

## Item 1: Cover Page



### **Part 2A of Form ADV Firm Brochure**

March 4, 2024

#### **Brown Wealth Management, LLC dba RAI Wealth**

SEC No. 801-127594

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This brochure provides information about the qualifications and business practices of Brown Wealth Management, LLC. If you have any questions about the contents of this brochure, please contact us at 630-733-8434 or via email to [operations@raiwealth.com](mailto:operations@raiwealth.com). 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. Registration with the SEC or state regulatory authority does not imply a certain level of skill or expertise.

Additional information about Brown Wealth Management, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

This Firm Brochure is our disclosure document prepared according to regulatory requirements and rules. Consistent with the rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary. At this time there are no material changes from the last annual update of this disclosure statement issued on March 6, 2023.

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## **Item 4: Advisory Business**

### **A. Ownership/Advisory History**

Brown Wealth Management, LLC ("RAI Wealth" or the "firm") is an Illinois limited liability company. RAI Wealth became registered as an investment adviser in 2014. The Principal Owner of RAI Wealth is Scott Brown and the Chief Compliance Officer is Melissa Imbrogno.

### **B. Advisory Services Offered**

The firm offers a variety of services, including financial planning and portfolio management for individuals, families, and/or small businesses.

#### **Portfolio Management Services**

As part of its portfolio management services, in addition to other types of investments, RAI Wealth may invest client assets according to one or more model portfolios developed by third-party managers. These models are designed for investors with varying degrees of risk tolerance, ranging from a more aggressive investment strategy to a more conservative investment approach. Clients whose assets are invested in model portfolios may set restrictions on the specific holdings or allocations within the model, such as the types of securities that can be purchased in the model by providing us written notice related to these restrictions.

RAI Wealth's portfolio management services may be offered through third-party investment advisers on a sub-advised basis.

For its discretionary asset management services, RAI Wealth receives a limited power of attorney to effect securities transactions on behalf of its clients that include securities and strategies described in Item 8 of this brochure, and to retain and allocate all or a portion of the account to sub-advisers and third-party asset managers.

Clients have the right to provide the firm with any reasonable investment restrictions that should be imposed on the management of their portfolio (must be in writing and sent to the firm), and should promptly notify the firm in writing of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. RAI Wealth will remind clients of their obligation to inform the firm of any such changes or any restrictions that should be imposed on the management of the client's account. RAI Wealth will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

#### **Financial Planning Services**

RAI Wealth provides one-time or ongoing financial planning services to the client. Clients will receive a written financial analysis and plan designed to help achieve their stated financial goals and objectives.

Based on the client's needs, financial planning services may include (but are not limited to) the following:

- Net Worth Analysis
- Cash Flow Analysis
- Investment Planning
- Estate Planning
- Business Planning
- Education Planning
- Retirement Planning
- Other Goal Planning

The client agrees to provide RAI Wealth, in a timely manner, any and all pertinent information regarding the client's financial situation in order for RAI Wealth to analyze the client's financial situation and make suitable recommendations. RAI Wealth may provide the client with a financial information worksheet to assist in providing all pertinent information. The client understands and acknowledges that all reports and/or recommendations are based upon information furnished by the client to RAI Wealth. The client will provide RAI Wealth with necessary supplemental information in writing, which may include any material changes in the financial status of the client or changes in the financial goals of the client.

The client may implement or disregard, in whole or in part, any recommendation, suggestion, or advice contained in the report or made by RAI Wealth. The client is under no obligation to implement any recommendation through RAI Wealth or any affiliated entity of RAI Wealth. If the client wishes to implement any recommendation, suggestion, or advice contained in the report or made by RAI Wealth, the client may select any brokerage firm, private investment firm, insurance agency, broker, carrier, bank, or any other financial services institution to implement the client's decisions.

### **Retirement Plan Advisory Services**

RAI Wealth provides various consulting services to qualified employee benefit plans and their fiduciaries. This suite of institutional services is designed to assist plan sponsors in structuring, managing and optimizing their corporate retirement plans. Each engagement is individually negotiated and customized, and may include any or all of the following services.

#### **Ongoing Advisory Services – Plan Level**

- Advisor will assume ERISA 3(21)(A) fiduciary status as described below. Advisor acknowledges that its advice: may be relied upon by Plan Sponsor, will form the principal basis of Plan Sponsor's adoption of an investment policy or selection of service providers and is tailored to the specific needs of the Plan.
- Advisor will provide guidance on properly structuring an Investment Committee and participate on the Committee as a non-voting member.
- Advisor will assist the Plan Sponsor with the creation and maintenance of an Investment Policy Statement (IPS). The IPS will include at least the following provisions:
  - Plan summary information that outlines the duties and responsibilities of all Plan fiduciaries (internal and external);
  - A review of the fiduciary standards which apply to each Plan fiduciary and service provider;
  - A review of the due diligence processes which will be followed by the Plan fiduciaries with regard to matters relating to the IPS;

