

# **Sky Alpha Asset Advisors LLC**

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## **FORM ADV PART 2A BROCHURE**

This brochure provides information about the qualifications and business practices of Sky Alpha Asset Advisors LLC. If you have any questions about the contents of this brochure, contact us at 561-410-7790. 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 Sky Alpha Asset Advisors LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Sky Alpha Asset Advisors LLC is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## Item 2 Summary of Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since the approval of the firm's investment adviser registration on May 3, 2018, we have the following material changes to report:

- Our name, business address, and business telephone number has changed. Refer to the cover page for our contact information.
- Our ownership structure has changed. Michael J. Shatsky and Alex Lee are the owners of our firm.
- We have updated our brochure to clarify that we charge up to 1.50% for portfolio management services. For more information on our fees, refer to Item 5.
- We have updated our brochure to disclose that we may charge performance-based fees and participate in side-by-side management. For more information on these topics, refer to Item 6.
- We have updated our brochure to provide specific brokerage disclosures for TD Ameritrade, Inc. and Fidelity. For more information on this topic, refer to Item 12 and Item 18.

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## Item 4 Advisory Business

### Description of Firm

Sky Alpha Asset Advisors LLC is a registered investment adviser based in Boca Raton, Florida. We are organized as a limited liability company ("LLC") under the laws of the State of Florida, and have been providing investment advisory services since August 2018. Michael J. Shatsky and Alex Lee are the owners of our firm.

The following paragraphs describe our services and fees. Please refer to the description of each investment advisory service listed below for information on how we tailor our advisory services to your individual needs. As used in this brochure, the words "we," "our," and "us" refer to Sky Alpha Asset Advisors LLC and the words "you," "your," and "client" refer to you as either a client or prospective client of our firm.

### Portfolio Management Services

Our firm offers portfolio management services that consist of discretionary portfolio management services where investment advice is tailored to meet your individual circumstances and investment objectives. These services include an initial discovery consultation, ongoing review consultations, as may be agreed, to discuss your unique financial situation and changing needs over time. We will ask that you complete certain investor questionnaires, on-boarding forms, and/or other documents to assist us in gathering information about your financial needs and circumstances. This would include your investment experience, investment objectives, time horizon, liquidity needs, risk tolerance, tax circumstances, and various other financial factors necessary for us to develop a complete investor profile.

Based on our evaluation of the foregoing factors, we will use the information we gather to develop a strategy that enables our firm to give you continuous and focused investment advice and/or to make investments on your behalf. Once we construct an investment portfolio for you we will monitor your portfolio's performance on an ongoing basis and will rebalance the portfolio as appropriate. Depending on your individual needs, we may create a custom portfolio for you or we may invest your assets according to one or more model portfolios developed by our firm. All terms of your advisory engagement will be agreed upon before implementation and evidenced in a written agreement between you and our firm. Clients are required to notify our firm immediately if their financial circumstances and/or investment objectives change from what has already been disclosed to our firm.

We do not participate in a wrap fee program. For information on the investment strategies, our methods of analysis, and how we might manage your account(s), please see Item 8 (*Methods of Analysis, Investment Strategies and Risk of Loss* section) of this Disclosure Brochure. For information on the discretionary management authority we offer under our portfolio management services, please see Item 16 (*Investment Discretion* section) of this Disclosure Brochure.

### Financial Planning and Consulting Services

We provide financial planning services as a stand-alone service where we offer modular, consultative, and/or broad-based financial planning services. These services generally involve a variety of advisory services regarding the management of the client's financial resources based upon an analysis of their individual needs. If you retain our firm, we will meet with you to gather information about your financial circumstances and objectives. As required, we will conduct follow-up interviews for the purpose of reviewing and/or collecting additional financial data. Once such information has been reviewed and analyzed, we will provide you with our recommendations designed to help you achieve your stated financial goals and objectives.

Our recommendations are based on your financial situation at the time we provide our recommendations, and on the financial information you provide to our firm. You will always have the right to accept or reject our recommendations. All terms of the financial planning engagement, including specific services to be performed, will be evidenced in a written agreement between you and our firm.

### **Pension Consulting Services**

We offer pension consulting services to employee benefit plans and their fiduciaries based upon the needs of the plan and the services requested by the plan sponsor or named fiduciary. In general, these services may include an existing plan review and analysis, plan-level advice regarding fund selection and investment options, education services to plan participants, investment performance monitoring, and/or ongoing consulting. These pension consulting services will generally be non-discretionary and advisory in nature. The ultimate decision to act on behalf of the plan shall remain with the plan sponsor or other named fiduciary.

We may also assist with participant enrollment meetings and provide investment-related educational seminars to plan participants on such topics as: Diversification; Asset allocation; Risk tolerance; and, Time horizon. Our educational seminars may include other investment-related topics specific to the particular plan.

