraining factors);
- (2) Mean conditional value at risks;and
- (3) Probability distributions.

Once an efficient frontier has been developed based upon the above criteria, AIA then selects portfolios along the frontier based on:

- Projected investor performance criteria, and
- Effective portfolio spacing.

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<sup>1</sup> Our firm is not, nor required to be, a FINRA or SIPC member. Information about the Financial Industry Regulatory Authority (FINRA) or the National Futures Association (NFA) may be found at the following websites: [www.finra.org](http://www.finra.org) and [www.nfa.futures.org](http://www.nfa.futures.org). You may learn more about the Securities Investor Protection Corporation (SIPC) and how it serves member firms and the investing public by going to their website at <http://www.sipc.org>.



Portfolios are constructed using a mix of ETFs whose underlying holdings include domestic and foreign fixed income, equity securities and cash. Stocks, despite their high volatility, give investors exposure to economic growth and offer the opportunity for long-term capital gains. Stocks provide effective long-run inflation protection and are relatively tax efficient due to the favorable tax treatment on long-term capital gains and stock dividends. Bonds and bond-like securities are the most important income-producing asset classes for income-seeking investors. Although bonds have lower return expectations, they provide a cushion for stock-heavy portfolios during economic turbulence due to their low relative volatility and low correlation with stocks.

A portion of the account is held in cash reserves. The cash will be held as a cash credit in the brokerage account and will be used primarily as an efficient 'buffer' to facilitate the rebalancing of asset mix, when appropriate, and also to facilitate the collection of management fees without requiring the liquidation of securities. Generally this amount will be targeted at two percent (2%) of the entire account value. For example, for an account holding \$25,000, approximately \$500 may be held in a cash position and \$24,500 may be allocated to investments within the portfolio.

The ETFs used in portfolios are selected based upon a number of factors including: (1) reputation of issuer, (2) correlation to underlying benchmark, (3) volume/liquidity, (4) asset size/popularity, and (5) cost/expense ratio.

#### Client Tailored Services and Client Imposed Restrictions

Clients are asked to provide their information which assists our firm in recommending a portfolio for that particular investor. The accuracy of the data provided by the client is important to their investment recommendation; however, we will not be required to verify any information received from the client and AIA is expressly authorized to rely on said client thereon. Investment advice is limited to accounts managed by AIA and does not take into consideration accounts held outside of AIA. AIA does not take a client's personal tax situation into consideration when managing portfolios. We recommend that our clients consult with their tax advisor.

Our clients retain discretion over the initial implementation decisions and are free to accept or reject the initial recommendation from AIA. **If a client decides to reject the AIA Recommended Portfolio and select a different portfolio, they do so at their own risk.** Clients may place reasonable restrictions on their accounts as set forth in Item 7.

Once the client has accepted the portfolio recommendation they will be required to open a separate brokerage account in order to participate in the investment program. The client must authorize AIA to exercise discretionary trading authority over the designated account. Once the portfolio allocation has been selected, AIA will use discretion and execute trades for the initial allocation of the selected portfolio and also for ongoing rebalancing. AIA will monitor the accounts and may rebalance (a) for "drift", (b) for deposits and withdrawals, (c) to free up cash to pay for advisory fees, and (d) if AIA makes a change to the underlying investment allocations. AIA does not have the authority to remove funds or securities from your account and may only request the withdrawal of its advisory fees as described in following paragraphs.

#### **Fees**

Our firm's compensation is based on a combined annualized asset-based fee, and the calculation is determined by the account's average daily balance. Our fees will be billed monthly, in arrears, per the following table:



Assets Under Management	Annual Fee
\$2,500.00 +	0.30%

The only other fees clients will incur are the fees embedded in the securities purchased on clients' behalf; AIA does not earn or receive such fees.

#### Discounting Fees

AIA reserves the right, in its sole discretion, to negotiate, reduce or waive the advisory fee for certain client accounts for any period of time determined by AIA. In addition, AIA may reduce or waive its fees for the accounts of some clients without notice to, or fee adjustment for, other clients. Published fees may be discounted at the discretion of a member of our advisory firm's management but they are not generally negotiable.

For the benefit of discounting a client's asset-based fee, multiple accounts may be aggregated for the same individual, or two (2) or more accounts within the same family, or accounts where a family member has power of attorney over another family member's or incompetent person's account. Should account restrictions be substantially different for any two (2) or more household accounts, requiring different investment approaches or operational requirements, the firm reserves the right to apply the fee schedule separately to each account.

All forms of advisory engagements with our firm, the services to be provided and their specific fees will be detailed in our client services agreement.

#### Payment of Fees

AIA's advisory fees are calculated on a daily basis. The daily advisory fee is based on the value of Client's Account as of the close of trading on the New York Stock Exchange ("NYSE") on such day, or as of the close of markets on the immediately preceding trading day for any day when the NYSE is closed (such as weekends and holidays), multiplied by the Annual Fee and then divided by 365 (or 366 in any leap year). AIA's fees for a calendar month are equal to the sum of the daily fees for that month. Fees will be billed monthly, in arrears, and fee payments will generally be withdrawn from the account maintained at the custodian of record within the first ten (10) days of each month. AIA does not accept cash, money orders or similar forms of payment for any of its engagements, nor do we allow for direct billing.

