



SocialTrader.ai Inc.

SEC-Registered Investment Adviser
CRD # 326985

16192 Coastal Highway
Lewes, DE 19958

Tel: 619-500-6101
Web: www.socialtrader.ai

Form ADV Part 2A
Firm Brochure
March 17, 2024

This firm brochure provides information about the qualifications and business practices of SocialTrader.ai Inc. Please contact our Chief Compliance Officer at 619-500-6101 if you have any questions about the content of this firm brochure.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or any state securities administrator. Additional information about SocialTrader.ai Inc. is available on the SEC's website at www.adviserinfo.sec.gov. Click on the "Investment Adviser Search" link and then search for "Investment Adviser Firm" using the firm's IARD ("CRD") number, which is 326985.

While the firm and its associates may be registered and/or notice-filed within a particular jurisdiction, it does not imply an endorsement by any regulatory authority, nor does it imply a certain level of skill or training on the part of the firm or its associated personnel.

Item 2 - Material Changes

Material Changers:

- We have a new CEO/CCO as of January 1, 2024: Alfonso Rodriguez-Arana
- We have a new office address and phone number as of January 1, 2024: 16192 Coastal Highway
Lewes, DE 19958, 619-500-6101

Clients are able to download this brochure from the firm's website, as well as the SEC's website at www.adviserinfo.sec.gov, or they may contact our firm at 619-500-6101 to request a copy at any time.

As with all firm documents, clients and prospective clients are encouraged to review this brochure in its entirety and are encouraged to ask questions at any time prior to or throughout the engagement.

Item 3 - Table of Contents

Item 1 - Cover Page	1
Item 2 - Material Changes	2
Item 3 - Table of Contents	3
Item 4 - Advisory Business	4
Item 5 - Fees and Compensation	7
Item 6 - Performance-Based Fees and Side-By-Side Management	9
Item 7 - Types of Clients	10
Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss	10
Item 9 - Disciplinary Information	20
Item 10 - Other Financial Industry Activities and Affiliations	20
Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	21
Item 12 - Brokerage Practices	21
Item 13 - Review of Accounts	24
Item 14 - Client Referrals and Other Compensation	25
Item 15 - Custody	25
Item 16 - Investment Discretion	26
Item 17 - Voting Client Securities	26
Item 18 - Financial Information	26

Brochure General Information

Throughout this document, SocialTrader.ai Inc. shall also be referred to as “the firm,” “firm,” “our,” “we” or “us.” The client or prospective client may be also referred to as “you,” “your,” etc., and refers to a client engagement involving a single *person* as well as two or more *persons* and may refer to natural persons and legal entities. The term “advisor” and “adviser” are used interchangeably where accuracy in identification is necessary (e.g., internet address, etc.).

The employment and disciplinary history, if any, of an investment advisory firm representative may be obtained by reviewing information available in their Form ADV Part 2B brochure supplement, as well as on the SEC’s website at www.adviserinfo.sec.gov, or by contacting the state securities commissioner where the client resides. If a representative is or has been associated as a registered representative of a Financial Industry Regulatory Authority (FINRA) member broker/dealer, that representative’s information may also be found at <https://brokercheck.finra.org/>. If a representative is or has been an associated person of a National Futures Association (NFA) member firm, that person’s information may also be found at <https://www.nfa.futures.org/BasicNet>.

Our firm maintains a business continuity and succession plan that is integrated within the organization to ensure it appropriately responds to events that pose a significant disruption to its operations. A statement concerning the current plan is available under separate cover upon request.

Item 4 - Advisory Business

Description of the Firm

SocialTrader.ai Inc. is a California domiciled Delaware limited liability company formed in March of 2023. We operate under the trade name SocialTrader. Our firm is not a subsidiary of, nor does it control, another financial services industry entity.

Alfonso Rodriguez-Arana serves as our Chief Executive Officer and Chief Compliance Officer and maintains controlling interest in the firm.