As disclosed above, we offer various levels of advisory and consulting services to employee benefit plans ("Plan") and to the participants of such plans ("Participants"). The services are designed to assist plan sponsors in meeting their management and fiduciary obligations to Participants under the Employee Retirement Income Securities Act ("ERISA"). Pursuant to adopted regulations of the U.S. Department of Labor, we are required to provide the Plan's responsible plan fiduciary (the person who has the authority to engage us as an investment adviser to the Plan) with a written statement of the services we provide to the Plan, the compensation we receive for providing those services, and our fiduciary status. The services we provide to your Plan are described above, and in the service agreement that you will sign with our firm. Our compensation for these services will be clearly stated in the service agreement. We do not reasonably expect to receive any other compensation, direct or indirect, for the services we provide to the Plan or Participants, unless the plan sponsor directs us to deduct our fee from the plan or directs the plan record-keeper to issue payment for our fee out of the plan. If we receive any other compensation for such services, we will (i) offset the compensation against our stated fees, and (ii) we will promptly disclose the amount of such compensation, the services rendered for such compensation and the payer of such compensation to you.

We provide services to the Plan and Participants as a registered investment adviser that is not subject to any disqualifications under Section 411 of ERISA. To the extent we perform fiduciary services, we are acting as a fiduciary of the Plan as defined in Section 3(21) under ERISA.

### **Assets Under Management**

As of January 1, 2019, we provide continuous management services for \$228,315,995 in client assets on a discretionary basis.

## **Item 5 Fees and Compensation**

### **Portfolio Management Services**

Our fee for portfolio management services is based on a percentage of the assets in your account, which ranges up to 1.50% depending on individual client circumstances. Our annual portfolio management fee is billed and payable quarterly in advance based on the balance of your account at end of the billing period (last trading day of the previous calendar quarter). If the portfolio management agreement is executed at any time other than the first day of a calendar quarter, our fees will apply on

a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the quarter for which you are a client. Our advisory fee is negotiable, depending on individual client circumstances.

We will deduct our fee directly from your account through the qualified custodian holding your funds and securities. We will deduct our advisory fee only when you have given our firm written authorization permitting the fees to be paid directly from your account. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account, and you should review all statements for accuracy. If you have any questions about the statement(s) you receive from the qualified custodian, please call our main office number located on the cover page of this Disclosure Brochure.

You may terminate the portfolio management agreement upon 7 days written notice. You will incur a pro rata charge for services rendered prior to the termination of the portfolio management agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter for which you are a client. If you have pre-paid advisory fees that we have not yet earned, you will receive a prorated refund of those fees.

### **Financial Planning and Consulting Services**

We offer financial planning and consulting services on an hourly basis at a rate of \$250 per hour. Our hourly fees are generally due upon completion of services rendered but in some circumstances, we may require that you pay 50% of the estimated fee in advance with the remaining portion due upon completion of services rendered. In instances where we collect payments in advance, such advance payments are associated with services to be performed within 6 months from the engagement date. All terms of the engagement will be evidenced in the agreement that you sign with our firm.

You may terminate the agreement by providing our firm with written notice. You will incur a pro rata charge for services rendered prior to the termination of the agreement. If we have received pre-paid advisory fees that we have not yet earned, you will receive a prorated refund of those fees.

### **Pension Consulting Services**

The compensation arrangement for these services is generally based on a percentage of plan assets, and may range up to 1.00% of plan assets. The fee is generally billed quarterly in arrears, but may be negotiated based on the needs of the Plan. All terms, including services to be performed, fees, and fee payments will be outlined in a written agreement.

Either party may terminate the agreement upon 30-days notice to the other party. The pension consulting fees will be prorated for the quarter in which the termination notice is given.

### **Additional Fees and Expenses**

As part of our investment advisory services to you, we may invest, or recommend that you invest, in mutual funds and exchange traded funds. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds or exchange traded funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses. You will also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through whom your account transactions are executed. We do not share in any portion of the brokerage fees/transaction charges imposed by the broker-dealer or custodian. To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, exchange traded funds, our firm, and others. For information on our brokerage practices, please refer to Item 12 (*Brokerage Practices* section) of this Disclosure Brochure.

## **Compensation for the Sale of Securities or Other Investment Products**

Our firm's Investment Advisor Representatives may be licensed as independent insurance agents, and will earn commission-based compensation for selling insurance products to you. Compensation earned by these persons in their separate capacities as licensed insurance agents is separate and in addition to our advisory fees. These practices present a conflict of interest because these individuals of our firm who are licensed insurance agents may have a financial incentive to sell insurance products to you. Clients are under no obligation, contractually or otherwise, to purchase insurance products through any person affiliated with our firm.