The client's first billing cycle will begin once the agreement is executed with our firm and assets have been invested. Fees for partial months will be prorated based on the remaining days in the reporting period in which our advisory firm services the account. All fees deducted will be clearly noted on account statements that the client will receive from the custodian of record. Please note that the client shares in the responsibility to verify the accuracy of fee calculations; the custodian may not necessarily verify billing accuracy for each client. By signing our firm's advisory engagement agreement, as well as the introducing broker/dealer and/or custodian of record account opening documents, the client will be authorizing the withdrawal of fees from their account. The withdrawal of these fees will be accomplished by the introducing broker/dealer and/or the custodian of record, not by AIA, and the introducing broker/dealer and/or the custodian will remit the advisory fees directly to our firm.

#### Termination of Services

Either party may terminate the agreement at any time, which should typically be done in writing. If a client verbally notifies our firm of the termination and, if within two (2) business days following this notification our





firm has not been sent the client's written notice, our firm will make a written notice of the termination in its records and will send the client its own termination notice as a substitute.

AIA will not be responsible for future investment allocation, advice or transactional services (except for limited closing transactions) upon receipt of a termination notice. Upon termination it will also be necessary that we inform the introducing broker/dealer and/or custodian of record that the relationship between the firm and the client has been terminated.

## Services Purchased Separately

The total costs associated with a wrap fee program account may be more or less than separately purchasing brokerage and advisory services. The factors that bear upon the relative costs of any wrap fee program include the number of and timing of transactions, referral fees (if any), portfolio management and custody fees; regulatory, compliance and administrative charges; research costs, promotional materials, among others. These and other factors may affect the cost of obtaining these services separately from another provider.

## Additional Client Fees

There are no sales loads, brokerage fees, mark-ups, mark-downs, spreads paid to market makers, or brokerage termination or account surrender fees associated with most of our programs. A client may, however, incur certain separate charges imposed by Ally Invest Securities or Apex such as: wire transfer and electronic fund fees, retirement plan custodial or account termination fees, in addition to certain taxes on non-retirement brokerage accounts which will be described in the fee schedule that will be provided to the client prior to account inception. A current list of these fees can be found at <https://www.ally.com/invest/>.

## Compensation Matters

Associates of AIA do not receive a portion of the advisory fee our firm assesses. Clients should always consider other programs offered by our affiliates or other firms, as well as whether paying separately for investment advice, brokerage, and/or other services is more appropriate for their personal situation.

## General Information

### Third Party Agreements

In addition to the Advisory Agreement you enter into with AIA, the Wrap Fee Program also requires that you open a brokerage account with our broker-dealer affiliate, Ally Invest Securities. You will need to complete a brokerage account application and agree to Ally Invest Securities' client agreement to maintain the assets and effect all transactions in your AIA account.

Apex, an unaffiliated broker-dealer, acts as Ally Invest Securities' clearing firm and holds (or custodies) the assets in your portfolios.

In addition to the terms and conditions of the Advisory Agreement with AIA and the brokerage agreement with Ally Invest Securities, you will be subject to the terms and conditions of each ETF's prospectus or similar disclosure documents, including any underlying fees and expense ratios described therein.

### Custody

AIA's client assets will be maintained in a separate account in the client's name by Ally Invest Securities who then clears and settles trades at Apex. Client assets are not physically maintained by AIA. Instead, Ally Invest



Securities processes client checks and deposits them into client accounts with the custodian of record, Apex. In keeping with this policy involving client funds or securities, AIA:

- Restricts AIA associates from serving as trustee or having general power of attorney over a client account;
- Prohibits AIA associates from having authority to directly withdraw securities or cash assets from a client account. Advisory fees will only be withdrawn from a client investment account through the engagement of a qualified custodian maintaining client account assets and with prior written client approval (termed "constructive custody");
- Ensures that Ally Invest Securities maintains strict policies and procedures relating to check handling and processing;
- Does not accept or forward client securities (i.e., stock certificates) erroneously delivered or received by AIA;
- Will not collect advance fees of \$1,200 or more for services that are to be performed six (6) months or more into the future; and
- Will not authorize an AIA associate to have knowledge of a client's account access information (i.e., online 401(k), brokerage or bank account passwords) when such access might result in physical control over client assets.

Clients will be provided with transaction confirmations and summary account statements prepared by the custodian of record. Typically statements are provided on at least a quarterly or more frequent basis. AIA will not create an account statement for a client nor serve as the sole recipient of client account statements. Clients are urged to carefully review and compare their account statements that they have received from their custodian of record with any performance report they may receive from our firm.

#### Firm Services

AIA will use its best judgment and good faith effort in rendering its services to its clients. The firm cannot warrant or guarantee any particular level of account performance, or that an account will be profitable over time. Past performance is not indicative of future results.