- A review of the risk evaluation and asset selection criteria which will be used by the Plan fiduciaries to measure the performance of current and prospective Plan investment options, together with a summary of the procedures to be followed by Plan fiduciaries for adding or removing a Plan investment option; and
  - A statement of investment criteria for selection of a qualified default, investments alternative (QDIA) and any model portfolios.
- Advisor will, if applicable, conduct a Request for Proposal (RFP) for the selection of any service providers to the Plan (i.e. custodians, record keepers, administrators, etc.). Advisor will advise the Plan Sponsor on the hiring, compensation determination, and all other matters relating to any persons, firms, companies, or corporations employed or contracted to provide service to the Plan.
  - Advisor will prepare and present a quarterly report to the Committee on matters related to the Plan structure, cost, performance, adherence to the IPS, and any fiduciary concerns that may arise.
  - Advisor will assist Plan Sponsor in assuring compliance of all service providers with the fee disclosure requirements of ERISA 408(b)(2) and ERISA Regulation 2550.408b-2 and compliance of all service providers with the participant fee disclosure requirements of ERISA 404(a) and ERISA Reg. 2550.404a-5.
  - Goals for participant level education and advice and elections among investment alternatives.

#### **Ongoing Advisory Services (401(k) Plan) – Investment Level**

- Advisor will assume ERISA 3(38) fiduciary status as described below.
- Advisor will employ a prudent process to screen, select, and monitor the investments offered in the Plan. Advisor will monitor the performance of the investment offering in accordance with the guidelines as set forth in the IPS and will advise the Plan Sponsor whether said performance should cause the Plan Sponsor to remove any one or more investment options from the Plan. Advisor will serve as the primary basis for the Plan Sponsor's decisions and the Plan Sponsor is entitled to rely on Advisor's advice.
- In conjunction with its responsibilities in 2(B)(b)(i) above and in consultation with and as directed by the Plan Sponsor, the Advisor will have the following specific obligations:
  - Generally maintain the participant's self-directed program in compliance with Sections 404(a) and 404(c) of ERISA;
  - Select investment alternatives that will allow participants to exercise meaningful independent control over the assets in their accounts;
  - Select investment alternatives that will allow participants to choose among a broad range of investments and will permit diversification within and among those alternatives;
  - Select investment alternatives that will allow participants to materially affect the potential return on assets over which the participants exercise control;

- Select and offer no less than three (3) investment alternatives which are diversified and have materially different risk and return characteristics; and
- Choose a qualified default investment alternative (QDIA) for the Plan in compliance with the requirements of the Pension Protection Act of 2006 (PPA) and applicable regulations and other guidance.

#### **Ongoing Advisory Services – Participant Level**

- All participant level services are intended to qualify and shall qualify with all applicable requirements for a fee neutral “eligible investment advice arrangement,” as defined in Section 408(g)(2)(A)(i) of ERISA and applicable regulations and other guidance, and for such purpose the Advisor shall take all steps necessary and bear all related costs to qualify as a “fiduciary advisor” for the participant level services in compliance with Sections 408(b)(14) and 408(g) of ERISA, and applicable regulations and other guidance.
- Advisor will prepare and distribute all required Participant Disclosures required under ERISA 408(g)(6).
- Advisor will conduct group education meetings and provide one-on-one advice to participants on a regularly scheduled basis as agreed upon by the Plan Sponsor and Advisor.
- Advisor will negotiate with service providers to provide complete transparency of fees consistent with ERISA 408(b)(2) requirements.

### **C. Client-Tailored Services and Client-Imposed Restrictions**

Each client’s account will be managed on the basis of the client’s financial situation and investment objectives and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be purchased in the portfolio.

### **D. Wrap Fee Programs**

RAI Wealth does not participate in wrap fee programs, where brokerage commissions and transaction costs are included in the asset-based fee charged to the client.

### **E. Client Assets Under Management**

As of December 31, 2023, RAI Wealth managed \$293,443,659 of discretionary assets and \$32,666,790 of non-discretionary assets.

## Item 5: Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### Portfolio Management Services Fees

RAI Wealth charges a blended tiered investment advisory fee based on the total assets under management according to the following fee schedule:

<b>Assets Under Management</b>	<b>Annual Fee*</b>
\$0 - \$500,000	1.25%
\$500,001 - \$2,000,000	1.00%
\$2,000,001 - \$5,000,000	0.85%
More than \$5,000,000	0.75%

\*The annual fee may require a Model Administration fee of 0.10%, resulting in an initial total fee of up to 1.35%. This annual percentage may be reduced with additional deposits or for other reasons, but the fee will not exceed 1.35%.

The firm, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (e.g., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, pro bono activities, etc.).

RAI Wealth may modify the fee at any time upon 30 days' written notice to the client. Fee increase modifications must be approved in writing by the client.

Asset-based fees are always subject to the investment advisory agreement between the client and RAI Wealth. Such fees are payable monthly in arrears based on the average daily value of the account during the month. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar month.

#### Financial Planning Fees

For clients with a minimum of \$500,000 in assets under management with RAI Wealth, financial planning services are included at no additional cost to the client. Clients will receive a written financial analysis and plan as detailed in the signed financial planning agreement.