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

We may charge performance-based fees to "qualified clients" having a net worth greater than \$2,100,000 or for whom we manage at least \$1,000,000 immediately after entering an agreement for our services. Performance-based fees are fees based on a share of capital gains or capital appreciation of a client's account. The fixed portion of the fee will not exceed 1.50% per annum of current portfolio equity, payable quarterly in advance. The performance fee is generally equal to a maximum of up to 20% of the annual gross profits, once the agreed upon minimum return has been achieved within a 12-month period. Fees will be adjusted for deposits and withdrawals made during the 12-month period. In the event the client makes a complete withdrawal from the account on a date other than year-end, fees will be due at the time of withdrawal. Refer to the *Fees and Compensation* section above for additional information on this topic.

We manage accounts that are charged performance-based fees while at the same time managing accounts (perhaps with similar objectives) that are not charged performance-based fees ("side-by-side management"). Performance-based fees and side-by-side management create conflicts of interest, which we have identified and described in the following paragraphs.

Performance-based fees create an incentive for our firm to make investments that are riskier or more speculative than would be the case absent a performance fee arrangement. In order to address this potential conflict of interest, a senior officer of our firm periodically reviews client accounts to ensure that investments are suitable and that the account is being managed according to the client's investment objectives and risk tolerance.

Performance-based fees may also create an incentive for our firm to overvalue investments which lack a market quotation. In order to address such conflict, we have adopted policies and procedures that require our firm to "fairly value" any investments, which do not have a readily ascertainable value.

Side-by-side management might provide an incentive for our firm to favor accounts for which we receive a performance-based fee. For example, we may have an incentive to allocate limited investment opportunities, such as initial public offerings, to clients who are charged performance-based fees over clients who are charged asset based fees only. To address this conflict of interest, we have instituted policies and procedures that require our firm to allocate investment opportunities (if they are suitable) in an effort to avoid favoritism among our clients, regardless of whether the client is charged performance fees.

## **Item 7 Types of Clients**

We typically offer investment advisory services to individuals, high net worth individuals and hedge funds.



In general, we do not require a minimum dollar amount to open and maintain an advisory account; however, we reserve the right to terminate your account if it falls below a minimum size which, in our sole opinion, is too small to manage effectively.

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

### **Our Methods of Analysis and Investment Strategies**

We may use one or more of the following methods of analysis or investment strategies when providing investment advice to you:

Technical Analysis - involves studying past price patterns, trends and interrelationships in the financial markets to assess risk-adjusted performance and predict the direction of both the overall market and specific securities.

*Risk:* The risk of market timing based on technical analysis is that our analysis may not accurately detect anomalies or predict future price movements. Current prices of securities may reflect all information known about the security and day-to-day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy.

Fundamental Analysis - involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience and expertise of the company's management, and the outlook for the company and its industry. The resulting data is used to measure the true value of the company's stock compared to the current market value.

*Risk:* The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.

Cyclical Analysis - a type of technical analysis that involves evaluating recurring price patterns and trends. Economic/business cycles may not be predictable and may have many fluctuations between long-term expansions and contractions.

*Risk:* The lengths of economic cycles may be difficult to predict with accuracy and therefore the risk of cyclical analysis is the difficulty in predicting economic trends and consequently the changing value of securities that would be affected by these changing trends.

Modern Portfolio Theory - a theory of investment which attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully diversifying the proportions of various assets.

*Risk:* Market risk is that part of a security's risk that is common to all securities of the same general class (stocks and bonds) and thus cannot be eliminated by diversification.

Long-Term Purchases - securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.

*Risk:* Using a long-term purchase strategy generally assumes the financial markets will go up in the long-term which may not be the case. There is also the risk that the segment of the market that you are invested in or perhaps just your particular investment will go down over time even if



the overall financial markets advance. Purchasing investments long-term may create an opportunity cost - "locking-up" assets that may be better utilized in the short-term in other investments.

Short-Term Purchases - securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.

*Risk:* Using a short-term purchase strategy generally assumes that we can predict how financial markets will perform in the short-term which may be very difficult and will incur a disproportionately higher amount of transaction costs compared to long-term trading. There are many factors that can affect financial market performance in the short-term (such as short-term interest rate changes, cyclical earnings announcements, etc.) but may have a smaller impact over longer periods of times.

Short Sales - Unlike a straightforward investment in stocks where you buy shares with the expectation that their price will increase so you can sell at a profit, in a "short sale" you borrow stocks from your brokerage firm and sell them immediately, hoping to buy them later at a lower price. Thus, a short seller hopes that the price of a stock will go down in the near future. A short seller thus uses declines in the market to his advantage. The short seller makes money when the stock prices fall and loses when prices go up. The SEC has strict regulations in place regarding short selling.

*Risk:* Short selling is very risky. Investors should exercise extreme caution before short selling is implemented. A short seller will profit if the stock goes down in price, but if the price of the shares increase, the potential losses are unlimited because the stock can keep rising forever. There is no ceiling on how much a short seller can lose in a trade. The share price may keep going up and the short seller will have to pay whatever the prevailing stock price is to buy back the shares. However, gains have a ceiling level because the stock price cannot fall below zero.