Except as may otherwise be provided by law, we will not be liable to the client, heirs, or assignees for any loss an account may suffer by reason of an investment decision made or other action taken or omitted in good faith by our firm with that degree of care, skill, prudence and diligence under the circumstances that a prudent person acting in a fiduciary capacity would use; any loss arising from adherence to direction of the client or their attorney-in-fact may provide; any act or failure to act by a service provider maintaining an investment account.

Federal and state securities laws impose liabilities under certain circumstances on persons who act in good faith and, therefore, nothing contained in this document or the firm's client agreement shall constitute a waiver of any rights that a client may have under federal and state securities laws.

#### Interest on Cash Balances

Cash balances held in your Ally Invest Securities account managed by AIA that are pending investment as well as any allocated cash funds within your account may be invested in money market funds by Apex. The cash balances may be invested with Ally Bank (an affiliate of AIA), in an unsegregated account held by Apex. Ally Bank and Ally Invest Securities may earn interest on the cash balances and Apex may or may not pay you interest on the cash balances.



### Payment for Order Flow

AIA's affiliated broker-dealer, Ally Invest Securities, is compensated when it places orders on behalf of AIA that are executed through Apex. This industry practice is generally known as "payment for order flow" and consists of a small per-share rebate when an order is executed. Ally Invest Securities does not share such compensation with AIA. Both AIA and Ally Invest Securities monitor execution quality to ensure that all orders are executed at prices equal to or better than the displayed applicable national best bid/offer price.

### Trading Error Corrections

Any gains resulting from trade errors may be returned to the client or donated to charity.

## Item 5 – Account Requirements and Types of Clients

### **Account Requirements**

#### Account Minimum

The minimum initial deposit for new accounts is \$2,500. The initial minimum funding amount must be met before advisory services will begin. Once the initial minimum is met the firm will manage accounts regardless of account balance until either: (1) a full withdrawal request made by the client to liquidate and close the account ("Termination of Services") or (2) a withdrawal request is made by the client that would bring the account below the minimum. Any disbursement (withdrawal) of funds that would bring an account below the \$2,500 minimum will be processed as a full withdrawal and initiate Termination of Services.

#### Account Opening Process

In order for AIA to allocate the investment allocation to the brokerage account, the client is required to first fund the account. Instructions for funding will be provided interactively on the website during the brokerage account opening process. Once the minimum investment level for the specified allocation is reached the available cash will be allocated.

AIA will have discretionary authority over original securities deposited to the account that are not part of the model portfolio the client has selected. Unless instructed by the client to transfer those securities out of the account, AIA will liquidate them. The cash from the sale of the securities will be invested in the appropriate model portfolio assuming the investment minimums are met. Liquidation of securities deposited may be subject to capital gains. Clients are responsible for all taxes as well as any early surrender/sales loads for mutual funds transferred to AIA and subsequently liquidated for investment. No commissions will be charged on the sale of the securities. There may be additional fees charged by the broker/dealer for securities transfer.

It remains each client's ongoing responsibility to promptly update their information with our firm when there is a material change to their situation and/or investment objective for the purpose of evaluating or revising previous account restrictions or portfolio recommendations.

### **Types of Clients Served by the Firm**

AIA generally provides its advisory services to:

- Individuals
- High Net Worth Individuals
- Corporations or Business Entities



## Types of Clients Served within the Program

We generally offer the wrap fee program to individuals and high net worth individuals; however, we will include corporations and other business entities should their investment guidelines permit us to do so. AIA reserves the right to waive or reduce certain fees based on unique individual circumstances, special arrangements, pre-existing relationships, or as otherwise may be determined by our firm. We also reserve the right to decline services to any prospective client for any non-discriminatory reason.

## Item 6 – Portfolio Selection and Evaluation

AIA's advice is rendered through its online technology and is set up to be run by the client. Performance reports are available for the client when they access the firm's service platform, and clients have unlimited access to the system as long as their account remains open with our advisory firm. This access also provides the client the ability to generate various reports to gauge their account progress. AIA's online performance reports are calculated using a time-weighted methodology. The methodology is programmed into our portfolio administration systems, and, to ensure accuracy, periodic back-testing is conducted by our supervisory staff and/or qualified third-parties. Time-weighted reporting compounds daily portfolio-level returns from the period the account had been originally funded until the present time. Reports are intended to inform our clients about investment performance on both an absolute basis and as compared to a known benchmark. We believe these are appropriate methods to evaluate portfolio performance since they are not sensitive to the contributions or withdrawals the client makes to their account. We do not validate performance reports created by systems external to ours, and cannot attest as to whether they are calculated on a uniform and consistent basis.

Performance reports are for informational purposes only, and are not intended to replace statements and/or confirmations which are the official account records provided by the custodian of record. Clients will receive electronic account statements prepared by the custodian of record on at least a quarterly basis. AIA does not create an account statement for an advisory client, and we urge clients to carefully review statements they receive from the custodian of record for accuracy and clarity.

