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## ITEM 1: COVER PAGE

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### Part 2A of Form ADV – GWP Program Brochure Dated March 28, 2019

CRD #151298



1601 Cooper Point Road NW  
Olympia, WA 98502

<http://www.financialadvocates.com>

This brochure provides information about the qualifications and business practices of Financial Advocates Investment Management, LLC. If you have any questions about the contents of this brochure, please contact the **CHIEF COMPLIANCE OFFICER** by telephone at (360) 866-2345 or by email at [riacompliance@financialadvocates.com](mailto:riacompliance@financialadvocates.com). The information in this brochure has not been approved by the United States Securities and Exchange Commission (SEC) or any state securities authority.

Please note that the use of the term “registered investment adviser” and description of Financial Advocates Investment Management, LLC (“FAIM”) and/or our associates as “registered” does not imply a certain level of skill or training. You are encouraged to review this Brochure and Brochure Supplements for our firm’s associates who advise you for more information on the qualifications of our firm and our associates. Additional information about FAIM and our associates is available on the SEC’s Investment Advisor Public Disclosure website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## ITEM 2. MATERIAL CHANGES

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This section of FAIM's brochure provides our clients and potential clients with a summary of material changes made to our Brochure since our last annual update. We will ensure that clients receive a summary of any material changes to this and subsequent FAIM Brochures within 120 days of the close of our fiscal year (December 31).

The date of our last annual update was September 2018.

Since our last update there have been no material changes.

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## ITEM 4. ADVISORY BUSINESS

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Financial Advocates Investment Management, LLC (“FAIM,” “us,” “we,” “our”) is registered with the Securities and Exchange Commission (SEC) as a registered investment adviser. FAIM is a limited liability company formed in the State of Washington. Our firm has been in business as an investment adviser (IA) since 2010 and is 100% owned by Financial Advocates Agency, LLC. ([www.financialadvocates.com](http://www.financialadvocates.com)).

Our business model is based on a decentralized network of Investment Adviser Representatives (“IARs” or “Consultants”) with offices located in numerous states and cities. Although all of the IARs are registered with, and subject to oversight and supervision by, FAIM, they operate their businesses independently and some offices work under a separate business name or “DBA”. IARs associated with FAIM may provide IAR services to clients under a DBA name that is owned and register by the IAR or the group of IARs which the DBA name represents. As such, marketing materials provided to clients and potential clients may include the DBA name and may include a logo associated with the DBA name. FAIM continues to review and approve marketing materials related to the IAR or IA firm services offered and provided to clients. FAIM supervises IARs in the performance of their IAR duties whether the services are performed under the IAR’s name, the DBA name, or the FAIM name. If properly disclosed as an outside business activity of the IAR, FAIM allows IARs to provide other products and services through their DBA so long as they are unrelated to FAIM’s IA business. These outside business activities are not associated with or supervised by FAIM. Because all of our IARs operate their businesses independently from one another, they have significant flexibility in providing tailored individualized investment advice to clients. FAIM’s home office in Olympia, WA, assists the IARs with marketing, back-office functions and compliance responsibilities. A list of all of the FAIM approved DBA names can be found on our Schedule D, Section 1.B. Other Business Names of our Form ADV Part 1 which is available on the SEC’s Investment Advisor Public Disclosure website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

As of December 31, 2018, we managed assets of approximately \$2,834,833,973.80 on a discretionary basis; we do not manage assets on a non-discretionary basis.

FAIM as a whole offers the following types of services: investment management, hourly consulting, financial planning and consultations, and pension consulting services. Individual IARs offer investment advice to clients utilizing some or all of these services. This ADV Part 2 A Brochure describes our Guided Wealth Portfolio program. Information about other services can be found in our ADV Part 2 A Firm Brochure.

### Guided Wealth Portfolios (GWP)

GWP offers clients the ability to participate in a centrally managed, algorithm-based investment program, which is made available to users and clients through a web-based, interactive account management portal (“Investor Portal”). Investment recommendations to buy and sell exchange-traded funds and open-end mutual funds are generated through proprietary, automated, computer algorithms (collectively, the “Algorithm”) of FutureAdvisor, Inc. (“FutureAdvisor”), based upon model portfolios constructed by LPL and selected for the account as described below (such model portfolio selected for the account, the “Model Portfolio”). Communications concerning GWP are intended to occur primarily through electronic means (including but not limited to, through email communications or through the Investor Portal), although the IAR will be available to discuss investment strategies, objectives or the account in general in person or via telephone.

A preview of the program (the “Educational Tool”) is provided for a period of up to forty-five (45) days to help users determine whether they would like to become advisory clients and receive ongoing financial advice from LPL, FutureAdvisor and FAIM by enrolling in the advisory service (the “Managed Service”). The Educational Tool and Managed Service are described in more detail in the GWP Program Brochure. Users of the Educational Tool are not considered to be advisory clients of LPL, FutureAdvisor or FAIM, do not enter into an advisory agreement with LPL, FutureAdvisor or FAIM, do not receive ongoing investment advice or supervisions of their assets, and do not receive any trading services.

A minimum account value of \$5,000 is required to enroll in the Managed Service.

### *Features of the Educational Tool*

Users of the Educational Tool (each, a “user”) agree to terms of use (“Terms of Use”) and complete an investor profile. An investment objective (“Investment Objective”) and Model Portfolio is assigned to each user based upon factors in the investor profile, including risk tolerance and the number of years remaining until the age of retirement (such time being referred to herein as the “Retirement Age”). See description in “Features of the Managed Service” below for information regarding the design of the Model Portfolios. Based on the Investment Objective and Model Portfolio, the Educational Tool generates sample analysis, advice and investment recommendations (“Sample Recommendations”).