A short seller has to undertake to pay the earnings on the borrowed securities as long as the short seller chooses to keep the short position open. If the company declares huge dividends or issues bonus shares, the short seller will have to pay that amount to the lender. Any such occurrence can skew the entire short investment and make it unprofitable. The broker can use the funds in the short seller's margin account to buy back the loaned shares or issue a "call away" to get the short seller to return the borrowed securities. If the broker makes this call when the stock price is much higher than the price at the time of the short sale, then the investor can end up taking huge losses.

Margin interest can be a significant expense. Since short sales can only be undertaken in margin accounts, the interest payable on short trades can be substantial, especially if short positions are kept open over an extended period.

Shares that are difficult to borrow - because of high short interest, limited float, or any other reason - have "hard-to-borrow" fees. These fees are based on an annualized rate that can range from a small fraction of a percent to more than 100% of the value of the short trade. The hard-to-borrow rate can fluctuate substantially on a daily basis; therefore, the exact dollar amount of the fee may not be known in advance, and may be substantial.

Margin Transactions - a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan.

**Risk:** If the value of the shares drops sufficiently, the investor will be required to either deposit more cash into the account or sell a portion of the stock in order to maintain the margin requirements of the account. This is known as a "margin call." An investor's overall risk includes the amount of money invested plus the amount that was loaned to them.

**Option Writing** - a securities transaction that involves selling an option. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell a particular security at a specified price on or before the expiration date of the option. When an investor sells a call option, he or she must deliver to the buyer a specified number of shares if the buyer exercises the option. When an investor sells a put option, he or she must pay the strike price per share if the buyer exercises the option, and will receive the specified number of shares. The option writer/seller receives a premium (the market price of the option at a particular time) in exchange for writing the option.

**Risk:** Options are complex investments and can be very risky, especially if the investor does not own the underlying stock. In certain situations, an investor's risk can be unlimited.

**Trading** - As part of our primary investment strategy when managing your account(s), we will use frequent trading (in general, selling securities within 30 days of purchasing the same securities). Short-term trading is not appropriate for all investors and we only use it if we have determined that it is suitable for you. Short-term trading includes buying and selling securities frequently in an attempt to capture significant market gains and avoid significant losses.

**Risk:** When a frequent trading policy is in effect, there is a risk that investment performance within your account may be negatively affected, particularly through increased brokerage and other transactional costs and taxes.

Our investment strategies and advice may vary depending upon each client's specific financial situation. As such, we determine investments and allocations based upon your predefined objectives, risk tolerance, time horizon, financial information, liquidity needs and other various suitability factors. Your restrictions and guidelines may affect the composition of your portfolio. *It is important that you notify us immediately with respect to any material changes to your financial circumstances, including for example, a change in your current or expected income level, tax circumstances, or employment status.*

### **Tax Considerations**

Our strategies and investments may have unique and significant tax implications. Regardless of your account size or any other factors, we strongly recommend that you consult with a tax professional regarding the investing of your assets.

Moreover, custodians and broker-dealers must report the cost basis of equities acquired in client accounts on or after January 1, 2011. Your custodian will default to the First-In First-Out ("FIFO") accounting method for calculating the cost basis of your investments. You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, provide written notice to our firm immediately and we will alert your account custodian of your individually selected accounting method. Decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

## **Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

## **Other Risk Considerations**

When evaluating risk, financial loss may be viewed differently by each client and may depend on many different risks, each of which may affect the probability and magnitude of any potential losses. The following risks may not be all-inclusive, but should be considered carefully by a prospective client before retaining our services.

Liquidity Risk: The risk of being unable to sell your investment at a fair price at a given time due to high volatility or lack of active liquid markets. You may receive a lower price or it may not be possible to sell the investment at all.

Credit Risk: Credit risk typically applies to debt investments such as corporate, municipal, and sovereign fixed income or bonds. A bond issuing entity can experience a credit event that could impair or erase the value of an issuer's securities held by a client.

Inflation and Interest Rate Risk: Security prices and portfolio returns will likely vary in response to changes in inflation and interest rates. Inflation causes the value of future dollars to be worth less and may reduce the purchasing power of a client's future interest payments and principal. Inflation also generally leads to higher interest rates which may cause the value of many types of fixed income investments to decline.

Horizon and Longevity Risk: The risk that your investment horizon is shortened because of an unforeseen event, for example, the loss of your job. This may force you to sell investments that you were expecting to hold for the long term. If you must sell at a time that the markets are down, you may lose money. Longevity Risk is the risk of outliving your savings. This risk is particularly relevant for people who are retired, or are nearing retirement.

## **Recommendation of Particular Types of Securities**

We primarily offer advice on equities securities, bonds, mutual funds, and/or exchange traded funds. However, we may advise on other types of investments as appropriate for you since each client has different needs and different tolerance for risk. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every type of investment. Even within the same type of investment, risks can vary widely. In very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with the investment.