## Risk Considerations

### Investment Strategy and Method of Analysis Material Risks

Our investment portfolios are designed to produce the appropriate potential return for the given level of risk; however, we cannot guarantee that an investment objective or planning goal will be achieved. As an investor, each client must be able to bear the risk of loss that is associated with their account, which may include the loss of some or all principal invested. The following paragraphs offer examples of such risk.

### Company Risk

When investing in securities, there is always a certain level of company or industry-specific risk that is inherent in each company or issuer. For example, there is the risk that a company will perform poorly or have its value reduced based on factors specific to the company or its industry. This is also referred to as *unsystematic risk* and can be reduced or mitigated through diversification.

### Financial Risk

Excessive borrowing to finance a business operation increases profitability risk 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.



### Fundamental Analysis

The challenges involving fundamental analyses include situations wherein information obtained may be incorrect; the analysis may not provide an accurate estimate of earnings which may be the basis for a security's value. If a security's price adjusts rapidly to new information, a fundamental analysis may result in unfavorable performance.

### Inflation Risk

When any type of inflation is present, a dollar today will not buy as much as a dollar next year because purchasing power is eroding at the rate of inflation.

### Management Risk

An investment with a firm varies with the success and failure of its investment strategies, research, analysis and determination of its portfolio. If an investment strategy were not to produce expected returns, the value of the investment would decrease.

### Market Risk

When the stock market as a whole or an industry as a whole falls in value, it can cause the prices of individual stock prices to fall indiscriminately. This is also called *systemic* or *systematic* risk.

### Passive Investing

A portfolio that employs a passive, "efficient markets" approach (generally representative of index investing) has the potential risk at times to generate lower-than-expected returns for the broader allocation than might be the case for a more narrowly focused asset class, and the return on each type of asset may deviate from the average return for the asset class. We believe this variance from the expected return is generally low under normal market conditions when a portfolio is made up of diverse, low-correlated or non-correlated assets.

### Research Data

When research and analyses are based on commercially available software, rating services, general market and financial information, or due diligence reviews, a firm is relying on the accuracy and validity of the information or capabilities provided by selected vendors, rating services, market data, and the issuers themselves. Therefore, while our firm makes efforts to determine the accuracy of the information received, we cannot predict the outcome of events or actions taken or not taken, or the validity of all information researched or provided which may or may not affect the advice regarding or investment management of an account.

### Security-Specific Risks

AIA asset selection process seeks to identify ETFs which exhibit high liquidity, low expenses, and low tracking error. AIA's selection process does not guarantee the quality of a particular ETF or that it will (1) be profitable, (2) properly track any comparable index, (3) trade in a liquid fashion, or (4) trade at or above its publicly-posted net asset value. AIA reserves the right to change the selection of ETFs it recommends at any time. Changes in the selection of ETFs employed by AIA services may result in the sale of existing holdings and could be subject to additional tax liability.

### Use of Algorithms

AIA incorporates computer-based technology to make investment recommendations and in the portfolio management processes – primarily through the use of algorithms designed to optimize various elements of wealth management. Accounts are continuously monitored by advisory personnel to ensure the investments held correctly reflect the selected model portfolio. You should be aware that this type of portfolio management is based on a pre-set investment allocation that could rebalance your account and not take certain market conditions into consideration. Such trading may occur on a more frequent basis than you might

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expect and may not address prolonged changes in market conditions. Understand that changes to the algorithmic code could also have material effects on Clients' portfolio recommendations and investment management. In the event of extraordinary market conditions, AIA may halt trading or take other temporary measures meant to ensure your financial protection.

## Alternative Investments

Strategies involving "alternative" investments generally include those which do not fall into equity, fixed income or cash equivalents. Such investments would include "real assets" such as real estate and commodities, and alternative strategies such as absolute return strategies and various other hedge fund-type strategies: global macro, managed futures, long/short equity, multi-strategy, event driven, private equity, etc. The goal of these alternative strategies is to provide for diversification in order to lower portfolio volatility and enhance long-term returns. The alternative investments we recommend are managed through ETFs; they are not individual holdings. The potential risks involving these underlying investments may include:

*Hedge Funds* – Many hedge funds are structured as private placements; relying on Regulation D (Rule 506) offering rules which generally requires investors to be "accredited" and many hedge funds have other additional requirements. More recently, hedge funds have been offered to a wider public via a "fund-of-funds" hedge fund vehicle. Hedge funds have a broad range of underlying strategies and holdings, and may not be as transparent or have the same level of liquidity as other more commonly known investments. They may also have higher management fees and/or operating expenses.

*Managed Futures Accounts* – Managed futures accounts are alternative investments that employ long and short positions in futures contracts, forwards and options to provide portfolio diversification among various types of investment styles and asset classes in an effort to moderate portfolio risk. Managed futures accounts allow investors to leverage their investment with the use of notional funding, which allows an investor to put up only a portion of the required minimum investment but trade at a higher level of exposure. This may result in larger earnings or losses, as well as higher management fees, relative to the actual amount invested.