Description of Advisory Services

Interested parties must access our secure online application where they are offered our current firm brochure and Customer Relationship Summary (Form ADV Part 2A and Form CRS, respectively) that describes our advisory firm, its services, fees, etc., as well as any material conflicts of interest that could be reasonably expected to impair the rendering of unbiased and objective advice. The firm's brochure, customer relationship summary, and privacy policy statement are available online to our clients/prospective clients in either portable document format (PDF) for their download and/or may be printed on their own local printer. If the prospective client wishes to then engage SocialTrader for its services, they must first enter into a written, electronically delivered agreement with our firm to initiate the process.

We ask clients to respond to interactive questions we believe are important to the design of their customized investment portfolio, including their age, family composition, job status and employment type, investment time horizon, income, net worth, and investment knowledge or risk comfort level, among others. The accuracy of data provided by the client is important to their recommendation; however, we will not be required to verify any information received from the client and SocialTrader is expressly authorized to rely on said client thereon.

Financial Plans

The financial plan the client receives is oriented toward funding an education, retirement planning, and/or risk management. The financial plan is customized and provides a basic overview of the client's situation. Clients are free to accept or reject our planning suggestions.

Portfolio Management

Following responses to a series of online questions, the client receives a recommendation of an investment strategy and allocation that is weighted depending on the client's risk tolerance and investment time horizon. The recommendation will be delivered for viewing via our secure web-based, mobile application, and the client may choose to locally save, email, or print a copy for their consideration. The client is asked to provide information which assists selecting a portfolio that is appropriate for that person and comprised of national market securities ("listed securities"), such as stocks, exchange-traded funds (ETFs), mutual funds, etc. Note that SocialTrader does not take an investor's personal tax situation into consideration when designing portfolios, and clients are encouraged to consult with a professional tax adviser prior to investing. Item 8 provides details about the range of investment strategies, investment vehicles and their associated risks.

SocialTrader clients retain discretion over which portfolio model recommendation is implemented for their account. Once the client selects a suggested portfolio allocation, they will proceed through a secure account opening process and the initial portfolio will be established in line with the selected strategy. SocialTrader

systems will monitor the accounts and auto-rebalance the portfolio driven by time (e.g., semiannually, quarterly, etc.), portfolio drift, deposits, and withdrawals, or if underlying models require modification. While our firm has discretionary trading authority (see Item 16 for an explanation), it does not have the authority to remove funds or securities and may only request the withdrawal of its advisory fees as described in Item 5 of this brochure. It remains each client's ongoing responsibility to promptly update their information within our system when there is a material change to their situation and/or investment objective for evaluating or revising previous account restrictions or portfolio recommendations.

Account holdings that are not part of our recommended portfolio that the client has previously selected will not be monitored. To more appropriately manage risk and exposure, we suggest (but do not require) that the client liquidates those holdings and invests all proceeds into their selected SocialTrader strategy. There may be additional fees charged by their custodian to liquidate or transfer those securities. If the client decides to liquidate the securities, the cash from that sale may be invested in the model.

Our firm does not sponsor or serve as a portfolio manager in an investment program involving wrapped (bundled) fees. We manage \$400 in assets under management¹ on a discretionary basis as of January 31, 2024.

We provide our platform services to retirement plan sponsors and are deemed to have discretion as defined in § 3(38) of the Employee Retirement Income Security Act of 1974 (ERISA), as well as on a non-discretionary basis as defined in ERISA § 3(21). Our level of account authority is defined in Item 16 of this firm brochure. We do not serve as an ERISA § 3(16) plan third-party administrator (TPA), nor do we assist plan sponsors in identifying a TPA.

