



## **Waterway Wealth Management, L.L.C.**

### ***Wrap Fee Program Brochure***

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**July 2019  
(Item 1)**

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](http://www.adviserinfo.sec.gov).

## **MATERIAL CHANGES (ITEM 2)**

The last annual update of this brochure was in March 2019. Since that update, the following material changes have occurred to our business:

### **April 2019**

We moved our Woodlands office to a new floor in our same building. Our new address is:

21 Waterway, Suite 500  
The Woodlands, TX 77380

### **July 2019**

We have expanded the investment strategies we use. See Item 6 for discussion of the following strategies: Core, Core Plus, and Private Equity.

## TABLE OF CONTENTS (ITEM 3)

Services, Fees and Compensation (Item 4) .....	1
Services .....	1
Advisory Firm Description .....	1
Wrap Fee Program Description .....	1
Fees and Compensation .....	2
Program Fees .....	2
Comprehensive Wealth Management Fees .....	3
Fee Comparison .....	4
Additional Costs .....	4
Other Compensation for Participation in Wrap Fee Program .....	5
Portfolio Requirements and Types of Clients (Item 5) .....	7
Portfolio Requirements .....	7
Types of Clients .....	7
Portfolio Manager Selection and Evaluation (Item 6) .....	8
Additional Firm Information .....	8
Performance-Based Fees and Side-by-Side Management .....	8
Methods of Analysis, Investment Strategies and Risk of Loss .....	8
Voting Client Securities .....	10
Client Information Provided to Waterway Wealth Management (Item 7) .....	10
Client Contact with Waterway Wealth Management (Item 8) .....	10
Additional Information (Item 9) .....	10
Disciplinary Information .....	10
Other Financial Industry Activities and Affiliations .....	11
Code of Ethics, Participation in Client Transactions and Personal Trading .....	11

Misuse of Nonpublic Information .....	11
Personal Securities Trading .....	11
Outside Business Activities .....	12
Review of Accounts .....	12
Client Referrals and Other Compensation .....	13
Financial Information .....	13
Client Assets Under Management.....	13
Termination.....	13

## SERVICES, FEES AND COMPENSATION (ITEM 4)

### SERVICES

#### **Advisory Firm Description**

Waterway Wealth Management, L.L.C. (“WWM”, “we” or the “Firm”) has been in business since July 2012. Daniel Paul Michalk is the sole owner. We provide investment advisory services, which include comprehensive wealth management and financial planning services.

#### **Wrap Fee Program Description**

The WWM Wrap Fee Program (the “Program”) is a fee-only investment management program we sponsor in which we pay all transaction expenses the custodian charges accounts that we manage. 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.

Our 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
- Establishing the investment account
- Ongoing client support for transfer assistance portfolio monitoring, and
- Quarterly reports

*Comprehensive Wealth Management*

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

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

We also provide financial planning services that 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, our 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 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 as determined by our portfolio management software, 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 that some clients are paying more (or less) than other clients with the same amount of assets under management. We do not differentiate the investment management service we provide to clients based on each client's fee schedule or structure.

Our 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 us. 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 us. 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. Please see our Form ADV 2A for additional discussion of our possibly having custody of client assets.

### **Comprehensive Wealth Management Fees**

Because of the differing nature of each family's needs, Comprehensive Wealth Management is provided on a proposal basis, where the Firm outlines to the family (or individual) what will be provided and 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. We do not charge our clients higher advisory fees based on the Firm's trading activity. Clients should be aware that we may have an incentive to limit the Firm's trading activities in the clients' accounts because we are charged transaction fees or commissions for executed trades.

The WWM Program Fee may be higher or lower than fees charged by other sponsors of comparable investment advisory programs. We receive the entire Program Fee, and then reimburse the custodian for the transaction fees and any other charges the Firm incurred on behalf of a managed client account (if any) during the prior quarter. Thus, we receive and retain the majority of the quarterly Program Fee. We offer only the Program to our 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 we manage. Deferred sales charges, odd-lot differentials, transfer taxes and other fees that 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 we recommend 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 our 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**

We recommend various qualified custodians for clients. We have a custodial arrangement with National Financial Services LLC and Fidelity Brokerage Services LLC (collectively, and together with all affiliates, "Fidelity"). We 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. We prefer that clients in need of brokerage and custodial services use either Fidelity or Schwab, as they provide a number of resources and services that are helpful both to our clients and to us.

#### *Fidelity*

Fidelity provides us with "institutional platform services." These 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 us manage and further develop our 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 we may contract directly. We receive these benefits because of our clients' relationships with Fidelity, but have no formal soft dollar arrangements and receive no compensation from Fidelity. These benefits provided by Fidelity might assist us with the administration of client accounts, and thus slightly help our profitability, creating a potential conflict of interest with clients. We believe this is not a material conflict.

Schwab

Schwab provides us with access to 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 so long as a total of at least \$10 million of our 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, 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 our client accounts maintained at Schwab, there is not a separate custody fee, but rather Schwab 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 us other products and services that benefit us but may not benefit our clients' accounts. These benefits may include national, regional or specific educational events organized and/or sponsored by Schwab Advisor Services. Other potential benefits may include occasional business entertainment of our personnel by Schwab Advisor Services personnel, including meals, some of which may accompany educational opportunities. Other products and services that assist us in managing and administering clients' accounts 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 (such as allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of our fees from our clients' accounts, and assist with back-office training, support functions, recordkeeping and client reporting. Many of these services may be used to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab Advisor Services. Schwab Advisor Services also makes available other services intended to help us manage and further develop our 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 us 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, we endeavor to act in our clients' best interests, our recommendation/requirement that clients maintain their assets in accounts at Schwab may be based in part on the benefit to us 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 our 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. We are independently operated and owned and are not affiliated with Fidelity or Schwab.

