



Waterway Wealth Management, L.L.C.
Wrap Fee Program Brochure

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This wrap fee program brochure provides information about the qualifications and business practices of Waterway Wealth Management, L.L.C. If you have any questions about the contents of this brochure, please contact us at 281-363-0000. 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 Waterway Wealth Management, L.L.C. also is available on the SEC's website at www.adviserinfo.sec.gov.

MATERIAL CHANGES (ITEM 2)

The last annual update of this brochure was in March 2018. There have been no material changes to our business since that update.

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SERVICES, FEES AND COMPENSATION (ITEM 4)

SERVICES

Advisory Firm Description

Waterway Wealth Management, L.L.C. ("WWM" or the "Firm") has been in business since July 2012. The sole owner is Daniel Paul Michalk. WWM provides its clients with investment advisory services, which include comprehensive wealth management services and financial planning services.

Wrap Fee Program Description

The WWM Wrap Fee Program (the "Program") is a fee-only investment management program sponsored by WWM in which WWM pays for all transaction expenses the custodian charges accounts the Firm manages. The Program provides families, individuals, pension and profit sharing plans, trusts and estates the ability to trade in individual debt and equity securities, mutual funds, index funds, exchange-traded funds, options and other eligible securities without incurring separate brokerage commissions or transaction charges.

WWM's investment management service includes:

- Determining clients' investment goals.
- Evaluating current assets.
- Determining projected cash flow needs.
- Determining any investment constraints.
- Determining client risk tolerance.
- Developing an asset allocation, including specific investment recommendations.
- Placing trades in the client's account as appropriate.
- Ongoing support:
 - Support to the client for the investment account establishment and/or transfer assistance.
 - Portfolio monitoring.
- Quarterly reports.

Comprehensive Wealth Management

The Firm also provides a customized service to families or individuals requiring the Firm to take a much more integrated role in coordinating the client's financial picture. This service may include some or all of the following:

- Financial planning
- Investment management
- Interviewing, selecting and overseeing:
 - Accountants
 - Mortgages
 - Banking relationships
 - Tax planning and filing
 - Estate planning

WWM also offers financial planning services which are separate from the Program. Please refer to our Form ADV Part 2A for more information on those services.

FEES and COMPENSATION

Program Fees

Clients in the Program pay a single annualized fee for participation in the Program (the “Program Fee”) as shown in the table below. The Program Fee is negotiable and may be adjusted based on the complexity of each client’s individual situation. For existing clients, WWM’s fee for investment advisory services is assessed at the annual rate shown on the client’s agreement. Accounts owned by members of the same family (often extended family) are usually aggregated in order to grant the lowest fee to all family members, generally with a family minimum of \$1,000,000 of assets under management. Fees are deducted from each member’s account on a pro rata basis and clients may direct us to deduct fees from a different account. WWM’s fee structure for new clients follows

Assets Under Management	Annual Wrap Program Fee
\$1,000,000 to \$3,000,000	1.00%
\$3,000,001 to \$5,000,000	0.90%
Greater than \$5,000,000	0.75%

Fees are generally billed quarterly in advance at the rate of one fourth of the annual fee shown above, with the rate based on the aggregate value of all accounts belonging to a family. Fees charged to each account for the next quarter are calculated based on the portfolio valuation, including cash and accrued interest, as of the close of market on the last business day of the previous quarter. Additional deposits and withdrawals of funds and/or securities to the Program may be made to the account at any time, and do not result in fee adjustments retroactively. Program Fees are calculated pro rata for partial billing periods (for new or closed accounts) based upon the initial value of the assets in the account and the number of days remaining in the calendar quarter. This fee calculation is computed by Black Diamond, the Firm’s portfolio management software, which receives a daily valuation of securities from the account custodian or an independent pricing service.

Because we have a long history of serving our clients and pride ourselves on serving clients’ needs individually, different clients are on different fee schedules. This means some clients may be paying more (or less) than other clients with the same amount of assets under management. We do not differentiate our investment management service we provide to clients based on each client’s fee schedule or structure.

WWM’s Investment Advisory Agreement and the client’s agreement with the custodian authorize the custodian to deduct the Program Fee from the client’s account and remit it directly to WWM. In arrangements where the Program Fee is deducted directly from the client’s account, the custodian will send the client a statement, at least quarterly, indicating all amounts disbursed from the client’s Account, including the amount of the Program Fee paid directly to WWM. This fee deduction is deemed a form of custody by the Securities and Exchange Commission, although all client securities, investments and funds are held by an outside custodian.