The Educational Tool provides Sample Recommendations that may assist users in determining whether to utilize the Managed Service. Access to the Educational Tool is generally limited to a period of forty-five (45) days. The Educational Tool is intended to be used for educational and informational purposes only. The Educational Tool does not provide comprehensive financial planning and is not intended to constitute legal, financial or tax advice. There may be other relevant factors and financial considerations (e.g., debt load or financial obligations) that LPL, FutureAdvisor and FAIM do not take into consideration in formulating any Sample Recommendations provided. The Sample Recommendations made are meant solely as a sample of the types of recommendations available through the Managed Service. LPL, FutureAdvisor and FAIM are not responsible for any actions taken with respect to the Sample Recommendations, and users are solely responsible for making their own investment decisions. The Educational Tool is only one of many tools that users may use as part of a comprehensive investment analysis process. Users should not rely on the Educational Tool as the sole basis for investment decisions.

Although LPL is an investment adviser and broker-dealer registered with the SEC and a member of the Financial Industry Regulatory Authority, and FutureAdvisor is an investment adviser registered with the SEC, in providing access to the Educational Tool, LPL, FutureAdvisor and FAIM do not intend to establish an advisory relationship, or in the case of LPL, a brokerage relationship, with users of the Educational Tool. Users are not charged an advisory fee or any other fee or expense to use the Educational Tool. The scope of any investment advisory relationship with LPL, FutureAdvisor and FAIM begins when users enroll in the Managed Service. The output that users receive by using the Educational Tool, including the Sample Recommendations, may differ materially from the advice users would receive as an advisory client of LPL, FutureAdvisor and FAIM.

None of LPL, FutureAdvisor or FAIM provides ongoing investment management or trading services for assets of users of the Educational Tool, makes any determination as to whether the website through which the Program is accessed or the Educational Tool is appropriate for any user, can access any assets in any accounts users aggregate in the Educational Tool, places any trades on behalf of users of the Educational Tool, or provides ongoing supervision of assets of users of the Educational Tool. The Sample Recommendations provided are intended as an informational preview of the Managed Service, and the Sample Recommendations are being provided to demonstrate the types of analysis, advice and recommendations provided by the Managed Service.

### *Features of the Managed Service*

Investors participating in the Managed Service (“clients” and each, a “client”) complete an account application (the “Account Application”) and enter into an account agreement (the “Account Agreement”) with LPL, FAIM and FutureAdvisor. As part of the account opening process, clients are responsible for providing complete and accurate information regarding, among other things, their age, risk tolerance, and investment horizon (collectively, “Client Profile”). LPL, FAIM and FutureAdvisor rely on the information in the Client Profile in order to provide services under the Program, including but not limited to, determination of suitability of the Program for clients and an appropriate Investment Objective and Model Portfolio for clients. The Model Portfolios have been designed and are maintained by LPL or, in the future, a third-party investment strategist (as applicable, the “Portfolio Strategist”) and shall include a list of securities holdings, relative weightings and a list of potential replacement securities for tax harvesting purposes. FutureAdvisor, Advisor and clients cannot access, change or customize the Model Portfolios. Only one Model Portfolio is permitted per account.

Based upon a client’s risk tolerance as indicated in the Client Profile, the client is assigned an investment allocation track (currently Fixed Income Tilt, Balance Tilt or Equity Tilt), the purpose of which is to slowly rotate the client’s equity allocation to fixed income over time. LPL Research created these tracks using academic research on optimal retirement allocations, the industry averages as calculated by Morningstar for the target date fund universe, and input from FutureAdvisor.

Within the applicable allocation track and based upon a client’s chosen Retirement Age in the Client Profile, the client will be assigned a Model Portfolio and one of five of LPL’s standard investment objectives:

- Income with capital preservation. Designed as a longer term accumulation account, this investment objective is considered generally the most conservative. Emphasis is placed on generation of current income with minimal risk of capital loss. Lowering the risk generally means lowering the potential income and overall return.
- Income with moderate growth. This investment objective emphasizes generation of current income with a secondary focus on moderate capital growth.
- Growth with income. This investment objective emphasizes modest capital growth with some focus on generation of current income.
- Growth. This investment objective emphasizes achieving high long-term growth and capital appreciation. There is little focus on generation of current income.
- Aggressive growth. This investment objective emphasizes aggressive growth and maximum capital appreciation, with no focus on generation of current income. This objective has a very high level of risk and is for investors with a longer timer horizon.

Both the client and FAIM are required to review and approve the initial Investment Objective. As a client approaches the Retirement Age, the Algorithm will automatically adjust the client's asset allocation. Any change to the Investment Objective directed by a client due to changes in the Client's risk tolerance and/or Retirement Age will require written approval from the client and FAIM before implementation. Failure to approve the change in Investment Objective may result in a client remaining in a Model Portfolio that is no longer aligned with the applicable Client Profile. The Investment Objective selected for the account is an overall objective for the entire account and may be inconsistent with a particular holding and the account's performance at any time and may be inconsistent with other asset allocations suggested to client by LPL, FAIM or FutureAdvisor prior to client entering into the Account Agreement. Achievement of the stated investment objective is a long-term goal for the account, and asset withdrawals may impair the achievement of client's investment objectives. A Client Profile that includes a conservative risk tolerance over a long-term investment horizon may result in the selection of an Investment Objective that is riskier than would be selected over a shorter-term investment horizon. Clients should contact FAIM if they believe the Investment Objective does not appropriately reflect the Client Profile, such as their risk tolerance.