*Private Equity* – Investments in private equity often involve investment of capital into or the acquisition of an operating business enterprise; capital is frequently sourced from institutional investors. There are a broad range of private equity types and they generally fall into categories such as: (i) leveraged buyouts, (ii) growth capital, (iii) distressed debt or turnaround strategies, (iv) mezzanine capital, (v) secondaries, and (vi) venture capital. In general, private equity investing is often offered directly to qualified investors as well as through fund-of-funds structures. While such holdings may generate above average returns for an investor, they typically are less transparent, less liquid and may involve greater risk, and they typically have a higher fee structure than traditional investments.

*Real Estate Investment Trusts ("REITs")* – Risks involved in REIT investing may include: (i) following the sale or distribution of assets an investor may receive less than their principal invested, (ii) a lack of a public market in certain issues, (iii) limited liquidity and transferability, (iv) fluctuations involving the value of the assets within the REIT, (v) a reliance on the investment manager to select and manage assets, (vi) changes in interest rates, laws, operating expenses, and insurance costs, (vii) tenant turnover, and (viii) the impact of current market conditions.

## Equity (Stock) Market Risk

Common stocks are susceptible to general stock market fluctuations and to volatile increases or decreases in value as market confidence in and perceptions of the company who issued the stock change. If an investor held common stock, or common stock equivalents, of any given company, they



would generally be exposed to greater risk than if they held preferred stock and/or debt obligations of the company. Common stocks are often holdings within mutual funds and ETFs.

#### ETF and Mutual Fund Risks

The risk of owning ETFs and mutual funds reflect the risks of their underlying securities (e.g., alternative investments, stocks, bonds, etc.). ETFs and mutual funds also carry additional expenses based on their share of operating expenses and certain brokerage fees, which may result in the potential duplication of certain fees. Also, some mutual funds may be too large to adjust quickly in response to market fluctuations, meaning that investors may miss out on gains or be exposed to losses for a longer time than if they were in a more nimble portfolio.

#### Fixed Income Risks

Various forms of fixed income instruments, such as bonds, money market or bond funds, or certain ETFs containing these holdings, may be affected by various forms of risk, including:

Credit Risk – The potential risk that an issuer would be unable to pay scheduled interest or repay principal at maturity, sometimes referred to as “default risk.” Credit risk may also occur when an issuer’s ability to make payments of principal and interest when due is interrupted. This may result in a negative impact on all forms of debt instruments, as well as funds or ETF share values that hold these issues. Bondholders are creditors of an issuer and have priority to assets before equity holders (i.e., stockholders) when receiving a payout from liquidation or restructuring. When defaults occur due to bankruptcy, the type of bond held will determine seniority of payment.

Duration Risk – Duration is a measure of a bond’s volatility, expressed in years to be repaid by its internal cash flow (interest payments). Bonds with longer durations carry more risk and have higher price volatility than bonds with shorter durations.

Interest Rate Risk – The risk that the value of the fixed income holding will decrease because of an increase in interest rates.

Liquidity Risk – The inability to readily buy or sell an investment for a price close to the true underlying value of the asset due to a lack of buyers or sellers. While certain types of fixed income instruments are generally liquid (i.e., bonds), there are risks which may occur such as when an issue trading in any given period does not readily support buys and sells at an efficient price. Conversely, when trading volume is high, there is also a risk of not being able to purchase a particular issue at the desired price.

Reinvestment Risk – With declining interest rates, investors may have to reinvest interest income or principal at a lower rate.

#### Index Investing

Index investing may have the potential to be affected by “active risk” (or “tracking error risk”), which might be defined as a deviation from a stated benchmark. If a portfolio attempts to closely replicate a stated benchmark, the source of the tracking error or deviation may come from a satellite portfolio or position, or from a “sample” or “optimized” index fund or ETF that may not as closely align the stated benchmark. In these instances, a portfolio manager may choose to reduce the weighting of a satellite holding, utilize very active satellites, or use a “replicate index” position as part of its core holdings to minimize the effects of the tracking error in relation to the overall portfolio.





### ***Qualified Dividend Income ("QDI") Ratios***

While many ETFs and index mutual funds are known for their potential tax-efficiency and higher QDI percentages, there are asset classes within these investment vehicles or holding periods within that may not benefit. Shorter holding periods, as well as commodities and currencies (that may be part of an ETF or mutual fund portfolio), may be considered "non-qualified" under certain tax code provisions. A holding's QDI should be considered when tax-efficiency is an important aspect of the client's portfolio.

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

AIA's advisory fees will not be based upon a share of capital gains or capital appreciation (growth) of any portion of managed funds (known as performance-based fees) because of the potential conflict of interest this type of fee structure may pose. Our compensation will also not be based on side-by-side management, which refers to a firm simultaneously managing accounts that do pay performance-based fees (such as a hedge fund) and those that do not. This type of arrangement and the conflict of interest it may pose does not conform to our firm's practices.