Accredited Investors

Interested parties who are deemed "accredited investors" preferring unique portfolio strategies may choose to engage our firm via a performance-based fee that is described in further detail in Items 5 and 6 of this brochure. Only the following who we consider to be "qualified" may be served via our performance-based fee investment program:

- ☐ a bank, savings and loan association, insurance company, registered investment company, business development company, or small business investment company or rural business investment company
- ☐ an SEC-registered broker-dealer, SEC-or state-registered investment adviser, or exempt reporting adviser
- ☐ a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5 million
- ☐ an employee benefit plan (within the meaning of the Employee Retirement Income Security Act) if a bank, insurance company, or registered investment adviser makes the investment decisions, or if the plan has total assets in excess of \$5 million
- ☐ a tax-exempt charitable organization, corporation, limited liability corporation, or partnership with assets in excess of \$5 million
- ☐ a director, executive officer, or general partner of the company selling the securities, or any director, executive officer, or general partner of a general partner of that company
- ☐ an enterprise in which all the equity owners are accredited investors

¹ The term "assets under management" and rounding per the *General Instructions for Part 2 of Form ADV*.

- ☐ an individual with a net worth or joint net worth with a spouse or spousal equivalent of at least \$1 million, not including the value of his or her primary residence
- ☐ an individual with income exceeding \$200,000 in each of the two most recent calendar years or joint income with a spouse or spousal equivalent exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year or
- ☐ a trust with assets exceeding \$5 million, not formed only to acquire the securities offered, and whose purchases are directed by a person who meets the legal standard of having sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of the prospective investment
- ☐ an entity of a type not otherwise qualifying as accredited that own investments in excess of \$5 million
- ☐ an individual holding in good standing any of the general securities representative license (Series 7), the investment adviser representative license (Series 65), or the private securities offerings representative license (Series 82)
- ☐ a knowledgeable employee, as defined in rule 3c-5(a)(4) under the Investment Company Act, of the issuer of securities where that issuer is a 3(c)(1) or 3(c)(7) private fund or
- ☐ a family office and its family clients if the family office has assets under management in excess of \$5 million and whose prospective investments are directed by a person who has such knowledge and experience in financial and business matters that such a family office is capable of evaluating the merits and risks of the prospective investment.

Subscription Services

For those interested in our investment strategies but prefer to act on their own (e.g., “self-directed” investors), we offer our online subscription service where our customizable research tools generate digitized reports for clients’ personal use.

Retirement Plan Advice and Rollovers

As a registered investment adviser, our firm is a fiduciary to every client, meaning that we are obligated to act in our clients’ best interest at all times. In addition to our fiduciary status as an investment advisory firm, when our firm provides advice to retirement investors, such as advice about an employer-sponsored retirement plan, individual retirement account (IRA) or other qualified retirement plan, we may also be considered by the US Department of Labor and the Internal Revenue Service to be acting as a fiduciary under ERISA and the Internal Revenue Code.² These fiduciary obligations include requirements that we disclose our services and fees, conflicts of interest, and the reasons our recommendations are in the client’s best interests. After an analysis of the client’s situation and their retirement plan documents, our platform will consider relevant factors including but not limited to the following:

- ☐ alternatives to rolling the employer plan to an IRA, including leaving the money in an employer’s retirement plan (if permitted); rolling the money to a new employer plan if available; or cashing out
- ☐ fees and expenses associated with both the employer’s plan and the rollover IRA (or other alternatives such as noted above) and whether the employer currently pays for some or all plan expenses
- ☐ different levels of services and investments available under the employer plan and the rollover IRA, and other alternatives
- ☐ whether the rollover is appropriate in light of any additional costs and the resultant decrease in the client’s return

² This Form ADV Part 2A firm brochure serves as our ERISA §408(b)(2) disclosure.

- ☐ treatment of withdrawals under each alternative (e.g., penalties up to age 55 vs. 59½ years old)
- ☐ protection from creditors and legal judgments (unlimited vs. bankruptcy only; federal- and state-specific)
- ☐ required minimum distributions
- ☐ tax implications of rolling shares of employer stock, and
- ☐ impact of economically significant investment features such as surrender schedules and index annuity cap and participation rates (e.g., an employer-sponsored § 403(b) plan account).