By executing the Account Agreement, clients authorize LPL and FutureAdvisor to have discretion to buy and sell only exchange-traded funds ("ETFs") and open-end mutual funds ("Mutual Funds") (collectively, "Program Securities") according to the Model Portfolio selected and, subject to certain limitations described in the Account Agreement, hold or liquidate previously purchased non-model securities that are transferred into the account ("Legacy Securities"). In order to be transferred into an account, Legacy Securities must be Mutual Funds with which LPL has a full or partial selling agreement, ETFs or individual U.S. listed stocks. Securities that are not Program Securities included within the Model Portfolio will not be purchased for an account, and FutureAdvisor, in its sole discretion, will determine whether to hold or sell Legacy Securities, generally, but not solely, with the goal of optimizing tax impacts for accounts that are subject to tax. Additional Legacy Securities will not be purchased for the account. Clients may not impose restrictions on liquidating any Legacy Securities for any reason. Clients should not transfer in Legacy Securities that they are not willing to have liquidated at the discretion of FutureAdvisor.

In addition, uninvested cash may be invested in money market funds, the Multi-Bank Insured Cash Account ("ICA") or the Deposit Cash Account ("DCA"), as applicable, as described in the Account Agreement. Dividends paid by the Program Securities in the account will be contributed to the cash allocation and ultimately reinvested into the account based on the Model Portfolio once the tolerance within cash allocation is surpassed.

Pursuant to the Account Agreement, FutureAdvisor is authorized to perform tax harvesting when deemed acceptable by the Algorithm. LPL, Advisor and clients cannot alter trades made for tax harvesting purposes. In order to permit trading in a tax-efficient manner, the Account Agreement also grants FutureAdvisor the authority to select specific tax lots when liquidating securities within the account. Although the Algorithm attempts to achieve tax efficiencies, by doing so a client's portfolio may not directly align with Model Portfolio. As a result, a client may receive advice that differs from the advice received by accounts using the same Model Portfolio, and the client's account may perform differently than other accounts using the same Model Portfolio.

During the term of the Account Agreement, FutureAdvisor will perform a daily review of the account to determine if rebalancing is appropriate based on tolerance thresholds established by LPL and/or FutureAdvisor. At each rebalancing

review, the account will be rebalanced if at least one of the account positions is outside such thresholds, subject to a minimum transaction amount established by LPL and/or FutureAdvisor. In addition, LPL and/or FutureAdvisor may review the account for rebalancing in the event that the Portfolio Strategist changes a Model Portfolio. FutureAdvisor may delay placing rebalancing transactions for non-qualified accounts by a number of days, to be determined by FutureAdvisor, in an attempt to limit short-term tax treatment for any position being sold. In addition, trading in the account at any given time is also subject to certain conditions, including but not limited to, conditions related to trade size, compliance tests, the target cash allocation and allocation tolerances. LPL, Advisor and clients can alter the rebalancing frequency.

### *Selection of FutureAdvisor as Third-Party Robo Advisor*

Under FAIM's agreement with LPL, FAIM was provided the opportunity to offer GWP, which utilizes FutureAdvisor's Algorithm as described herein, to prospective clients. FAIM is not otherwise affiliated with FutureAdvisor. FutureAdvisor is compensated directly by LPL for its services, including the Algorithm and related software, through an annual sub-advisory fee (tiered based on assets under management by FutureAdvisor, at a rate ranging from 0.10% to 0.17%). As each asset tier is reached, LPL's share of the compensation shall increase and clients will not benefit from such asset tiers. No additional fee is charged for FutureAdvisor's services.

FAIM believes that certain clients will benefit from GWP's advisor-enhanced advisory services, particularly due to the relatively low minimum account balance and the combination of a digital advice solution with access to an advisor. Unlike direct-to-consumer robo platforms, FAIM is responsible on an ongoing basis as investment advisor and fiduciary for the client relationship, including for recommending the program for the client; providing ongoing monitoring of the program, the performance of the account, the services of LPL and FutureAdvisor; determining initial and ongoing suitability of the program for the client; reviewing clients' suggested portfolio allocations; reviewing and approving any change in Investment Objective due to changes clients make to their Client Profile; answering questions regarding the program, assisting with paperwork and administrative and operational details for the account; and being available to clients to discuss investment strategies, changes in financial circumstances, objectives or the account in general in person or via telephone. FAIM can also recommend other suitable investment programs if clients have savings goals or investment needs for which GWP is not the optimal solution.

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## **ITEM 5. FEES AND COMPENSATION**

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The following describes our fees so you will know how much you are charged and by whom for the advisory services we provide to you. Our fees are negotiable. Factors that may impact what we charge clients include, but may not be limited to:

- Scope of services rendered
- Complexity
- Amount of assets managed or advised
- Number of plans / relationships with the client
- Number of participants or accounts
- Location of participants or accounts
- Number of meetings required

FAIM will not charge any fee that is not disclosed in this section of our Brochure. Fees are exclusive of brokerage commissions, transactions fees and other related cost and expenses (unless participating in our Wrap Fee program, see Item 4 Wrap Fees.) Such expenses will be assessed to the client. Clients may incur certain charges imposed by custodians, brokers, and third-party managers or other third parties that FAIM does not control. These charges can include such things

as deferred sales charges, transfer taxes, wire transfer and electronic fund fees, brokerage account fees, and other fees, charges or taxes. For further information related to our brokerage practices please refer to Item 12.

We charge on-going fees based on a percentage of assets under management

Upon engagement, the client has five (5) business days to terminate the contract and receive a full refund of any fees collected in advance without penalty.