### **Voting Client Securities**

Clients may periodically receive "proxies" or other similar solicitations sent directly from their custodian of record or transfer agent. We do not forward these or any correspondence relating to the voting of client securities, class action litigation, or other corporate actions if we receive a duplicate copy.

Our firm does not vote proxies on behalf of our clients nor do we offer specific guidance on how to vote proxies. In addition, we will not offer guidance involving any claim or potential claim in any bankruptcy proceeding, class action securities litigation or other litigation or proceeding relating to securities held at any time in a client account, including, without limitation, to file proofs of claim or other documents related to such proceeding, or to investigate, initiate, supervise or monitor class action or other litigation involving client assets.

Clients will maintain exclusive responsibility for directing the manner in which proxies solicited by issuers of securities that they beneficially own shall be voted, as well as making all other elections relative to mergers, acquisitions, tender offers or other legal matters or events pertaining to a client's holdings. Clients should consider contacting the issuer or their legal counsel involving specific questions they may have with respect to a particular proxy solicitation or corporate action.

## **Item 7 – Client Information**

Investment services are provided through our digital platform (online and mobile). We gather information from the client about their financial situation, investment objectives, and risk tolerance. This data is then used to determine the appropriate model allocation for the client.

### **Discretionary Account Management**

Our model portfolios are strictly managed on a discretionary basis (authority). Similar to a limited power of attorney, discretionary authority allows our firm to implement previously determined investment strategies and subsequent trading decisions, such as the purchase or sale of a security, without requiring the client's prior authorization for each transaction in order to meet stated investment objective(s). This authority will be granted by the client through the execution of our firm's client engagement agreement, as well as the





custodian of record's limited power of attorney form or clause that may be part of their account opening documents. The custodian of record will be directed to specifically limit our advisory firm's authority within the client account to the placement of trade orders and our request for the deduction of our advisory fee. Our clients retain the right to terminate our account authority; however, we will require they close the account with our advisory firm.

Clients may impose reasonable restrictions upon the management of their AIA account by requesting that AIA reallocate to an alternative Managed Portfolio in place of the Managed Portfolio initially purchased. AIA will not accept Client requests for restrictions that are inconsistent with AIA's stated investment strategy or philosophy or that are inconsistent with the nature or operation of AIA's wrap-fee program. As a result, requests for restrictions on the underlying ETFs held in the Managed Portfolios or their underlying allocation are not considered reasonable and will not be accepted. Such restrictions could result in a strategy that differs from the AIA Managed Portfolio recommendation and may not meet the time horizon, financial goals and investment objectives of the Client. Any restrictions requested by Clients are subject to acceptance by AIA at its sole discretion.

## **Item 8 – Client Contact**

Clients may contact AIA representatives by phone, email and chat 24 hours a day 7 days a week ("24/7").

## **Item 9 – Additional Information**

### **Disciplinary Information**

Neither AIA nor any member of its management has been involved in a material criminal or civil action in a domestic, foreign or military jurisdiction, an administrative enforcement action, or self-regulatory organization proceeding that would reflect poorly upon our firm's advisory business or the integrity of our firm.

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

AIA's policies require the firm and its associates to conduct business activities in a manner that avoids or appropriately mitigates conflicts of interest including those between the firm, its associates, and its clients, or with any other party that may be contrary to law. We will provide disclosure to each client prior to and throughout the term of an engagement regarding any conflicts of interest that might reasonably compromise our impartiality or independence.

Ally Invest Securities and Ally Invest Group provide services to support AIA per an intercompany agreement. These services may include brokerage services, customer technical support, marketing functions, operational support and other types of services. Management persons of AIA may also serve as management persons of Ally Invest Securities and Ally Invest Group.

AIA is neither registered nor has an application pending to register as a Financial Industry Regulatory Authority ("FINRA") or National Futures Association ("NFA") member firm, nor are we required to be or to do so. Members of our advisory firm's management may be associated persons with Ally Invest Securities; an affiliate of AIA under common control of Ally Invest Group.



Ally Invest Securities is a FINRA member and introducing broker/dealer for Apex. We execute advisory client trades with our custodian of record through Ally Invest Securities. Accordingly, we require our advisory clients to open an account with Ally Invest Securities.

We have the following affiliates: Ally Invest Securities LLC, Ally Invest Futures LLC, a NFA member firm, and Ally Invest Forex LLC, a NFA member firm and are wholly owned subsidiaries of Ally Invest Group Inc. Ally Invest Group Inc. and Ally Bank are wholly owned subsidiaries of Ally Financial, Inc. Additional information about these relationships and potential conflicts of interest are described in other sections of this brochure.

As noted above, AIA has affiliates that may benefit from the assets held in the accounts AIA's clients maintain at Ally Invest Securities. For more information please see the Interest on Cash Balances and Payment for Order Flow sections, above, or visit our disclosures page at <https://www.ally.com/invest/disclosures>.