Stocks (equities securities): There are numerous ways of measuring the risk of equity securities (also known simply as "equities" or "stock"). In very broad terms, the value of a stock depends on the financial health of the company issuing it. However, stock prices can be affected by many other factors including, but not limited to the class of stock (for example, preferred or common); the health of the market sector of the issuing company; and, the overall health of the economy. In general, larger, more established companies ("large cap") tend to be safer than smaller start-up companies ("small cap") are but the mere size of an issuer is not, by itself, an indicator of the safety of the investment.

Bonds: Corporate debt securities (or "bonds") are typically safer investments than equity securities, but their risk can also vary widely based on: the financial health of the issuer; the risk that the issuer might default; when the bond is set to mature; and, whether or not the bond can be "called" prior to maturity. When a bond is called, it may not be possible to replace it with a bond of equal character paying the same rate of return.

Mutual Funds and Exchange Traded Funds: Mutual funds and exchange traded funds ("ETFs") are professionally managed collective investment systems that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities, or any combination thereof. The fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. While mutual funds and ETFs generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market, primarily invests in small cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of security (i.e., equities) rather than balancing the fund with different types of securities. ETFs differ from mutual funds since they can be bought and sold throughout the day like stock and their price can fluctuate throughout the day. The returns on mutual funds and ETFs can be reduced by the costs to manage the funds. Also, while some mutual funds are "no load" and charge no fee to buy into, or sell out of, the fund, other types of mutual funds do charge such fees which can also reduce returns. Mutual funds can also be "closed end" or "open end." So-called "open end" mutual funds continue to allow in new investors indefinitely whereas "closed end" funds have a fixed number of shares that trade between investors in the secondary market.

Options Contracts: Options are complex securities that involve risks and are not suitable for everyone. Option trading can be speculative in nature and carry substantial risk of loss. It is generally recommended that you only invest in options with risk capital. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date (the "expiration date"). The two types of options are calls and puts:

A call gives the holder the right to buy an asset at a certain price within a specific period of time. Calls are similar to having a long position on a stock. Buyers of calls hope that the stock will increase substantially before the option expires.

A put gives the holder the right to sell an asset at a certain price within a specific period of time. Puts are very similar to having a short position on a stock. Buyers of puts hope that the price of the stock will fall before the option expires.

Selling options is more complicated and can be even riskier.

The option trading risks pertaining to options buyers are:

- Risk of losing your entire investment in a relatively short period of time.
- The risk of losing your entire investment increases if, as expiration nears, the stock is below the strike price of the call (for a call option) or if the stock is higher than the strike price of the put (for a put option).
- European style options which do not have secondary markets on which to sell the options prior to expiration can only realize its value upon expiration.
- Specific exercise provisions of a specific option contract may create risks.
- Regulatory agencies may impose exercise restrictions, which stops you from realizing value.

The option trading risks pertaining to options sellers are:

- Options sold may be exercised at any time before expiration.
- Covered Call traders forgo the right to profit when the underlying stock rises above the strike price of the call options sold and continues to risk a loss due to a decline in the underlying stock.
- Writers of Naked Calls risk unlimited losses if the underlying stock rises.
- Writers of Naked Puts risk unlimited losses if the underlying stock drops.
- Writers of naked positions run margin risks if the position goes into significant losses. Such risks may include liquidation by the broker.
- Writers of call options could lose more money than a short seller of that stock could on the same rise on that underlying stock. This is an example of how the leverage in options can work against the option trader.
- Writers of Naked Calls are obligated to deliver shares of the underlying stock if those call options are exercised.
- Call options can be exercised outside of market hours such that effective remedy actions cannot be performed by the writer of those options.
- Writers of stock options are obligated under the options that they sold even if a trading market is not available or that they are unable to perform a closing transaction.
- The value of the underlying stock may surge or ditch unexpectedly, leading to automatic exercises.

Other option trading risks are:

- The complexity of some option strategies is a significant risk on its own.
- Option trading exchanges or markets and option contracts themselves are open to changes at all times.
- Options markets have the right to halt the trading of any options, thus preventing investors from realizing value.
- Risk of erroneous reporting of exercise value.
- If an options brokerage firm goes insolvent, investors trading through that firm may be affected.
- Internationally traded options have special risks due to timing across borders.

Risks that are not specific to options trading include market risk, sector risk and individual stock risk. Option trading risks are closely related to stock risks, as stock options are a derivative of stocks.

## Item 9 Disciplinary Information

We are required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of our advisory business or the integrity of our management. We do not have any required disclosures under this item.