Comprehensive Wealth Management Fees

Because of the differing nature of each family’s needs, this service is provided on a proposal basis, where the Firm outlines to the family (or individual) what will be provided at what price. An agreement for Comprehensive Wealth Management, which will contain the proposal as an

addendum, will be executed and will show exactly what services the client will receive from the Firm, any reports and regular meetings, and what fees the client will be paying. These fees (and associated services) are included in the client's Annual Program Fee.

Fee Comparison

Under the Program, clients receive both investment advisory services and the execution of transactions in eligible securities for a single, combined annualized fee, the Program Fee. Participation in the Program may cost the client more or less than purchasing such services separately elsewhere. For example the Program Fee, which is fixed regardless of the number of transactions occurring in the account, may be more or less than paying for execution on a per-transaction basis and paying a separate fee for advisory services. WWM does not charge its clients higher advisory fees based on the Firm's trading activity. Clients should be aware that WWM may have an incentive to limit the Firm's trading activities in the clients' accounts because WWM is charged for executed trades.

The WWM Program Fee may be higher or lower than fees charged by other sponsors of comparable investment advisory programs. WWM receives the entire Program Fee, and then reimburses the custodian for the transaction fees and any other charges the Firm incurred on behalf of a managed client account incurred (if any) during the prior quarter. Thus, WWM receives and retains the majority of the quarterly Program Fee. WWM offers only the Program to its clients in order to eliminate client concerns regarding variable transaction costs.

Additional Costs

The Program Fee includes transaction fees charged by the custodian on client accounts the Firm manages. Deferred sales charges, odd-lot differentials, transfer taxes and other fees the custodian charges the accounts will be paid by the client. Any additional charges (which would be at the client's request) to the account by the custodian are paid by the client. These additional fees would be for items such as requesting paper certificates.

When WWM recommends a mutual fund, ETF or money market fund for a client's account, two separate fees may be charged to the client, either directly or indirectly. The first fee, which is direct, is WWM's investment management fee where the fund is included in the asset base for the quarterly fee calculation. The second fee, which is indirect, is the set of internal fees charged by the investment company for the fund's investment management, marketing, administration and marketing assistance. These internal expenses are disclosed in each fund's prospectus which is provided to each client by the custodian.

Other Compensation for Participation in Wrap Fee Program

WWM recommends various qualified custodians for clients. WWM has a custodial arrangement with National Financial Services LLC and Fidelity Brokerage Services LLC (collectively, and together with all affiliates, "Fidelity"). WWM may also recommend that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. The Firm prefers that clients in need of brokerage and custodial services use either Fidelity or Schwab as they provide a number of resources and services which are helpful both to the Firm and to its clients.

Fidelity

Fidelity provides WWM with “institutional platform services.” The services provided by Fidelity include, among others, brokerage, custody and other related services. The services that assist WWM in managing and administering clients’ accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of fees from its clients’ accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Fidelity also offers other services intended to help WWM manage and further develop its advisory practice. Such services include, but are not limited to, performance reporting, contact management systems, third party research, publications, access to educational conferences, roundtables and webinars, practice management resources, access to consultants and other third party service providers who provide a wide array of business related services and technology with whom WWM may contract directly. WWM receives these benefits as a result of its clients’ relationships with Fidelity, but has no formal soft dollar arrangements and receives no compensation from Fidelity. These benefits provided by Fidelity might assist WWM with its administration of client accounts, and thus slightly help its profitability, creating a potential conflict of interest with clients. WWM believes this is not a material conflict.

Schwab

Schwab provides WWM with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of WWM’s clients’ assets are maintained in accounts at Schwab Advisor Services. Schwab’s services include brokerage services that are related to the execution of securities transactions, custody, research, including that in the form of advice, analyses and reports, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For WWM client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated through commissions or other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab also makes available to WWM other products and services that benefit WWM but may not benefit its clients’ accounts. These benefits may include national, regional or WWM specific educational events organized and/or sponsored by Schwab Advisor Services. Other potential benefits may include occasional business entertainment of personnel of WWM by Schwab Advisor Services personnel, including meals, some of which may accompany educational opportunities. Other of these products and services assist WWM in managing and administering clients’ accounts. These include software and other technology (and related technological training) that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of WWM’s fees from its clients’ accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Many of these services generally may be used to service all or some substantial number of WWM’s accounts, including accounts not maintained at Schwab Advisor Services.