For clients with less than \$500,000 in assets under management with RAI Wealth and for standalone financial planning, financial planning services are charged in advance through a fixed fee arrangement as agreed upon between the client and RAI Wealth. Fees are negotiable and vary depending upon the complexity of the client situation and the services to be provided. Fixed fees range from \$300 to \$2,500 per project. An estimate for total hours and charges is determined at the start of the advisory relationship.

The terms and conditions of the financial planning engagement are set forth in the advisory agreement.



The fee for a single financial planning engagement is due upon delivery of the financial plan. Clients may also engage RAI Wealth for Ongoing Planning Services & Technology Support Platform. The fee for this service is charged as an annual retainer, and clients have the option of paying in a single payment, two payments, or four quarterly payments. Should the client choose to engage RAI Wealth for asset management services, the financial planning fee will be applied toward the asset management services.

The firm does not take receipt of \$1,200 or more in prepaid fees in excess of six months in advance of services rendered. Financial planning fees are paid via check or ACH.

For a single financial planning engagement, the agreement shall remain in effect for one (1) year or until either party terminates the agreement. For RAI Wealth's Ongoing Planning Services & Technology Support Platform, the term of the contract will be indefinite depending on, among other things, the nature and complexity of the client's financial situation and goals.

The financial planning agreement may be terminated at any time upon written notice by either party to the other throughout the contract period prior to the delivery of the report or thereafter. If the termination occurs before the report is prepared, RAI Wealth shall be under no obligation to produce the report to the client. A pro rata charge for advisory services rendered prior to such termination will be incurred with the remaining balance to be refunded to the client.

### **Retirement Plan Advisory Services Fees**

Each engagement is individually negotiated in advance and tailored to accommodate the needs of the individual plan sponsor, as memorialized in the agreement, and the fees vary based on the scope of the services to be rendered and assets to be managed.

## **B. Client Payment of Fees**

For portfolio management services, RAI Wealth does not require the prepayment of its fees. RAI Wealth requires clients to authorize the direct debit of fees from their accounts. Exceptions may be granted subject to the firm's consent for clients to be billed directly for our fees. For directly debited fees, the custodian's periodic statements will show each fee deduction from the account. Clients may withdraw this authorization for direct billing of these fees at any time by notifying us or their custodian in writing.

RAI Wealth will deduct advisory fees directly from the client's account provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account. The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

A client investment advisory agreement may be terminated by either party by giving the other party 30 days' written notice. Upon termination, any earned, unpaid fees will be immediately due and payable.

### C. Additional Client Fees Charged

All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by exchange-traded funds, mutual funds, separate account managers, private placement, pooled investment vehicles, broker-dealers, and custodians retained by clients. Such fees and expenses are described in each exchange-traded fund and mutual fund's prospectus, each separate account manager's Form ADV and Brochure and Brochure Supplement or similar disclosure statement, each private placement or pooled investment vehicle's confidential offering memoranda, and by any broker-dealer or custodian retained by the client. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, a client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using RAI Wealth may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

### D. External Compensation for the Sale of Securities to Clients

RAI Wealth's advisory professionals are compensated primarily through a salary and bonus structure. RAI Wealth's advisory professionals may be paid sales, service or administrative fees for the sale of mutual funds or other investment products. RAI Wealth's advisory professionals may receive commission-based compensation for the sale of securities and insurance products. Investment adviser representatives, in their capacity as a PCS registered representative, are prohibited from earning an advisory fee on the securities value transferred from an advisory client's PCS brokerage account unless commissions earned on such securities transactions occurred at least 12 months prior to the transfer. Please see Item 10.C. for detailed information and conflicts of interest.

### E. Important Disclosure – Custodian Investment Programs

Please be advised that certain of the firm's investment adviser representatives are registered with a broker-dealer and/or the firm is a broker-dealer or affiliated with a broker-dealer. Under these arrangements, we can access certain investment programs offered through the broker-dealer that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. As such, the investment adviser representative and/or the firm may have an economic incentive to recommend the purchase of 12b-1 or revenue share class mutual funds offered through the broker-dealer platform rather than from the investment adviser platform.

Please note the following:

***Limitation on Mutual Fund Universe for Custodian Investment Programs:*** Please note that as a matter of policy we prohibit the receipt of revenue share fees from any mutual funds utilized for our advisory clients' portfolios. There are certain programs in which we participate where a client's investment options may be limited in certain of these programs to those mutual funds

and/or mutual fund share classes that pay 12b-1 fees and other revenue sharing fee payments, and the client should be aware that the firm is not selecting from among all mutual funds available in the marketplace when recommending mutual funds to the client.

***Conflict Between Revenue Share Class (12b-1) and Non-Revenue Share Class Mutual Funds:***

Revenue share class/12b-1 fees are deducted from the net asset value of the mutual fund and generally, all things being equal, cause the fund to earn lower rates of return than those mutual funds that do not pay revenue sharing fees. The client is under no obligation to utilize such programs or mutual funds. Although many factors will influence the type of fund to be used, the client should discuss with their investment adviser representative whether a share class from a comparable mutual fund with a more favorable return to investors is available that does not include the payment of any 12b-1 or revenue sharing fees given the client's individual needs and priorities and anticipated transaction costs. In addition, the receipt of such fees can create conflicts of interest in instances (i) where our adviser representative is also licensed as a registered representative of a broker-dealer and receives a portion of 12b-1 and or revenue sharing fees as compensation – such compensation creates an incentive for the investment adviser representative to use programs which utilize funds that pay such additional compensation; and (ii) where the custodian receives the entirety of the 12b-1 and/or revenue sharing fees and takes the receipt of such fees into consideration in terms of benefits it may elect to provide to the firm, even though such benefits may or may not benefit some or all of the firm's clients.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

RAI Wealth does not charge performance-based fees.