## Item 10 Other Financial Industry Activities and Affiliations

### Licensed Insurance Agents

Our firm's Investment Advisor Representatives may be licensed as independent insurance agents, and will earn commission-based compensation for selling insurance products to you. Compensation earned by these persons in their separate capacities as licensed insurance agents is separate and in addition to our advisory fees. These practices present a conflict of interest because these individuals of our firm who are licensed insurance agents may have a financial incentive to sell insurance products to you. Clients are under no obligation, contractually or otherwise, to purchase insurance products through any person affiliated with our firm.

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

### Code of Ethics

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for persons associated with our firm. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All persons associated with our firm are expected to adhere strictly to these guidelines. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm. Clients or prospective clients may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this Disclosure Brochure.

### Participation or Interest in Client Transactions

Neither our firm nor any persons associated with our firm has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this Disclosure Brochure.

### Personal Trading Practices

Our firm or persons associated with our firm may buy or sell the same securities, including as part of an aggregate order (block trade) with client accounts, that we recommend to you or securities in which you are already invested. A conflict of interest exists in such cases because we may have the ability to trade ahead of you and/or potentially receive more favorable prices than you will receive. To mitigate this conflict of interest, it is our *strict* policy that neither our firm nor persons associated with our firm shall have priority over your account in the purchase or sale of securities or investment products.

## Item 12 Brokerage Practices

### Brokerage Recommendations

For clients engaging our firm for portfolio management services, clients are required to open one or more custodian accounts in their own name at an independent qualified custodian. We consider several factors in recommending a broker-dealer/custodian to a client. Factors that we consider when recommending a broker-dealer/custodian may include ease of use, reputation, service execution, pricing and financial strength. We may also take into consideration the availability of the research and/or services received or offered by the broker-dealer/custodian.

### TD Ameritrade - Disclosures

While you are free to choose any broker-dealer/custodian or other service provider, we recommend the use of TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"), member FINRA/SIPC, an unaffiliated SEC-registered broker-dealer. TD Ameritrade offers independent investment advisers services that include custody of securities, trade execution, clearance and settlement of transactions.

Our firm participates in the institutional advisor program (the "Program") offered by TD Ameritrade offers independent investment advisers services which include custody of securities, trade execution, clearance and settlement of transactions. We receive some benefits from TD Ameritrade through our participation in the Program. There is no direct link between our firm's participation in the Program and the investment advice we provide our Clients, although we receive economic benefits through the Program that are typically not available to TD Ameritrade retail investors. These benefits include the



following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving advisory participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to our firm by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by our firm's related persons. Some of the products and services made available by TD Ameritrade through the Program may benefit Advisor but may not benefit its Client accounts. These products or services may assist our firm in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help our firm manage and further develop our business enterprise. The benefits received by our firm or personnel through participation in the Program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of our fiduciary duties to clients we endeavor at all times to put the interests of our clients first. Clients should be aware, however, that the receipt of economic benefits by our firm and/or related persons in and of itself creates a potential conflict of interest and may indirectly influence our firm's choice of TD Ameritrade for custody and brokerage services.

We believe that TD Ameritrade provides quality execution services for our clients at competitive prices.

#### Fidelity - Disclosures

We may also recommend National Financial Services LLC, and Fidelity Brokerage Services LLC (together with all affiliates, "Fidelity") through which Fidelity provides our firm with Fidelity's "platform" services. The platform services include, among others, brokerage, custodial, administrative support, record keeping and related services that are intended to support intermediaries like our firm in conducting business and in serving the best interests of our clients, but may directly benefit our firm.

Fidelity charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Fidelity enables Registrant to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Fidelity's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Fidelity may be higher or lower than those charged by other custodians and broker-dealers.

As part of the arrangement, Fidelity also makes available to Registrant (our firm), at no additional charge to Registrant, certain research and brokerage services, including research services obtained by Fidelity directly from independent research companies, as selected by Registrant. These research and brokerage services are used by Registrant to manage accounts for which Registrant has investment discretion.

As a result of receiving such services for no additional cost, Registrant may have an incentive to continue to use or expand the use of Fidelity's services. Registrant examined this potential conflict of interest when it chose to enter into the relationship with Fidelity and has determined that the relationship is in the best interests of Registrant's clients and satisfies its client obligations, including its duty to seek best execution. A client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the Registrant determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but



whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Registrant will seek competitive rates, to the benefit of all clients, it may not necessarily obtain the lowest possible commission rates for specific client account transactions. Although the investment research products and services that may be obtained by Registrant will generally be used to service all of Registrant's clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account. Registrant and Fidelity are not affiliates, and no broker-dealer affiliated with Registrant is involved in the relationship between Registrant and Fidelity.