In the event that you wish to terminate our services in the future, we will refund the unearned portion of our fee to you. You need to contact us in writing and state that you wish to terminate our services. Upon receipt of your notice of termination, we will proceed to close out your engagement and process a pro-rata refund of unearned fees.

The total estimated fee, as well as the ultimate fee that we charge you, is based on the scope and complexity of our engagement with you.

#### **Fees for GWP Managed Service Clients:**

GWP Managed Service clients are charged an account fee consisting of an LPL program fee of 0.35% and a FAIM fee of up to 1.00%. In the future, a strategist fee may apply. However, LPL Research currently serves as the sole portfolio strategist and does not charge a fee for its services. FutureAdvisor is compensated directly by LPL for its services, including the Algorithm and related software, through an annual sub-advisory fee (tiered based on assets under management by FutureAdvisor, at a rate ranging from 0.10% to 0.17%). As each asset tier is reached, LPL's share of the compensation shall increase and clients will not benefit from such asset tiers.

GWP Educational Tool provides access to sample recommendations at no charge to users. However, if users decide to implement sample recommendations by executing trades, they will be charged fees, commissions, or expenses by the applicable broker or adviser, as well as underlying investment fees and expenses. Account fees are payable quarterly in advance, except that the SMS fee is paid in arrears on the frequency agreed to between client and Advisor.

The account fee may be higher than the fees charged by other investment advisors for similar services. For instance, FutureAdvisor offers direct-to-consumer services similar to GWP. Therefore, clients could generally pay a lower advisory fee for algorithm-driven, automated ("robo") investment advisory services through FutureAdvisor or other robo providers. However, clients using such direct robo services will forgo opportunities to utilize LPL-constructed model portfolios or to work directly with a financial advisor.

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## **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

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We do not charge performance-based fees to our clients.

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## **ITEM 7. TYPES OF CLIENTS AND ACCOUNT REQUIREMENTS**

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We provide investment advisory services to different types of clients, including:

- Individuals and High Net Worth Individuals
- Trusts, Estates or Charitable Organizations
- Pension and Profit Sharing Plans
- Corporations, limited liability companies and other business types



A minimum account value of \$5,000 is required to enroll in the GWP Managed Service.

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## ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

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Our IARs work independently from one another and employ varying philosophies, strategies, and tools in their investment analysis and due diligence processes. Any one of our IARs could utilize the following methods of analysis and strategies:

- Fundamental
- Technical
- Quantitative
- Qualitative

Our IARs apply generally accepted investment theories so that investment choices for clients align with the client's investment needs and objectives and are made with the goal to reasonably diversify client assets to help minimize the risk of large losses and to provide the potential for varying degrees of long-term appreciation and capital preservation. We generally use a mix of equity and fixed income exposures to meet the risk-based categories identified in the client's risk profile. IARs will diversify, reallocate and rebalance the investments and associated risk levels over time in accordance with generally accepted investment theories and consistent with the client's risk profile. IARs may make recommendations for changes to the underlying investments and/or the asset allocation percentages of any Model Portfolios as well.

In the implementation of its analysis, FAIM IARs use some or all of the following strategies at any given time:

*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.

*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. Short-term gains in taxable accounts are subject to federal income tax at higher rates than long-term gains. This difference in tax treatment is a disadvantage of short-term trades for taxable clients.

*Trading* – IARs may use short-term trades (in general, selling securities within 30 days of purchasing the same securities) when managing your account(s). An IAR may sell a security soon after purchasing it on occasions when they determine that there is a reasonable basis for the sale and it is suitable given a client's stated investment objectives and tolerance for risk. Short-term gains in taxable accounts are subject to federal income tax at higher rates than long-term gains, while losses realized on securities held 30 days or less are generally not tax deductible. These differences in tax treatment are disadvantages of short-term trades for taxable clients. There is also risk in that high velocity trading creates substantial transactions costs that in aggregate could negatively impact account performance.

*Short Sales* – securities transactions in which an investor sells securities he or she borrowed in anticipation of a price decline. The investor is then required to return an equal number of shares at some point in the future. A short seller will profit if the stock goes down in price. The risk associated with a short sale is the potential of unlimited loss should the underlying value of the short position increase in value instead of the anticipated decline. Another risk is buy-in risk. Once borrowed, the shares are subject to buy-in at any time, which could force the client to cover the short position at a disadvantageous time or price. Short sales require the use of margin, which may increase cost and risk. Additional costs include interest on the value of borrowed securities. Risks also include additional margin calls in response to market fluctuations or at the discretion of the custodian.

*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. This allows the client to purchase more stock than they would otherwise be able to, based on the account's available cash, and would allow the IAR to purchase stock without selling other holdings, which is therefore a higher risk strategy. Securities purchased on margin are subject to liquidation, additional margin calls, and interest on the funds borrowed. Should the value of the securities decline, clients may be forced to deposit additional margin with limited notice, or to liquidate their securities at substantial losses.

*Option Purchases and Option Writing* – Purchasing a long option gives the buyer the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. When an investor writes (or sells) an option, he or she is obligated to deliver to the buyer of the option a specified number of shares (or the calculated money difference) if the buyer exercises the option. FAIM does not generally permit uncovered option writing in advisory accounts. The seller receives a premium in exchange for writing the option. Options are wasting assets and expire at pre-determined dates. Commission charges for options transactions may be higher than the charges assessed for other assets, such as individual equities.

### **Risk of Loss**

***Please note:*** *Investing in securities involves risk of loss that clients should be prepared to bear.* While the value of your investments could increase and your account(s) thereby enjoy a gain, it is also possible that the value of your investments could decrease and your account(s) thereby suffer a loss. It is important that you understand the risks associated with investing in the securities markets, that you be appropriately diversified in your investments, and that you ask us any questions you may have.