## **Item 7: Types of Clients**

RAI Wealth provides investment advice to many different types of clients. These clients generally include individuals and high-net-worth individuals, families, trusts, estates, corporations, and other types of business entities.

RAI Wealth does not require a minimum account size for its separately managed clients.

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

### A. Methods of Analysis and Investment Strategies

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear. There is no guarantee that any specific investment or strategy will be profitable for a particular client.**

#### Methods of Analysis

RAI Wealth uses a variety of sources of data to conduct its economic, investment and market analysis, which may include economic and market research materials prepared by others, conference calls hosted by individual companies or mutual funds, corporate rating services, annual reports, prospectuses, and company press releases, and financial newspapers and magazines. It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

RAI Wealth and its investment adviser representatives are responsible for identifying and implementing the methods of analysis used in formulating investment recommendations to clients. The methods of analysis may include quantitative methods for optimizing client portfolios, computer-based risk/return analysis, technical analysis, and statistical and/or computer models utilizing long-term economic criteria.

- Fundamental analysis is a method of evaluating the intrinsic value of an asset and analyzing the factors that could influence its price in the future. This form of analysis is based on external events and influences, as well as financial statements and industry trends.
- Factor investing is an investment approach that involves targeting specific drivers of return across asset classes. There are two main types of factors: macroeconomic and style.
- Optimization involves the use of mathematical algorithms to determine the appropriate mix of assets given the firm's current capital market rate assessment and a particular client's risk tolerance.
- Quantitative methods include analysis of historical data such as price and volume statistics, performance data, standard deviation and related risk metrics, how the security performs relative to the overall stock market, earnings data, price to earnings ratios, and related data.
- Technical analysis involves charting price and volume data as reported by the exchange where the security is traded to look for price trends.
- Computer models may be used to derive the future value of a security based on assumptions of various data categories such as earnings, cash flow, profit margins, sales, and a variety of other company specific metrics.

In addition, RAI Wealth reviews research material prepared by others, as well as corporate filings, corporate rating services, and a variety of financial publications. RAI Wealth may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

### **Modern Portfolio Theory**

The firm's methods of analysis include *modern portfolio theory*. Modern portfolio theory is a theory of investment that attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, each by carefully choosing the proportions of various assets. Modern portfolio theory assumes that investors are risk averse, meaning that given two portfolios that offer the same expected return, investors will prefer the less risky one. Thus, an investor will take on increased risk only if compensated by higher expected returns. Conversely, an investor who wants higher expected returns must accept more risk. The exact trade-off will be the same for all investors, but different investors will evaluate the trade-off differently based on individual risk aversion characteristics. The implication is that a rational investor will not invest in a portfolio if a second portfolio exists with a more favorable risk-expected return profile – i.e., if for that level of risk an alternative portfolio exists which has better expected returns.

### **Mutual Funds and Exchange-Traded Funds, Individual Securities (Including Fixed Income)**

RAI Wealth may recommend "institutional share class" mutual funds, exchange-traded funds ("ETFs"), and individual securities (including fixed income instruments). A description of the criteria to be used in formulating an investment recommendation for mutual funds, ETFs, and individual securities is set forth below.

RAI Wealth has formed relationships with third-party vendors that

- prepare performance reports
- perform billing and certain other administrative tasks

RAI Wealth may utilize additional independent third parties to assist it in recommending and monitoring individual securities, mutual funds, and ETFs to clients as appropriate under the circumstances.

RAI Wealth reviews certain quantitative and qualitative criteria related to funds and to formulate investment recommendations to its clients. Quantitative criteria may include

- the performance history of a fund evaluated against that of its peers and other benchmarks
- an analysis of risk-adjusted returns
- an analysis of the fund manager's contribution to the investment return (e.g., manager's alpha), standard deviation of returns over specific time periods, sector and style analysis
- the fund's fee structure
- the relevant portfolio manager's tenure

Qualitative criteria used in selecting/recommending funds include the investment objectives and/or management style and philosophy of a fund; a fund's consistency of investment style; and employee turnover and efficiency and capacity.

Quantitative and qualitative criteria related to funds are reviewed by RAI Wealth on a quarterly basis or such other interval as appropriate under the circumstances. In addition, funds are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the fund by RAI Wealth (both of which are negative factors in implementing an asset allocation structure).

RAI Wealth may negotiate reduced account minimum balances and reduced fees with fund managers under various circumstances (e.g., for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive any reduced account minimum balances or fees, or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have an impact on fees given the funds or managers utilized. RAI Wealth will endeavor to obtain equal treatment for its clients with funds, but cannot assure equal treatment.