### **Brokerage for Client Referrals**

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

### **Research and Other Soft Dollar Benefits**

As disclosed above, we may have access to research products and services from your account custodian and/or other brokerage firm. These products may include financial publications, information about particular companies and industries, research software, and other products or services that provide lawful and appropriate assistance to our firm in the performance of our investment decision-making responsibilities. Such research products and services are provided to all investment advisers that utilize the service platforms of these firms, and are *not* considered to have been paid with soft dollars. The receipt of such products and/or services creates a conflict of interest since our firm may benefit from such products and/or services. In efforts to mitigate this conflict, it is our firm's policy to act in our clients' best interest, and to use these products and/or services for the benefit of all our clients. Clients should be aware that the commissions charged by a particular broker for a particular transaction or set of transactions may be greater than the amounts another broker who did not provide research services or products might charge.

### **Block Trades**

We may combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as "block trading"). We will then distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account, but it is not based on account performance or the amount or structure of management fees. Accounts owned by our firm or persons associated with our firm will not participate in block trading with your accounts. To the extent we combine multiple orders (block trade), we will only do so for accounts managed on a discretionary basis.

### **Trade Errors**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account.

## **Item 13 Review of Accounts**

### **Portfolio Management Services**

The Investment Adviser Representative assigned to your account will be responsible for monitoring your accounts on an ongoing basis and will conduct account reviews at least annually to ensure the advisory services provided to you are consistent with your investment needs and objectives. Additional reviews may be conducted based on various circumstances, including, but not limited to: contributions and withdrawals; year-end tax planning; market moving events; security specific events; and/or, changes in your risk/return objectives.

Clients will receive trade confirmations and at least quarterly statements from their account custodian. Upon client request and/or at our discretion, we may also provide performance reports.

### **Financial Planning and Consulting Services**

For those clients whom we provide personal financial planning and consulting services, reviews are conducted on an as needed basis. If you engage us for these services, the Investment Adviser Representative of our firm that is assigned to your account will review your financial plan and/or current circumstances as needed, depending on the arrangements made with you at the inception of your advisory relationship. Generally, we will contact existing clients periodically to determine whether any updates may be needed based on changes in your circumstances. Changed circumstances may include, but are not limited to: marriage, divorce, birth, death, inheritance, lawsuit, retirement, job loss and/or disability, among others. While we recommend meeting with you at least annually, additional reviews will be conducted upon your request. Such reviews and updates will generally be subject to a new and separate engagement. To the extent we provide any written reports, such reports and/or financial plans will be rendered as part of the negotiated services.

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

We may directly compensate outside consultants, individuals, and/or entities (Solicitors) for client referrals. In order to receive a cash referral fee from our firm, Solicitors must comply with the requirements of the jurisdiction(s) in which they operate. If you were referred to our firm by a Solicitor, you should have received a copy of this Disclosure Brochure along with the Solicitor's disclosure statement at the time of the referral. If you become a client, the Solicitor that referred you to our firm will receive a percentage of the advisory fee you pay our firm for as long as you are a client with our firm, or until such time as our agreement with the Solicitor expires. We may also negotiate other referral fees, which will be disclosed to you in the Solicitor's disclosure statement. You will not pay additional fees because of this referral arrangement. Referral fees paid to a Solicitor are contingent upon your entering into an advisory agreement with our firm. Therefore, a Solicitor has a financial incentive to recommend our firm to you for advisory services. This creates a conflict of interest; however, you are not obligated to retain our firm for advisory services. Comparable services and/or lower fees may be available through other firms.

## **Item 15 Custody**

As paying agent for our firm, your independent qualified custodian will directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities as your funds and securities will be held with a bank, broker-dealer, or other qualified custodian. You will receive account statements from the qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy, and contact us immediately if you have any questions.

## Item 16 Investment Discretion

If you enter into discretionary arrangements with our firm, you must grant our firm discretion over the selection and amount of securities to be purchased or sold for your account(s) before we can buy or sell securities on your behalf. Discretionary authority enables our firm to execute transactions within your account without obtaining your consent or approval prior to each transaction. You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters for your account(s); however, clients whose assets are invested in model portfolios may not set restrictions on the specific holdings or allocations within the model, nor the types of securities that can be purchased in the model.

## Item 17 Voting Client Securities

We will not vote proxies on behalf of your advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of applicable securities, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic solicitations to vote proxies.

## Item 18 Financial Information

The following disclosures are required by the Form ADV Instructions:

Our firm does not have any financial condition or impairment that would prevent us from meeting our contractual commitments to you. We do not take physical custody of client funds or securities, or serve as trustee or signatory for client accounts, and, we do not require the prepayment of more than \$1,200 in fees six or more months in advance. Therefore, we are not required to include a financial statement with this Disclosure Brochure. We have not filed a bankruptcy petition at any time in the past ten years.

As disclosed under Item 12 above, Advisor participates in TD Ameritrade's institutional customer program and Advisor may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between Advisor's participation in the program and the investment advice it gives to its Clients, although Advisor receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communication network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Advisor by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by Advisor's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit Advisor but may not benefit its Client accounts. These products or services may assist Advisor in managing and

administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Advisor manage and further develop its business enterprise. The benefits received by Advisor or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, Advisor endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Advisor or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the Advisor's choice of TD Ameritrade for custody and brokerage.