Other than the disclosed indirect ownership by Ally Financial Inc., a financial institution, neither our firm nor its management is, or has, a material relationship with any of the following types of entities:

- accountant or accounting firm<sup>2</sup>
- lawyer or law firm
- real estate broker or dealer
- pension consultant
- sponsor or syndicator of limited partnerships
- issuer of a marketable security
- investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund)

## Code of Ethics Description

Our firm has adopted a Code of Ethics that establishes policies for ethical conduct for all its personnel, and accepts the obligation not only to comply with all applicable laws and regulations but also to act in an ethical and professionally responsible manner in all professional services and activities. Firm policies include prohibitions against insider trading, circulation of industry rumors, and certain political contributions, among others. Our firm periodically reviews and amends its Code of Ethics to ensure they remain current, and requires all personnel to annually attest to their understanding of and adherence to the Code of Ethics. A copy of the firm's Code of Ethics is made available to any client or prospective client upon request.

## Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest

No associate of the firm is authorized to recommend to a client, or effect a transaction for a client, involving any security in which the firm or a "related person" (e.g., associate, an immediate family member, etc.) has a material financial interest, such as in the capacity as an underwriter or advisor to an issuer of securities, etc.

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<sup>2</sup> Firm personnel may be qualified as an accountant or attorney and be a member of their respective professional association; however, our firm does not have an affiliate that holds out a separate legal or accountancy practice or offers such services to advisory clients.



An associate is prohibited from borrowing from or lending to a client unless the client is an approved financial institution.

## **Advisory Firm/Personnel Purchases of Same Securities Recommended to Clients and Conflicts of Interest**

For the purpose of performance tracking, AIA invests its own funds in its own managed portfolios. AIA does not trade for its own account (e.g., proprietary account trading) for the purpose of generating revenue, tax harvesting, etc. The firm's related persons may buy or sell securities that are the same as, similar to, or different from, those recommended to clients for their accounts. A recommendation made to one client may be different in nature or in timing from a recommendation made to a different client; clients often have different objectives and risk tolerances.

At no time will the firm or a related person receive preferential treatment over a client. In an effort to reduce or eliminate certain conflicts of interest involving personal trading (i.e., trading ahead of a client's order, etc.), firm policy requires the restriction or prohibition of related parties' transactions in specific securities. Any exceptions or trading pre-clearance must be approved by our Chief Compliance Officer in advance of the transaction in a related person's account, and the firm maintains required personal securities transaction records per regulation.

## **Review of Accounts**

### Schedule for Periodic Review of Client Accounts

Our firm's advice is rendered through our digital platform (online and mobile) and is designed to be operated by the user (client) themselves. Clients have unlimited access to review their account, portfolio allocation, employ systems' functionality and provide updates as necessary.

### Review of Client Accounts on Non-Periodic Basis

Non-periodic reviews may occur by assigned staff and/or our programmed systems when they are triggered by material market, economic or political events, or by changes in client's financial situations (e.g., changes in employment, relocation, an inheritance, etc.). Clients should consider revisiting previously entered data to update their information if a material event has occurred so that our firm via its systems is able to review and potentially adjust the client's portfolio.

## **Client Referrals and Other Compensation**

### Economic Benefit from External Sources and Potential Conflicts of Interest

As a fiduciary, AIA endeavors to put the interests of its clients first, and it is important to mention that any benefit received by our firm through a custodian does not depend on the amount of brokerage transactions directed to that custodian. In addition, we believe that the selection of a custodian is in the best interests of our clients since the selection is primarily supported by the scope, quality, and cost of services provided as a whole -- not just those services that benefit only our advisory firm.

AIA may participate in promotional campaigns involving affiliates. These events may be delivered to affiliate company clients in the form of emails, ads on the [www.ally.com](http://www.ally.com) website, or through other channels. These promotions may include reduced or waived fee arrangements for AIA and they may also include cross-company promotions. A client may be required to maintain certain asset levels in order to be eligible to receive such an incentive.



#### Advisory Firm Payments for Client Referrals

If a client is introduced to our advisory firm by a solicitor, current client, affiliate marketer and other strategic partners, the firm may pay them a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, as amended, and any corresponding state securities law requirements. Any such referral fee will be paid from the firm's investment management fee and does not result in additional charge(s) to the client. New clients are advised of such compensation prior to opening an account. AIA supervises the referral activities of solicitors, current clients, affiliate and other strategic partners.

#### **Financial Information**

AIA does not take physical custody of client accounts, nor do we require or solicit prepayment of more than \$1,200 in fees per client for services to be performed six (6) months or more in advance. Neither the firm nor any member of its management serves as general partner for a partnership or trustee for a trust in which the firm's advisory clients are either partners of the partnership or beneficiaries of the trust. Therefore, due to the nature of our advisory services, an audited balance sheet is not required nor included in this disclosure.

The firm and its management do not have a financial condition likely to impair the ability to meet contractual commitments to our advisory clients, nor has the firm and its management been the subject of a bankruptcy petition at any time during the past ten (10) years, or ever.