FAIM can recommend many different types of securities, including mutual funds, closed end funds, ETFs (including inverse and leveraged ETFs), allocation on variable annuity subaccounts, equities, warrants, fixed income securities, options, and structured products. Investing in these securities and alternative investments involves the risk of loss that clients 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 or guarantee of future performance.

Described below are some particular risks associated with some types of investments FAIM may recommend. Risk is inseparable from return. Every investment involves some degree of risk, and both the degree of risk and the type of risk varies depending on the investment. For example, the risk of loss to principal can be very close to zero in the case of a US Treasury security, or very high for something such as a concentrated exposure to one specific foreign security. On the other hand, purchasing power risk for a US Treasury security may be higher than the purchasing power risk of a higher-yield corporate bond or an equity. An understanding of risk in different forms can help clients to understand the opportunities, trade-offs and costs involved with different investment approaches. The principal risk of any investment is that despite any comprehensive analysis, the security or instrument will not perform as expected. This can be due to, among other things:

*Market Risk:* the success of client's portfolio activities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, commodity prices, economic uncertainty, changes in laws, trade barriers, currency fluctuations and controls, and national and international political circumstances. These factors may affect the level of volatility of securities prices and the liquidity of investments in client portfolios. Such volatility or illiquidity could impair profitability or result in losses.

*Equity Risk:* investments in equity securities generally involve a high degree of risk. Prices are volatile and market movements are difficult to predict. These price movements may result from factors affecting individual companies or industries. Price changes may be temporary or last for extended periods. In addition to, or in spite of, the impact of movements in the overall stock market, the value of investments may decline if the particular investments within the portfolio do not perform well in the market. Prices of growth stocks may be more sensitive to changes in current

or expected earnings than prices of other stocks. Prices of stocks may fall or fail to appreciate regardless of movements in securities markets. A higher turnover rate, or increased trading may result in higher transactions costs and higher taxes in taxable accounts and may also affect the strategies' overall performance.

*Management Risk:* the strategies utilized by FAIM may not work in some market conditions. Management risk could also influence mutual fund and ETF portfolio management teams.

*Fixed Income Risks:* investments in fixed income securities represent numerous risks such as credit, interest rate, reinvestment, and prepayment risk, all of which affect their price/value. These risks represent the potential for a large amount of price volatility. In general, securities with longer maturities are more sensitive to price changes. Additionally, the prices of high-yield, fixed income securities fluctuate more than high-quality debt issues. Prices are especially sensitive to developments affecting the company's business and to changes in the ratings assigned by rating agencies. Prices are often closely linked with the company's stock prices. High-yield securities can experience sudden and sharp price swings due to changes in economic conditions, stock market activity, large sales by major investors, default, or other factors. In the event of a default, the investment may suffer a partial or total loss.

*Increased Regulations:* events during the past several years and adverse financial results have focused attention upon the necessity to maintain adequate risk controls and compliance procedures. These events have led to increased governmental and self-regulatory authority scrutiny of the financial industry. Various national governments have also expressed concern regarding disruptive effects of speculative trading and the need to regulate the markets in general. Any regulations that restrict the ability to employ, or broker-dealers and counterparties to extend credit or restrict trading activities could adversely impact profit potential.

*Market Liquidity Risks:* the value of securities held in client accounts that are traded on exchanges and the risks associated with holding these positions vary in response to events that affect asset markets in general. Market disruptions such as those that occurred in 1987, in September 2001, and more recently the "Flash Crash" in May 2010 (the biggest one-day point decline, 998.5 points, on an intraday basis in Dow Jones Industrial average history) could lead to violent price swings in securities held within client portfolios and could result in substantial losses.

*Small Capitalization Companies:* a portion of assets may be invested in smaller and less established companies. Both debt and equity securities of such issuers tend to be more volatile than larger, more established companies. Such volatility could adversely impact client portfolios.

*Large Company Risk:* large cap stocks can perform differently from other segments of the equity market or from the equity market as a whole. Large capitalization companies may be less flexible in evolving markets or unable to implement change as quickly as smaller capitalization companies.

*Short Sales, Leverage and Derivatives:* short sales, leverage and derivatives all represent substantial risks given their inherent heightened risk of loss. Leverage and derivatives imply borrowing capital. When such borrowing is deployed, losses can escalate quickly should investment suffer even small losses. Short sales involve a finite opportunity for appreciation, but a theoretically unlimited risk of loss. Short positions can also be subject to a "short squeeze" that could lead to accelerating losses for those short that particular security.

*Leverage Risk:* which may increase volatility of the portfolio.

*Price and Interest Rate Risk:* when interest rates change, the price of a bond is likely to adjust up or down so that its yield, based on the new price, is in line with the new level of interest rates. Interest rate risk is probably the most significant risk facing clients in fixed income securities because it affects all bonds similarly.

*Credit Risk:* the market's perception of the bond issuer's ability to pay interest and repay principal.

*Convertible Arbitrage Risk:* if interest rates on the convertible security rise, its value usually falls.

*Short Sales Risk:* if the value of a security sold short increases prior to the scheduled delivery date, the account must pay more for the security than it has received from the purchaser in the short sale.

*Options and Futures Risk:* the risk that the counter-party that wrote the option will be unable or unwilling to perform its obligations under the option contract, or the options may become illiquid and difficult to close. Options are a derivative of stocks. An option derives its value from the price of the underlying stock.