RAI Wealth will regularly review the activities of funds utilized for the client. Clients that invest in mutual funds should first review and understand the disclosure documents of those funds, which contain information relevant to such retention or investment, including information on the methodology used to analyze securities, investment strategies, fees and conflicts of interest.

### **Material Risks of Investment Instruments**

RAI Wealth generally invests in the following types of securities:

- Equity securities
- Mutual fund securities
- Exchange-traded funds
- Leveraged and inverse exchange-traded funds
- Exchange-traded notes
- Fixed income securities

### **Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.



### **Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

### **Exchange-Traded Funds ("ETFs")**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>") iShares<sup>®</sup> and VIPERs<sup>®</sup>. ETFs have embedded expenses that the client indirectly bears.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employing the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

### **Leveraged and Inverse Exchange-Traded Funds ("ETFs")**

Leveraged ETFs employ financial derivatives and debt to try to achieve a multiple (for example two or three times) of the return or inverse return of a stated index or benchmark over the course of a single day. The use of leverage typically increases risk for an investor. However, unlike utilizing margin or shorting securities in your own account, you cannot lose more than your original investment. An inverse ETF is designed to track, on a daily basis, the inverse of its benchmark. Inverse ETFs utilize short selling, derivatives trading, and other leveraged investment techniques, such as futures trading to achieve their objectives. Leverage and inverse ETFs reset each day; as such, their performance can quickly diverge from the performance of the underlying index or benchmark. An investor could suffer significant losses even if the long-term performance of the index showed a gain. Engaging in short sales and using swaps, futures, contracts, and other derivatives can expose the ETF.

There is always a risk that not every leveraged or inverse ETF will meet its stated objective on any given trading day. An investor should understand the impact an investment in the ETF

could have on the performance of their portfolio, taking into consideration goals and tolerance for risk. Leveraged or inverse ETFs may be less tax-efficient than traditional ETFs, in part because daily resets can cause the ETF to realize significant short-term capital gains that may not be offset by a loss. Be sure to check with your tax advisor about the consequences of investing in a leveraged or inverse ETF. Leveraged and Inverse ETFs are not suited for long-term investment strategies. These are not appropriate for buy-and-hold or conservative investors and are more suitable for investors who understand leverage and are willing to assume the risk of magnified potential losses. These funds tend to carry higher fees, due to active management, that can also affect performance.

#### **Exchange-Traded Notes ("ETN")**

ETNs are structured debt securities. ETN liabilities are unsecured general obligations of the issuer. Most ETNs are designed to track a particular market segment or index. ETNs have expenses associated with their operation. When a fund invests in an ETN, in addition to directly bearing expenses associated with its own operations, it will bear its pro rata portion of the ETN's expenses. The risks of owning an ETN generally reflect the risks of owning the underlying securities the ETN is designed to track, although lack of liquidity in an ETN could result in it being more volatile than the underlying portfolio of securities. In addition, because of ETN expenses, compared to owning the underlying securities directly it may be more costly to own an ETN. The value of an ETN security should also be expected to fluctuate with the credit rating of the issuer.

#### **Fixed Income Securities**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S. or foreign) and currency risk. If bonds have maturities of ten years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds have liquidity and currency risk.

## **B. Investment Strategy and Method of Analysis Material Risks**

Our investment strategy is custom-tailored to the client's goals, investment objectives, risk tolerance, and personal and financial circumstances.

#### **Margin Leverage**

Although RAI Wealth, as a general business practice, does not utilize leverage, there may be instances in which the use of leverage may be appropriate for certain clients and situations or requested by the clients for personal use. In this regard please review the following:

The use of margin leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the

price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment.

The use of margin leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers who carry customer accounts require a minimum equity requirement when clients utilize margin leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of margin leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

### **Short-Term Trading**

Although RAI Wealth, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

### **Technical Trading Models**

Technical trading models are mathematically driven based upon historical data and trends of domestic and foreign market trading activity, including various industry and sector trading statistics within such markets. Technical trading models, through mathematical algorithms, attempt to identify when markets are likely to increase or decrease and identify appropriate entry and exit points. The primary risk of technical trading models is that historical trends and past performance cannot predict future trends, and there is no assurance that the mathematical algorithms employed are designed properly, updated with new data, and can accurately predict future market, industry, and sector performance.

### **Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to

a particular security or group of securities without the capital commitment required to purchase the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

RAI Wealth as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading

#### **Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the-money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

#### **Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **Long Put Option Purchases**

Long put option purchases allow the option holder to sell or "put" the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **Option Spreading**

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder "locks in" a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies;

please contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

### **C. Concentration Risks**

There is an inherent risk for clients who have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

There is nothing to report on this item.

### **B. Administrative Enforcement Proceedings**

There is nothing to report on this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

There is nothing to report on this item.

## **Item 10: Other Financial Industry Activities and Affiliations**

### **A. Broker-Dealer or Representative Registration**

Members and registered advisory personnel of RAI Wealth are registered representatives of Private Client Services, LLC ("PCS"), a FINRA-registered broker-dealer and member of SIPC. PCS is a financial services company engaged in the sale of investment products.