Schwab Advisor Services also makes available to WWM other services intended to help WWM manage and further develop its business enterprise. These services may include professional compliance, legal and business consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, employee benefits providers, human capital consultants, insurance and marketing. In addition, Schwab may make available, arrange and/or pay vendors for these types of services rendered to WWM by independent third parties. Schwab Advisor Services may but currently does not discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to WWM. While, as a fiduciary, WWM endeavors to act in its clients' best interests, WWM's recommendation/requirement that clients maintain their assets in accounts at Schwab may be based in part on the benefit to WWM of the availability of some of the foregoing products and services and other arrangements and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

The final decision to custody assets with Schwab or Fidelity is at the discretion of WWM's clients, including those accounts under ERISA or IRA rules and regulations, in which case the client is acting as either the plan sponsor or IRA accountholder. WWM is independently operated and owned and is not affiliated with Fidelity or Schwab.

WWM recommends Fidelity or Schwab as "qualified custodians" for clients' accounts, with each client signing a separate agreement with Fidelity or Schwab. In recommending a custodian, WWM considers the range and quality of the products the custodian offers, the technical support provided, execution quality, commission rates, the financial responsibility and responsiveness of the custodian to both WWM and its clients. WWM recognizes its responsibility to attain best execution and recognizes that limiting its custodial relationships may affect its ability to provide best execution on a trade-by-trade basis. However, WWM evaluates each entire custodial relationship in assessing best execution on a client-by-client basis.

PORTFOLIO REQUIREMENTS AND TYPES OF CLIENTS (ITEM 5)

PORTFOLIO REQUIREMENTS

WWM prefers an initial minimum investment amount, generally aggregating all accounts belonging to a set of family members, of \$1,000,000. WWM reserves the right to waive or lower this minimum. The Firm's Albuquerque branch office reserves the right to lower the account minimum for services to be provided at the branch location.

TYPES OF CLIENTS

WWM provides investment supervisory services and manages investment advisory accounts for:

- families and individuals,
- high net worth individuals,
- pension and profit sharing plans,
- trusts and estates

PORTFOLIO MANAGER SELECTION AND EVALUATION (ITEM 6)

WWM is the only portfolio manager for the Program described in this wrap fee program brochure. WWM does not offer access to additional portfolio managers, but offers one fee to its clients in order to eliminate concerns regarding variable transaction costs. To the extent that WWM receives the Program Fee as a result of recommending itself, the Firm is in a conflict of interest with its clients.

ADDITIONAL FIRM INFORMATION

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

WWM does not receive performance-based fees on any accounts in which the Firm would share the gains in clients' accounts. Side-by-side management would apply if the Firm managed both accounts paying such fees and accounts not paying performance fees.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

WWM uses a combination of the following types of analysis in evaluating investments for client accounts:

- Charting—Analysis of charts of past stock performance
- Fundamental—Analysis of financial attributes of a company, such as revenue growth, debt to equity ratio, inventory turnover, etc.
- Technical—Analysis which assumes past performance is a predictor of future performance
- Cyclical—Analysis based on business, industry, calendar or historical cycles

Investment strategies for client accounts are structured to meet each client's objective. Asset allocation is the major differentiation between strategies. Diversification is accomplished within asset categories by varying sectors, time horizons and income production. Risks vary accordingly, although all accounts are subject to market risk. Investing in securities involves risk of loss that clients should be prepared to bear.

VOTING CLIENT SECURITIES

WWM does not vote client proxies for securities held in client accounts. Clients receive proxy information directly from the custodians by email or US mail, and may contact WWM for assistance in voting on any particular issue.

CLIENT INFORMATION PROVIDED TO WATERWAY WEALTH MANAGEMENT (ITEM 7)

After an analysis of the information provided by the client, WWM assists the client in developing an appropriate investment strategy for the assets in his/her account (the "Investment Strategy"). Thereafter, clients are contacted periodically and are requested to provide WWM with information regarding changes to their financial situation or investment objectives. WWM periodically reassesses the current Investment Strategy based on any other information provided by the client regarding his/her client profile.

The agreement that clients enter with WWM provides that the client grants WWM complete discretion (through a limited power of attorney) to determine both the securities purchased and sold and the amounts of those purchases and sales. Clients may place restrictions on WWM's discretion in writing.

CLIENT CONTACT WITH WATERWAY WEALTH MANAGEMENT (ITEM 8)

All clients are encouraged to contact or meet on a semi-annual basis with WWM to review their account reports, update their client information and determine whether changes should be made to their Investment Strategy. There are no restrictions on clients to contact or consult with WWM regarding the Program or their accounts.