*Tax Risk:* FAIM in some cases may not manage client accounts with tax consequences in mind; some strategies, including transactions in options and futures contracts, can be subject to special tax rules, which may have adverse tax consequences for the account holder.

*Private Placements:* these instruments are exempt from registration under federal securities laws, have limited or no transparency as to the underlying investments, and are generally available only to “accredited” or “qualified investors,” who are assumed to be sophisticated purchasers who have little or no need for liquidity from such investments, and are able to withstand the loss of some or all of their investment. Limitations on withdrawal rights and non-tradability of interests create higher liquidity risk and such investments should be viewed as long-term investments. Clients do not have access to public information, and the securities purchased are deemed restricted, are not traded on a secondary market or exchange and the instrument is thus illiquid. Partnership and fee expenses may be a higher percentage of net assets than traditional investment strategies and may include performance or incentive fees. The duration of private fund investments with longer-term securities are more sensitive to interest rates and include the possibility of more volatility than other investments. This is not an exclusive list of potential or actual risks in any particular private placement. Potential investors should review the particular private offering memorandum for more complete risk and strategy information.

*Extraordinary Events:* global terrorist activity and United States involvement in armed conflict may negatively affect general economic fortunes, including sales, profits, and production, and may lead to depressed securities prices and problems with trading facilities and infrastructure.

*Non-US Investments:* Client funds may be invested in securities (e.g., debt, equity, currencies, derivatives, etc.) of issuers domiciled outside the United States. Such investments expose a portfolio to a number of risks that may not exist in the domestic market alone. Such risks include, among other things, trade balances and imbalances and related economic policies, currency exchange rate fluctuations, imposition of exchange control regulation, withholding taxes, limitations on the removal of funds or other assets, possible nationalization of assets or industries, political difficulties, and political instability in foreign nations.

*Potential Concentration:* client portfolios may have highly concentrated positions in issuers engaged in one or a few industries. This increases the risk of loss relative to the market as a whole.

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## ITEM 9. DISCIPLINARY INFORMATION

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Neither our firm nor any of our management persons have been subject to any material legal or disciplinary events.

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## ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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As discussed in Item 5 above, members of FAIM’s management team and most IARs are registered representatives of LPL Financial, member FINRA/SIPC. Management and IARs may offer securities and receive normal and customary commissions

as a result of securities transactions. This presents a conflict of interest to the extent that the management and IAR recommend that a client invest in a security which results in a commission being paid to him/her. Please refer to Item 12 for a discussion of the benefits registered representatives may receive from LPL and the conflicts of interest associated with receipt of such benefits. In addition, as a result of this relationship, LPL Financial may have access to certain confidential information (e.g., financial information, investment objectives, transactions and holdings) about FAIM's clients, even if client does not establish any account through LPL. If you would like a copy of the LPL Financial privacy policy, please contact the CCO.

FAIM's has an affiliated investment adviser under common ownership and control, Financial Advocates Advisory Services, LLC ("FAAS"). This firm is run by the same management team, operating out of the same location as FAIM and using the same personnel and other resources. However, it operates under a different business model and IARs of FAAS are not also IARs of FAIM.

FAIM has an affiliated insurance agency business conducted under Financial Advocates, Inc. The agency offers fixed insurance products only and is only utilized by independent financial advisors who are not associated with FAIM.

Some FAIM IARs are insurance agents appointed with various insurance companies and some IARs are insurance agents running their own insurance agency. This presents a conflict of interest to the extent that the agent recommends that a Client purchase insurance products which results in a commission being paid to that agent.

Clients are under no obligation to act upon any recommendation or effect any transactions through the IAR/agent if they decide to follow the recommendations made.

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## **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

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FAIM has established a Code of Ethics which applies to all of our associated persons, including our IARs. An investment adviser is considered a fiduciary. As a fiduciary, it is an investment adviser's responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. We have a fiduciary duty to all of our clients. Our fiduciary duty is the core underlying principle for our Code of Ethics.

We require all of our supervised persons to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment or affiliation and at least annually thereafter, all supervised persons will sign an acknowledgement that they have read, understood, and agreed to comply with our Code of Ethics. Our firm and supervised persons must conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients.

We have established the following restrictions as they relate to our participation or interest in client transactions and personal transactions of supervised persons:

- No supervised persons of our firm may purchase, sell or hold any security in a manner calculated to create personal benefit to that supervised person. If a supervised person stands to materially benefit from an investment decision for a client, the supervised person must disclose the full nature of the interest and personal benefit.
- A supervised person cannot trade ahead of an advisory client when he or she is buying or selling the same securities for themselves personally.

This disclosure is provided to give all clients a summary of our Code of Ethics relating to transactions. However, if a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request and at no cost.

See Item 12 below for additional information regarding brokerage commissions.

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## ITEM 12. BROKERAGE PRACTICES

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### Selecting and Recommending Broker-Dealers

We recommend to clients one of several broker-dealers, or custodians, to provide custodial and execution services. We try to limit certain potential conflicts of interest in the broker-dealers we use.

- Neither FAIM nor its associated persons receive research or other products or services other than execution from a broker-dealer or other third party in connection with client securities transactions (“soft dollar benefits”).
- Neither FAIM nor its associated persons consider client referrals from a broker-dealer or third party in the selection or recommendation of a broker-dealer.
- Neither FAIM nor its associated persons have discretionary authority in making the determination of brokers with whom orders for the purchase or sale of securities are placed for execution, and the commission rates at which such securities transactions are effected.

When recommending a broker-dealer, we look at a number of factors, including the reasonableness of compensation. The factors we consider for the different custodians are described below.