### **B. Futures or Commodity Registration**

Neither RAI Wealth nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator or commodity trading advisor and do not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

#### **Broker-Dealer Registration**

As stated above, managers, members, and registered personnel of RAI Wealth are associated persons of Private Client Services, LLC ("PCS"), a FINRA-registered broker-dealer and member of SIPC. As a result, such professionals, in their capacity as registered representatives of PCS, are subject to the oversight of PCS and the Financial Industry Regulatory Authority, Inc. ("FINRA"). As such, clients of RAI Wealth should understand that their personal and account information is available to FINRA and PCS personnel in the fulfillment of their oversight obligations and duties.

RAI Wealth professionals who effect transactions for advisory clients may receive transaction or commission compensation from PCS. The recommendation of securities transactions for commission creates a conflict of interest in that RAI Wealth is economically incented to effect securities transactions for clients. Although RAI Wealth strives to put its clients' interests first, such recommendations may be viewed as being in the best interests of RAI Wealth rather than in the client's best interest. RAI Wealth advisory clients are not compelled to effect securities transactions through PCS.

#### **Licensed Insurance Agents**

Certain managers, members, and registered employees of RAI Wealth are licensed insurance agents and may recommend insurance products offered by such carriers for whom they function as an agent and receive a commission for doing so. Please be advised there is a conflict of interest in that there is an economic incentive to recommend insurance and other products of such carriers. Please also be advised that RAI Wealth strives to put its clients' interests first and foremost. Other than for insurance products that require a securities license, such as variable insurance products, clients may utilize any insurance carrier or insurance agency they desire. For products requiring a securities and insurance license, clients may be limited to those insurance carriers that have a selling agreement with RAI Wealth's employing broker-dealer.

#### **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

With respect to its investment management services, the firm engages third-party investment managers to manage RAI Wealth client accounts and compensates such investment managers from the advisory fees charged by RAI Wealth for its investment management services.



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

### **A. Code of Ethics Description**

In accordance with the Advisers Act, RAI Wealth has adopted policies and procedures designed to detect and prevent insider trading. In addition, RAI Wealth has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of RAI Wealth's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the chief compliance officer of RAI Wealth. RAI Wealth will send clients a copy of its Code of Ethics upon written request.

RAI Wealth has policies and procedures in place to ensure that the interests of its clients are given preference over those of RAI Wealth, its affiliates and its employees. For example, there are policies in place to prevent the misappropriation of material non-public information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

### **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

RAI Wealth does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, RAI Wealth does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

### **C. Advisory Firm Purchase or Sale of Same Securities Recommended to Clients and Conflicts of Interest**

RAI Wealth, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may purchase or sell the same securities as are purchased or sold for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which RAI Wealth specifically prohibits. RAI Wealth has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest
- prohibit fraudulent conduct in connection with the trading of securities in a client account

- prohibit employees from personally benefitting by causing a client to act, or fail to act in making investment decisions
- prohibit the firm or its employees from profiting or causing others to profit on knowledge of completed or contemplated client transactions
- allocate investment opportunities in a fair and equitable manner
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow RAI Wealth's procedures when purchasing or selling the same securities purchased or sold for the client.

#### **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

RAI Wealth, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other RAI Wealth clients. RAI Wealth will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. It is the policy of RAI Wealth to place the clients' interests above those of RAI Wealth and its employees.

## Item 12: Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

#### Custodian Recommendations

RAI Wealth may recommend that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab" or "custodian"), a FINRA registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although RAI Wealth may recommend that clients establish accounts at the custodian, it is the client's decision to custody assets with the custodian. RAI Wealth is independently owned and operated and not affiliated with custodian. For RAI Wealth client accounts maintained in its custody, the custodian generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through the custodian or that settle into custodian accounts.

RAI Wealth considers the financial strength, reputation, operational efficiency, cost, execution capability, level of customer service, and related factors in recommending broker-dealers or custodians to advisory clients.

In certain instances and subject to approval by RAI Wealth, RAI Wealth will recommend to clients certain other broker-dealers and/or custodians based on the needs of the individual client, and taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by RAI Wealth will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

#### How We Select Brokers/Custodians to Recommend

RAI Wealth seeks to recommend a custodian/broker who will hold client assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others, the following:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- capability to execute, clear, and settle trades (buy and sell securities for client accounts)
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)

- breadth of investment products made available (stocks, bonds, mutual funds, exchange-traded funds (ETFs), etc.)
- availability of investment research and tools that assist us in making investment decisions
- quality of services
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- reputation, financial strength, and stability of the provider
- their prior service to us and our other clients
- availability of other products and services that benefit us, as discussed below

#### **Client's Custody and Brokerage Costs**

For client accounts that the firm maintains, the custodian generally does not charge clients separately for custody services but is compensated by charging transaction fees on trades that it executes or that settle into the custodian's accounts. In addition to commissions, the custodian charges a flat dollar amount as a "prime broker" or "trade away" fee for each trade that the firm has executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into the client's custodian account. These fees are in addition to the commissions or other compensation the client pays the executing broker-dealer. Because of this, in order to minimize the client's trading costs, the firm has the custodian execute most trades for the account.