We recommend Fidelity or Schwab as "qualified custodians" for clients' accounts, with each client signing a separate agreement with Fidelity or Schwab. In recommending a custodian, we consider 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 us and our clients. We recognize our responsibility to attain best execution and recognize that limiting our custodial relationships may affect our ability to provide best execution on a trade-by-trade basis. However, we evaluate each entire custodial relationship in assessing best execution on a client-by-client basis.

## **PORTFOLIO REQUIREMENTS AND TYPES OF CLIENTS (ITEM 5)**

### **PORTFOLIO REQUIREMENTS**

We prefer an initial minimum investment amount, generally aggregating all accounts belonging to a set of family members, of \$1,000,000. We reserve the right to waive or lower this minimum. Our Albuquerque branch office reserves the right to lower the account minimum for services provided at that 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)

We are the only portfolio manager for the Program described in this wrap fee program brochure. We do not offer access to additional portfolio managers, but offer one fee to our clients in order to eliminate concerns regarding variable transaction costs. To the extent that we receive the Program Fee as a result of recommending itself, we are in a conflict of interest with our clients.

## ADDITIONAL FIRM INFORMATION

### SIDE-BY-SIDE MANAGEMENT AND PERFORMANCE-BASED FEES

Side-by-side management would apply only if we managed both accounts paying performance fees and accounts not paying such fees. We do not receive performance-based fees on any accounts we manage.

### 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.

#### Core Strategy

Our Core strategy is a mix comprised of no load mutual funds and ETFs, which are allocated as appropriate for each client. All clients have a portion of their total portfolio invested in this strategy. As client needs vary, additional strategies ("Satellite Strategies") are added. Risks to this strategy

include market risk and expenses that would not be incurred if a client should invest directly in the underlying securities.

### Core Plus Strategy

Clients requiring special tax planning and income may participate in this strategy, which invests in 20 to 25 individual equities. In the Core Plus Strategy, fewer positions are held than in the Core Strategy making the potential concentration or unique risk higher. The value of equity securities may fluctuate in response to specific situations for each company, industry conditions and the general economic environments.

Clients with additional income needs who participate in the Core Plus Strategy may use our Covered Call Strategy, also referred to as a “buy-write” strategy. Our Covered Call Strategy buys the stocks owned in the Core Plus Strategy and writes (or sells) call options that “cover” the S&P 500 Index. This strategy is used to enhance returns under certain market conditions and to reduce volatility through the collection of call premiums. In down markets, the option premium generated cushions price decline in the underlying stock positions. The trade-off is that in strong equity markets, the upside potential of the equity position(s) is/are limited.

### Private Equity Strategy

Clients willing to forego liquidity in hopes of increased returns may be offered to participate in private issues investing in real estate and other hard assets. These investments are illiquid, and may not be converted to cash for several, or extended, years. Illiquid investments are investments that are not heavily traded and cannot easily be converted to cash. If any of our clients requires cash and we must sell illiquid investments at an inopportune time, we might not be able to sell illiquid investments at prices that reflect our assessment of their value or the amount paid for them and are likely to incur significant penalty fees. Additionally, investors in private issues may be more limited in their ability to rebalance relative to a more liquid portfolio and in some cases incur higher fees paid to the underlying managers. Investing in securities involves risk of loss that clients should be prepared to bear.

## **VOTING CLIENT SECURITIES**

We do 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 us 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, we assist our clients in developing an appropriate investment strategy for the assets in his/her account (the "Investment Strategy"). Thereafter, we contact clients regularly, requesting information regarding changes to their financial situation or investment objectives. We periodically reassess the current Investment Strategy based on any other information provided by the client regarding his/her client profile.

The agreement that clients enter with us provides that the client grants us 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 our discretion in writing. If clients choose to participate in private issues, the client will execute the subscription documents.

### **CLIENT CONTACT WITH WATERWAY WEALTH MANAGEMENT (ITEM 8)**

All clients are encouraged to contact or meet on a semi-annual basis with us 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 us regarding the Program or their accounts.

### **ADDITIONAL INFORMATION (ITEM 9)**

## **DISCIPLINARY INFORMATION**

There have been no disciplinary actions against us, Daniel Michalk or any other individuals associated with the Firm.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

We have no other financial industry activities or affiliations.

## **CODE OF ETHICS, PARTICIPATION IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

We have adopted a Code of Ethics, which describes the general standards of conduct that we expect of our personnel (collectively referred to as “employees”) and focuses on three specific areas where employee conduct has the potential to adversely affect our clients: 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 of employment. Any client or prospective client may request a copy of our Code of Ethics, which will be provided at no cost.

The following basic principles guide all aspects of our business and represent the minimum requirements to which we expect employees to adhere:

- Clients’ interests come before employees’ personal interests and before our interests.
- We must fully disclose all material facts about conflicts of which we are aware between our clients and us. Employees must operate consistently with our disclosures and manage the impacts of those conflicts.
- We must not take inappropriate advantage of our positions of trust or responsibility to our clients.
- We 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 us may buy, sell or hold in their personal accounts the same securities we recommend to our 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, we have 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, because of employment with us, unless the information is also available to the investing public on reasonable inquiry. No person associated with us 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 we are able to monitor on a daily basis any trades that employees have placed in their personal accounts.

Our Code of Ethics allows the purchase of IPOs or private placements only with prior permission from Daniel Michalk, our Chief Compliance Officer.

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 our 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.



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

## **CLIENT REFERRALS AND OTHER COMPENSATION**

We do 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 our ability to meet our contractual commitments to its clients.

### **Client Assets Under Management**

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

### **Termination**

The typical Program agreement we enters into with clients allows 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 which is calculated by counting the actual days the assets were under our management over the actual days in the quarter. 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.