### LPL Financial

Our primary custodial relationship is with LPL Financial (“LPL”), member FINRA/SIPC. Most of our IARs are registered representatives with LPL. If the client desires to engage the IAR to provide brokerage services acting as a registered representative of LPL, the IAR will receive brokerage-related compensation for those services, such as commissions and/or trail fees. LPL provides information regarding such brokerage compensation at the time of a brokerage transaction. When considering whether to implement a recommendation through your IAR and LPL, clients should discuss with the IAR how LPL and the IAR will be compensated. Fees and Commissions may also be higher or lower than services provided by other vendors. Using our IARs to provide brokerage services for you creates a potential conflict of interest that may give an IAR an incentive to recommend services based on the compensation they will receive. This in no way prohibits you from purchasing investment products recommended by us through other brokers or agents which are not affiliated with us. Please refer to Item 5 of this brochure.

### Recommendation of other Broker-Dealers

We may recommend that clients establish brokerage accounts with one of three broker-dealers other than LPL to maintain custody of client assets and effect trades for client accounts. We have no affiliation with any of these broker-dealers. These broker-dealers include:

- Charles Schwab & Co.
- Fidelity Investments
- TD Ameritrade

Clients are advised that there may be transaction charges involved when purchasing or selling securities. FAIM does not share in any portion of the brokerage fees/transaction charges imposed by broker-dealers. Additionally, the commission/transaction fees charged by one of the broker-dealers we use may be higher or lower than those charged by other broker-dealer/custodians.

Through its relationship with a broker-dealer FAIM gains access to that firm’s institutional trading and operations services, which are typically not available to retail clients. Those services may include research, brokerage, custody, access to mutual funds and other investments that are otherwise available only to institutional clients or would require significantly higher minimum initial investments. The broker-dealer may also make available to FAIM other products and services that benefit FAIM but may not benefit its clients’ accounts. These include technology that provide access to client account data, facilitation

of trade execution, research, pricing information and other market data, facilitation of payment of FAIM's fees from its clients' accounts, and assistance with back-office support, recordkeeping and client reporting. These broker-dealers may also offer other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Technology, compliance, legal, and business consulting;
- Publications and conferences on practice management and business succession; and
- Access to employee benefits providers, human capital consultants and insurance providers.

A broker-dealer may also provide various incentives to our IARs, including marketing provided by vendors paid for by the broker-dealer, waiver of ticket charges, and/or availability of systems which may be contingent on the quantity of business directed to a particular broker-dealer. A broker-dealer's fees may be discounted or waived for some of these services, or a third party may pay the fee. A broker-dealer may also provide other benefits, such as occasional business entertainment of our personnel.

For certain IARs, the availability of the foregoing products and services is not contingent upon FAIM committing to one broker-dealer any specific amount of business (assets in custody or trading). However, certain IARs don't have to pay for services or receive other benefits described above so long as they maintain client assets at a stated level. The availability of these services from a broker-dealer benefits FAIM's IARs because they do not have to produce or purchase them. Any commitment level may give the IAR an incentive to recommend that clients maintain their accounts with one broker-dealer over another based on the IAR's interest in receiving that firm's services that benefit their business rather than based on client interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest.

Although there are potential conflicts of interest with our recommendation of a particular broker-dealer, we believe that FAIM's recommendation of a custodian and broker is in the best interests of our clients. This belief is based on the scope, quality and price of the broker dealer's services and not those services that benefit only FAIM or its IARs.

#### Transition Assistance Benefits

LPL Financial provides various benefits and payments to advisors who are both IARs and registered representatives of LPL ("Dually Registered Persons") that are new to the LPL Financial platform to assist the representative with the costs (including foregone revenues during account transition) associated with transitioning his or her business to the LPL Financial platform (collectively referred to as "Transition Assistance"). The proceeds of such Transition Assistance payments are intended to be used for a variety of purposes, including but not necessarily limited to, providing working capital to assist in funding the Dually Registered Person's business, satisfying any outstanding debt owed to the Dually Registered Person's prior firm, offsetting account transfer fees (ACATs) payable to LPL Financial as a result of the Dually Registered Person's clients transitioning to LPL Financial' custodial platform, technology set-up fees, marketing and mailing costs, stationary and licensure transfer fees, moving expenses, office space expenses, staffing support and termination fees associated with moving accounts.

The amount of the Transition Assistance payments are often significant in relation to the overall revenue earned or compensation received by the Dually Registered Person at his or her prior firm. Such payments are generally based on the size of the Dually Registered Person's business established at his or her prior firm and/or assets under custody on the LPL Financial.

Transition Assistance payments and other benefits are provided to associated persons of FAIM in their capacity as registered representatives of LPL Financial. However, the receipt of Transition Assistance by such Dually Registered Persons creates conflicts of interest relating to FAIM's advisory business because it creates a financial incentive for FAIM's representatives to recommend that its clients maintain their accounts with LPL Financial. In certain instances, the receipt of such benefits is dependent on a Dually Registered Person maintaining its clients' assets with LPL Financial and therefore FAIM has an incentive to recommend that clients maintain their account with LPL Financial in order to generate such benefits.



FAIM attempts to mitigate these conflicts of interest by evaluating and recommending that clients use LPL Financial's services based on the benefits that such services provide to our clients, rather than the Transition Assistance earned by any particular Dually Registered Person. FAIM considers LPL Financial's execution capability, commission rate, financial responsibility and responsiveness to our firm and our clients when recommending or requiring that clients maintain accounts with LPL Financial. However, clients should be aware of this conflict and take it into consideration in making a decision whether to custody their assets in a brokerage account at LPL Financial.