## **Ally Invest Advisors Inc.**

11605 N. Community House Rd. Calhoun Bldg. Third Floor  
Charlotte, North Carolina 28277  
(855) 880-2559  
[www.ally.com/invest/managed-portfolios](http://www.ally.com/invest/managed-portfolios)

Form ADV Part 2B

Client Brochure Supplement  
October 12, 2018

The Brochure Supplement provides information about certain Ally Invest Advisors employees listed below that supplement the Ally Invest Wrap Fee Brochure you should have received above. Please contact Ally Invest Advisors at (855) 880-2559 or [support@invest.ally.com](mailto:support@invest.ally.com) if you did not receive the Ally Invest Wrap Fee Brochure or if you have any questions about the contents of this Brochure Supplement. Additional information about Ally Invest Advisors Supervised Persons is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Ally Invest Advisors discretionary investment advice is provided by a team of Supervised Persons, and Ally Invest Advisors has provided supplementary information below for the Supervised Persons with the most significant responsibility for the day-to-day advice provided to Clients. Registration with the SEC does not imply a certain level of skill or training.

**Tom Desmond**

*Born 1966*

Education

BA, English, University of Notre Dame

MA, English, Michigan State University

MBA, Northwestern University – Kellogg School of Management

Business Background

1990 – 1993 Senior Manager, Morningstar, Inc.

1995 – 2000 Vice President, Investment Banking, Robert W. Baird & Co.

2000 – 2005 Partner, Managing Director, Baird Venture Partners

2005 – 2012 Chief Growth Officer, Ally Invest Group (formerly TradeKing Group)

2012 – Present Chief Financial Officer, Ally Invest Group & President, Ally Invest Advisors

Disciplinary Information

There are no legal or disciplinary events to report.

Other Business Activities

There are no other business activities to report.

Additional Compensation

There is no additional compensation to report.

Supervision

Mr. Desmond is supervised by Rich Hagen, President, Ally Invest Group, Inc.

**Mitesh Patel, CFA**

*Born 1980*

Education

BS, Economics & Financial Management, Clemson University

Business Background

2002 – 2005 Balance Sheet & Economic Analyst, Corporate Treasury, Bank of America

2005 – 2007 Fixed Income Trader, Corporate Investments, Bank of America

2007 – 2009 Senior Trader, Round Table Investment Management Company

2009 – 2014 Director, Global Capital Markets, Ally Financial

2014 – 2016 SVP, Interest Rates & Macro Hedging, Cerberus Capital Management

2016 – 2018 MD, Liquid Product Strategy, Elevation Securities

2016 – 2018 Investment Strategist, Variant Perception

2018 – Present Senior Director, Ally Invest Advisors

Disciplinary Information

There are no legal or disciplinary events to report.

Other Business Activities

n/a

Ally Invest Advisors Inc.

Form ADV Part 2B – Updated October 1, 2018

Additional Compensation

There is no additional compensation to report.

Supervision

Mr. Patel is supervised by Tom Desmond.

**Carlton Brent Jones**

*Born 1987*

Education

BS, Business Administration, University of Richmond

Business Background

2009 – 2012 Financial Consultant, Wells Fargo Advisors

2012 – 2015 Program Manager, TradeKing Advisors

2015 – Present Product Manager, Ally Invest Advisors

Disciplinary Information

There are no legal or disciplinary events to report.

Other Business Activities

There are no other business activities to report

Additional Compensation

There is no additional compensation to report.

Supervision

Mr. Jones is supervised by Tom Desmond.

**Brian Dennen**

*Born 1975*

Education

BS, Economics, University of California, San Diego

Business Background

1999 – 2002 Compliance Manager, Mr. Stock Inc.

2002 – 2004 Chief Compliance Officer, Redwood Trading LLC

2004 – 2006 Institutional Equity Sales, Terra Nova Trading

2006 – 2007 Director of Operations, Urchin Capital Partners

2009 – 2010 Director, Transcend Capital

2010 – 2011 Managing Director, Livevol Securities Inc.

2012 – 2016 CEO, CCO, FinOp, Wealthfront Brokerage Corp.

2016 – Present Senior Compliance Director, Ally Invest Advisors

Disciplinary Information

Ally Invest Advisors Inc.

Form ADV Part 2B – Updated October 1, 2018

On November 13, 2015, Mr. Dennen, without admitting or denying the findings, entered into an AWC<sup>1</sup> with FINRA. The AWC was related to improper reporting of a Professional Customer in 2011 while employed with Livevol Securities. Mr. Dennen consented to a fine of \$15,000 and suspension as a securities principal for one week.

Other Business Activities

Mr. Dennen serves as a Senior Compliance Manager for Ally Invest Securities.

Additional Compensation

There is no additional compensation to report.

Supervision

Mr. Dennen is supervised by Craig Pinkston, Chief Compliance Officer for Ally Invest Advisors.

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<sup>1</sup> Letter of Acceptance, Waiver and Consent