#### **Soft Dollar Arrangements**

RAI Wealth does not utilize soft dollar arrangements. RAI Wealth does not direct brokerage transactions to executing brokers for research and brokerage services.

#### **Institutional Trading and Custody Services**

The custodian provides RAI Wealth with access to its institutional trading and custody services, which are typically not available to the custodian's retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a certain minimum amount of the advisor's clients' assets are maintained in accounts at a particular custodian. The custodian's brokerage services include 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.

#### **Other Products and Services**

Custodian also makes available to RAI Wealth other products and services that benefit RAI Wealth but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of RAI Wealth's accounts, including accounts not maintained at custodian. The custodian may also make available to RAI Wealth software and other technology that

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing and other market data
- facilitate payment of RAI Wealth's fees from its clients' accounts
- assist with back-office functions, recordkeeping and client reporting

The custodian may also offer other services intended to help RAI Wealth manage and further develop its business enterprise. These services may include

- compliance, legal and business consulting
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants and insurance providers

The custodian may also provide other benefits such as educational events or occasional business entertainment of RAI Wealth personnel. In evaluating whether to recommend that clients custody their assets at the custodian, RAI Wealth may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers, and not solely the nature, cost or quality of custody and brokerage services provided by the custodian, which may create a potential conflict of interest.

#### **Independent Third Parties**

The custodian may make available, arrange, and/or pay third-party vendors for the types of services rendered to RAI Wealth. The custodian may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to RAI Wealth.

#### **Additional Compensation Received from Custodians**

RAI Wealth may participate in institutional customer programs sponsored by broker-dealers or custodians. RAI Wealth may recommend these broker-dealers or custodians to clients for custody and brokerage services. There is no direct link between RAI Wealth's participation in such programs and the investment advice it gives to its clients, although RAI Wealth receives economic benefits through its participation in the programs that are typically not available to retail investors. These benefits may include the following products and services (provided without cost or at a discount):

- Receipt of duplicate client statements and confirmations
- Research-related products and tools
- Consulting services
- Access to a trading desk serving RAI Wealth participants
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts)

- The ability to have advisory fees deducted directly from client accounts
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees and to certain institutional money managers
- Discounts on compliance, marketing, research, technology, and practice management products or services provided to RAI Wealth by third-party vendors

The custodian may also pay for business consulting and professional services received by RAI Wealth's related persons, and may pay or reimburse expenses (including client transition expenses, travel, lodging, meals and entertainment expenses for RAI Wealth's personnel to attend conferences). Some of the products and services made available by such custodian through its institutional customer programs may benefit RAI Wealth but may not benefit its client accounts. These products or services may assist RAI Wealth in managing and administering client accounts, including accounts not maintained at the custodian as applicable. Other services made available through the programs are intended to help RAI Wealth manage and further develop its business enterprise. The benefits received by RAI Wealth or its personnel through participation in these programs do not depend on the amount of brokerage transactions directed to the broker-dealer.

RAI Wealth also participates in similar institutional advisor programs offered by other independent broker-dealers or trust companies, and its continued participation may require RAI Wealth to maintain a predetermined level of assets at such firms. In connection with its participation in such programs, RAI Wealth will typically receive benefits similar to those listed above, including research, payments for business consulting and professional services received by RAI Wealth's related persons, and reimbursement of expenses (including travel, lodging, meals and entertainment expenses for RAI Wealth's personnel to attend conferences sponsored by the broker-dealer or trust company).

As part of its fiduciary duties to clients, RAI Wealth endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by RAI Wealth or its related persons in and of itself creates a potential conflict of interest and may indirectly influence RAI Wealth's recommendation of broker-dealers for custody and brokerage services.

#### **The Firm's Interest in Custodian's Services**

The availability of these services from the custodian benefits the firm because the firm does not have to produce or purchase them. The firm does not have to pay for the custodian's services so long as a certain minimum of client assets is kept in accounts at the custodian. Custodian's services may give the firm an incentive to recommend that clients maintain their accounts with the custodian based on the firm's interest in receiving the custodian's services that benefit the firm's business rather than based on the client's interest in receiving the best value in custody services and the most favorable execution of client transactions. This is a potential conflict of interest. The firm believes, however, that the selection of the custodian as custodian and broker is in the best interest of clients. It is primarily supported by the scope,

quality, and price of the custodian's services and not the custodian's services that benefit only the firm.

### **Brokerage for Client Referrals**

RAI Wealth does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

### **Directed Brokerage**

#### **RAI Wealth Recommendations**

RAI Wealth typically recommends Schwab as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

#### **Client-Directed Brokerage**

Occasionally, clients may direct RAI Wealth to use a particular broker-dealer to execute portfolio transactions for their account or request that certain types of securities not be purchased for their account. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage RAI Wealth derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. RAI Wealth loses the ability to aggregate trades with other RAI Wealth advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

## **B. Aggregating Securities Transactions for Client Accounts**

### **Best Execution**

RAI Wealth, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, and the amount of such securities. RAI Wealth recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. RAI Wealth will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement
- Block trading and positioning capabilities

- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, RAI Wealth seeks to ensure that clients receive best execution with respect to clients' transactions by blocking client trades to reduce commissions and transaction costs. To the best of RAI Wealth's knowledge, these custodians provide high-quality execution, and RAI Wealth's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, RAI Wealth believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

### **Security Allocation and Order Aggregation**

RAI Wealth does not aggregate client orders for either purchases or liquidations since each respective client portfolio is managed in accordance with customized asset allocation targets and strategies.