#### **Aggregation & Allocation of Client Orders**

For customized advisory services, IARs may aggregate transactions in equity and fixed income securities for a client with another client to improve the quality of execution. When transactions are so aggregated, the actual prices applicable to the aggregated transactions will be averaged, and the client account will be deemed to have purchased or sold its proportionate share of the securities involved at the average price obtained. IARs may determine not to aggregate transactions, for example, based on the size of the trades, the number of client accounts, the timing of the trades, the liquidity of the securities and the discretionary or non-discretionary nature of the trades. If IARs do not aggregate orders, some clients purchasing securities around the same time may receive a less favorable price than other clients. This means that this practice of not aggregating may cost clients more money.

#### **Special Considerations for ERISA Clients**

A retirement or ERISA plan client may direct all or part of portfolio transactions for its account through a specific broker or dealer in order to obtain goods or services on behalf of the plan. Such direction is permitted provided that the goods and services provided are reasonable expenses of the plan incurred in the ordinary course of its business for which it otherwise would be obligated and empowered to pay. ERISA prohibits directed brokerage arrangements when the goods or services purchased are not for the exclusive benefit of the plan. Consequently, we will request that plan sponsors who direct plan brokerage provide us with a letter documenting that this arrangement will be for the exclusive benefit of the plan.

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### **ITEM 13. REVIEW OF ACCOUNTS**

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The Chief Compliance Officer or one of FAIM's designated compliance officers oversees and monitors the IAR's activities with FAIM on a regular basis. The Chief Compliance Officer or a designated compliance officer conducts reviews of all client agreements and financial plans, as applicable.

Each IAR is ultimately responsible for reviewing his or her own clients' investment portfolios. IARs will continuously monitor the underlying securities within client accounts as well as any select third-party managers/programs. The frequency and content of any ongoing reviews done varies depending on the practices of any particular IAR and agreements with his or her clients.

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### **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

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#### **Suggestion of Brokers to Clients**

We recommend LPL Financial as the broker-dealer, or custodian, to clients. LPL is the broker-dealer with which most of our IARs are also associated. As a result of the individual association of our IARs with LPL, we are generally required to utilize the brokerage/custodial services of LPL for investment advisory accounts (see item 12 above).

FAIM and/or its Dually Registered Persons are incented to join and remain affiliated with LPL Financial and to recommend that clients establish accounts with LPL Financial through the provision of Transition Assistance (discussed in Item 12 above).



LPL also provides other compensation to FAIM and its Dually Registered Persons, including but not limited to, bonus payments, repayable and forgivable loans, stock awards and other benefits.

The receipt of any such compensation creates a financial incentive for your representative to recommend LPL Financial as custodian for the assets in your advisory account. We encourage you to discuss any such conflicts of interest with your representative before making a decision to custody your assets at LPL Financial.

### Referral Fees

We may pay referral fees (non-commission based) to independent solicitors for the referral of their clients to our firm. Such referral fees represent a share of the investment advisory fee we charge our clients. This arrangement will not result in higher costs to you. In this regard, we maintain Solicitor Agreements or Professional Advisor Alliance Program Agreements in compliance with Rule 206 (4)-3 of the Investment Advisers Act of 1940 and applicable state and federal laws. All clients referred by solicitors to our firm will be given full written disclosure describing the terms and fee arrangements between our firm and solicitor(s). In cases where state law requires licensure of solicitors, we ensure that no solicitation fees are paid unless the solicitor is registered as an investment adviser representative of our firm. If we are paying solicitation fees to another registered investment adviser, the licensure of individuals is the other firm's responsibility.

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## **ITEM 15. CUSTODY**

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Custody is defined as our firm having any legal or actual ability to access client funds or securities. We strictly limit our access to the ability to withdraw funds for purpose of fee deduction for accounts being charged an asset-based management fee. The advisory agreement clients complete defines the circumstances under which we can withdraw fees from your account.

All client assets are maintained with a qualified custodian, discussed earlier in this Brochure. Clients will receive at least quarterly statements from the qualified custodian that holds and maintains clients' investment assets. These statements are emailed or mailed to you at the email or mailing address you provide to us. We urge clients to carefully review their custodial account statements and notify FAIM of any discrepancies as soon as possible, including any error they believe may have occurred in the fee calculation.

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## **ITEM 16. INVESTMENT DISCRETION**

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Our clients need to sign a discretionary investment advisory agreement with our firm for the management of their account. This agreement applies to our asset management service as well as LPL-sponsored advisory programs. This agreement becomes effective only at time of written acceptance by an authorized representative of FAIM.

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## **ITEM 17. VOTING CLIENT SECURITIES**

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We do not and will not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. In the event that proxies are sent to our firm, we will forward them on to you and ask the party who sent them to mail them directly to you in the future.

Clients may call, write or email us to discuss questions they may have about particular proxy votes or other solicitations. However, third party money managers selected or recommended by our firm may vote proxies for clients. Therefore, except in the event a third party money manager votes proxies, clients maintain exclusive responsibility for: (1) directing the manner

in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets. Therefore (except for proxies that may be voted by a third party money manager), our firm and/or you shall instruct your qualified custodian to forward to you copies of all proxies and shareholder communications relating to your investment assets.

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## ITEM 18. FINANCIAL INFORMATION

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We are not required to provide financial information in this Brochure because:

- We do not require nor do we solicit prepayment of more than \$1,200 in fees, per client, six or more months in advance.
- We do not take custody of client funds or securities, other than fee deduction as detailed in Item 15.
- We do not have a financial condition or commitment that impairs our ability to meet contractual and fiduciary obligations to clients.
- We have never been the subject of a bankruptcy proceeding.