ADDITIONAL INFORMATION (ITEM 9)

DISCIPLINARY INFORMATION

There have been no disciplinary actions against WWM or Daniel Michalk nor any other individuals associated with the Firm.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

WWM has no other financial industry activities or affiliations.

CODE OF ETHICS, PARTICIPATION IN CLIENT TRANSACTIONS AND PERSONAL TRADING

WWM has adopted a Code of Ethics which describes the general standards of conduct that the Firm expects of all Firm personnel (collectively referred to as "employees") and focuses on three specific areas where employee conduct has the potential to adversely affect the client: misuse of confidential information; personal securities trading and outside business activities. Failure to uphold the Code of Ethics may result in disciplinary sanctions, including termination with the Firm. Any client or prospective client may request a copy of the Firm's Code of Ethics which will be provided at no cost.

The following basic principles guide all aspects of the Firm's business and represent the minimum requirements to which the Firm expects employees to adhere:

- Clients' interests come before employees' personal interests and before the Firm's interests.
- The Firm must fully disclose all material facts about conflicts of which it is aware between the Firm and its employees' interests on the one hand and clients' on the other.
- Employees must operate on the Firm's behalf and on their own behalf consistently with the Firm's disclosures and to manage the impacts of those conflicts.
- The Firm and its employees must not take inappropriate advantage of their positions of trust with or responsibility to clients.
- The Firm and its employees must always comply with all applicable securities laws.

Misuse of Nonpublic Information

The Code of Ethics contains a policy against the use of nonpublic information in conducting business for the Firm. Employees may not convey nonpublic information nor depend upon it in placing personal or client securities trades.

Personal Securities Trading

Daniel Michalk and individuals associated with the Firm may buy, sell or hold in their personal accounts the same securities the Firm recommends to its clients. Such trades may occur simultaneously with or after trades placed on behalf of clients and receive average pricing or after client trades with clients always receiving the same or better pricing.

To avoid conflicts of interest, the Firm has established the following policies:

- An officer, director or employee of WWM shall not buy or sell securities for a personal portfolio when the decision to purchase is substantially derived, in whole or in part, by reason of employment with the Firm, unless the information is also available to the investing public on reasonable inquiry. No person associated with WWM shall prefer his or her own interest to that of any client. Employees may participate in block trades.
- Employee accounts must be held at Fidelity, so the Firm is able to monitor on a daily basis any trades that employees have placed in their personal accounts.

The Firm's Code of Ethics allows the purchase of IPOs or private placements only with prior permission from Daniel Michalk, the Firm's Chief Compliance Officer. Clients may request to review a copy of the Firm's Code of Ethics, which contains the employee trading policy.

Employees are required to submit reports of personal securities trades on a quarterly basis, and securities holdings annually. These are reviewed by the Chief Compliance Officer to ensure compliance with the Firm's policies.

Outside Business Activities

Employees are required to report any outside business activities generating revenue. If any are deemed to be in conflict with clients, such conflicts will be fully disclosed.

REVIEW OF ACCOUNTS

Daniel Michalk, Managing Member, conducts all client portfolio reviews for The Woodlands office. David Michalk, Investment Advisor Representative, conducts all client portfolio reviews for the Albuquerque branch office. Reviews are conducted as a matter of course at least quarterly and consist of looking at portfolio holdings, cash flows, and market activity in light of client objectives. Additional reviews may be triggered by events such as a client meeting, change in a client's risk tolerance, financial position or investment objective, change in a company or fund's management, unusual market or economic circumstances or other unforeseen events.

The Firm provides clients with quarterly written/electronic statements of portfolio holdings. The custodian provides detailed written statements of realized gains/losses.

CLIENT REFERRALS AND OTHER COMPENSATION

WWM does not compensate any person outside the Firm directly or indirectly for client referrals.

FINANCIAL INFORMATION

There is no financial condition that is reasonably likely to impair WWM's ability to meet its contractual commitments to its clients.

Client Assets Under Management

As of December 31, 2018, WWM's Program had \$295,950,356 of discretionary assets under management.

Termination

The typical Program agreement WWM enters into with clients allows for either party to terminate the agreement immediately upon receipt of written notice. The client may terminate the agreement without penalty or fees within five (5) business days after entering the agreement. Otherwise, at the date of termination, the Firm agrees to refund any prepaid unearned fees to the client on a pro rata basis. Any fees due to outside parties which Waterway has engaged on behalf of the client will be paid promptly by the client. The Firm will provide clients of the Program services with summary statements on a year-to-date basis upon termination.