Advisor also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment Advisors participating in the program. Specifically, the Additional Services include E-Money Advisor, Barron's, Investor's Business Daily, Fly on the Wall, Advyzon, and Thinkpipes. TD Ameritrade provides the Additional Services to Advisor in its sole discretion and at its own expense, and Advisor does not pay any fees to TD Ameritrade for the Additional Services. Advisor and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services. Advisor's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to Advisor, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, Advisor's Client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with Advisor, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade,

Advisor may have an incentive to recommend to its Clients that the assets under management by Advisor be held in custody with TD Ameritrade and to place transactions for Client accounts with TD Ameritrade. Advisor's receipt of Additional Services does not diminish its duty to act in the best interests of its Clients, including to seek best execution of trades for Client accounts.

## **Item 19 Requirements for State-Registered Advisers**

We are a federally registered investment adviser; therefore, we are not required to respond to this item.

## **Item 20 Additional Information**

### **Your Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any non-public personal information about you to any non-affiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to non-public personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your non-public personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Contact our main office at the telephone number on the cover page of this brochure if you have any questions regarding this policy.

If you decide to close your account(s) we will adhere to our privacy policies, which may be amended from time to time.

If we make any substantive changes in our privacy policy that would further permit or require disclosures of your private information, we will provide written notice to you. Where the change is based on permitted disclosures, you will be given an opportunity to direct us as to whether such disclosure is acceptable. Where the change is based on required disclosures, you will only receive written notice of the change. You may not opt out of the required disclosures.

If you have questions about our privacy policies, please contact our main office and ask to speak to the Chief Compliance Officer.

### **Class Action Lawsuits**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.

### **IRA Rollover Considerations**

As part of our investment advisory services to you, we may recommend that you withdraw the assets from your employer's retirement plan and roll the assets over to an individual retirement account ("IRA") that we will manage on your behalf. If you elect to roll the assets to an IRA that is subject to our management, we will charge you an asset based fee as set forth in the agreement you executed with our firm. This practice presents a conflict of interest because persons providing investment advice on our behalf have an incentive to recommend a rollover to you for the purpose of generating fee based compensation rather than solely based on your needs. You are under no obligation, contractually or otherwise, to complete the rollover. Moreover, if you do complete the rollover, you are under no obligation to have the assets in an IRA managed by our firm.

Many employers permit former employees to keep their retirement assets in their company plan. Also, current employees can sometimes move assets out of their company plan before they retire or change jobs. In determining whether to complete the rollover to an IRA, and to the extent the following options are available, you should consider the costs and benefits of:

1. Leaving the funds in your employer's (former employer's) plan.
2. Moving the funds to a new employer's retirement plan.
3. Cashing out and taking a taxable distribution from the plan.
4. Rolling the funds into an IRA rollover account.

Each of these options has advantages and disadvantages and before making a change we encourage you to speak with your CPA and/or tax attorney.

If you are considering rolling over your retirement funds to an IRA for us to manage here are a few points to consider before you do so:

1. Determine whether the investment options in your employer's retirement plan address your needs or whether you might want to consider other types of investments.

- a. Employer retirement plans generally have a more limited investment menu than IRAs.
- b. Employer retirement plans may have unique investment options not available to the public such as employer securities, or previously closed funds.
- 2. Your current plan may have lower fees than our fees.
  - a. If you are interested in investing only in mutual funds, you should understand the cost structure of the share classes available in your employer's retirement plan and how the costs of those share classes compare with those available in an IRA.
  - b. You should understand the various products and services you might take advantage of at an IRA provider and the potential costs of those products and services.
- 3. Our strategy may have higher risk than the option(s) provided to you in your plan.
- 4. Your current plan may also offer financial advice.
- 5. If you keep your assets titled in a 401k or retirement account, you could potentially delay your required minimum distribution beyond age 70.5.
- 6. Your 401k may offer more liability protection than a rollover IRA; each state may vary.
  - a. Generally, federal law protects assets in qualified plans from creditors. Since 2005, IRA assets have been generally protected from creditors in bankruptcies. However, there can be some exceptions to the general rules so you should consult with an attorney if you are concerned about protecting your retirement plan assets from creditors.
- 7. You may be able to take out a loan on your 401k, but not from an IRA.
- 8. IRA assets can be accessed any time; however, distributions are subject to ordinary income tax and may also be subject to a 10% early distribution penalty unless they qualify for an exception such as disability, higher education expenses or the purchase of a home.
- 9. If you own company stock in your plan, you may be able to liquidate those shares at a lower capital gains tax rate.
- 10. Your plan may allow you to hire us as the manager and keep the assets titled in the plan name.

It is important that you understand the differences between these types of accounts and to decide whether a rollover is best for you. Prior to proceeding, if you have questions contact your investment adviser representative.