### **Trade Errors**

From time-to-time RAI Wealth may make an error in submitting a trade order on the client's behalf. When this occurs, RAI Wealth may place a correcting trade with the broker-dealer. If an investment gain results from the correcting trade, the gain will remain in client's account unless the same error involved other client account(s) that should have received the gain, it is not permissible for client to retain the gain, or RAI Wealth confers with client and client decides to forego the gain (e.g., due to tax reasons).

If the gain does not remain in client's account and Schwab is the custodian, Schwab will donate the amount of any gain \$100 and over to charity. If a loss occurs greater than \$100, RAI Wealth will pay for the loss. Schwab will maintain the loss or gain (if such gain is not retained in client's account) if it is under \$100 to minimize and offset its administrative time and expense. Generally, if related trade errors result in both gains and losses in client's account, they may be "netted."



## **Item 13: Review of Accounts**

### **A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

Accounts are reviewed by the RAI Wealth investment adviser representative servicing the client's account. The frequency of reviews is determined based on the client's investment objectives, but reviews are conducted no less frequently than annually. More frequent reviews may also be triggered by a change in the client's investment objectives, tax considerations, large deposits or withdrawals, large purchases or sales, loss of confidence in the underlying investment, or changes in macro-economic climate.

Standalone financial planning clients receive their financial plans and recommendations at the time service is completed. There are no post-plan reviews unless engaged to do so by the client.

### **B. Review of Client Accounts on Non-Periodic Basis**

RAI Wealth may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how RAI Wealth formulates investment advice.

### **C. Content of Client-Provided Reports and Frequency**

The client's independent custodian provides account statements directly to the client no less frequently than quarterly. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports created on behalf of the client by RAI Wealth.

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

### **A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

#### **Schwab**

RAI Wealth receives an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors that have their clients maintain accounts at Schwab. These products and services, how they benefit us, and the related conflicts of interest are described above in Item 12: Brokerage Practices. The availability of Schwab's products and services to us is not based on our giving particular investment advice, such as buying particular securities for our clients.

### **B. Advisory Firm Payments for Client Referrals**

RAI Wealth does not pay for client referrals.

## Item 15: Custody

RAI Wealth is considered to have custody of client assets for purposes of the Advisers Act for the following reasons:

- The client authorizes us to instruct their custodian to deduct our advisory fees directly from the client's account. The custodian maintains actual custody of clients' assets.
- Our authority to direct client requests, utilizing standing instructions, for wire transfer of funds for first-party money movement and third-party money movement (checks and/or journals, ACH, Fed-wires). The firm has elected to meet the SEC's seven conditions to avoid the surprise custody exam, as outlined below:
  1. The client provides an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.
  2. The client authorizes the investment adviser, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
  3. The client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization, and provides a transfer of funds notice to the client promptly after each transfer.
  4. The client has the ability to terminate or change the instruction to the client's qualified custodian.
  5. The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client's instruction.
  6. The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.
  7. The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

Individual advisory clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances, and portfolio holdings in their accounts. Clients are urged to compare the account balance(s) shown on their account statements to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.

## **Item 16: Investment Discretion**

Clients may grant a limited power of attorney to RAI Wealth with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In those cases, RAI Wealth will exercise full discretion as to the nature and type of securities to be purchased and sold, and the amount of securities for such transactions. In addition, subject to the terms of its investment advisory agreement, RAI Wealth may be granted discretionary authority for the retention of independent third-party investment management firms.

Investment limitations may be designated by the client as outlined in the investment advisory agreement. Investment limitations may be designated by the client as outlined in the investment advisory agreement. Please see the applicable third-party manager's disclosure brochure for detailed information relating to discretionary authority.

## Item 17: Voting Client Securities

RAI Wealth does not take discretion with respect to voting proxies on behalf of its clients. All proxy material will be forwarded to the client by the client's custodian for the client's review and action. Clients may contact the firm with questions regarding proxies they have received.

RAI Wealth will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of RAI Wealth supervised and/or managed assets. In no event will RAI Wealth take discretion with respect to voting proxies on behalf of its clients.

For accounts subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), the plan fiduciary specifically keeps the authority and responsibility for the voting of any proxies for securities held in plan accounts. Also, RAI Wealth cannot give any advice or take action with respect to the voting of these proxies.

Except as required by applicable law, RAI Wealth will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. RAI Wealth has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. RAI Wealth also has no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, RAI Wealth has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients.

Where RAI Wealth receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it will forward all notices, proof of claim forms, and other materials to the client. Electronic mail is acceptable where appropriate and where the client has authorized contact in this manner.

## **Item 18: Financial Information**

### **A. Balance Sheet**

RAI Wealth does not require the prepayment of fees of \$1,200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

RAI Wealth does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report on this item.