The affected client will be made aware of conflicts of interest including but not limited to whether our firm will profit from a recommendation through financial planning fees, and whether services we offer are already provided by or available through the current plan, potentially at no additional cost.

Item 5 - Fees and Compensation

Our firm does not accept cash, checks, money orders or similar forms of payment for its engagements. With the client's prior authorization, payment may be made by credit or debit card through a qualified, unaffiliated PCI compliant³ third-party processor, or withdrawal from the investment account held at the custodian of record (see Item 12). When fees are withdrawn from the client's investment account, the client's written authorization is required in order for the custodian to deduct our advisory fee. By signing our firm's agreement, as well as the custodian's account opening documents, the client is authorizing the custodian to withdraw both advisory fees and any brokerage transaction fees from the account. The custodian will remit our fees directly to our firm. Fees deducted from an account will be noted on statements that the client receives directly from the custodian.

Method of Compensation and Fee Schedule

At the sole discretion of the firm's executive management, fees may be reduced or waived for associates of the firm, family members, or pre-existing relationships, but they are not to be considered necessarily "negotiable."

Financial Planning – No Fee

We believe every client should have a basic knowledge and understanding of their goals and objectives, as well as a foundation -- a plan. As such, we do not charge a fee for our financial planning engagements.

Portfolio Management – Asset-Based Fee

SocialTrader does not assess account opening and/or administration fees to initiate its portfolio management services, nor do we require a minimum account size to open and maintain an account under our management. Fees are paid to SocialTrader in arrears on a monthly basis. The monthly fee is determined by multiplying the account value as of month-end by the applicable annualized basis points set forth in the fee table below (one basis point equals 1/100 of one percent), which is then divided by 12 to arrive at the monthly fee. The following formula applies:

Monthly Fee Formula: ((month-end market value) x (applicable annualized number of basis points)) ÷ 12

Assets Under Management	Annualized Asset-Based Fee	Monthly Asset-Based Fee
\$0 - \$99,999.99	1.00% (100 basis points)	0.083% (8.3 basis points)
\$100,000 - Above	0.50% (50 basis points)	0.0416% (4.16 basis points)

³ We do not retain debit/credit card data. For an explanation of the term "PCI," the PCI Security Standards Council, and comprehensive standards to enhance payment card data security, go to https://www.pcisecuritystandards.org/security_standards/index.php

Fee Example: An account under our firm’s management maintaining \$50,000 of investable assets as of month’s end will be assessed \$41.66 (monthly, in arrears). Formula: $(\$50,000 \times 100 \text{ bps}) = \500 (annualized fee) $\div 12$ (month) = \$41.66 (monthly fee).

The fee schedule above is based on a blended tier. For example, a client’s portfolio with \$150,000 in assets would be assessed an annualized fee of 100 basis points for the first \$99,999.99 and 50 basis points on the remaining amount.

Accredited Investors – Performance-Based Fee

SocialTrader does not assess account opening and/or administration fees to initiate its performance-based fee services, but we require the client meet the minimum eligibility criteria noted in Item 4 of this brochure and the minimum account size of \$50,000 to open and maintain such an account. There are three key components to our compensation structure under this program: (1) the asset-based fee, (2) the performance fee, and (3) the high-water mark.

Asset-Based Fee Component: The annualized asset-based fee will be determined by the following table in correlation with the average daily account value over the previous quarter.

Assets Under Management [Average Account Balance]	Annualized Asset-Based Fee	Quarterly Asset-Based Fee
\$50,000 - \$500,000	1.00% (100 basis points)	0.25% (25 basis points)
\$500,001 - \$1,000,000	0.75% (75 basis points)	0.1875% (18.75 basis points)
\$1,000,001 - \$2,500,000	0.50% (50 basis points)	0.125% (12.5 basis points)
\$2,500,001 – Above	0.25% (25 basis points)	0.0625% (6.25 basis points)

Performance-Based Fee Component: A performance-based fee of 20% is to be paid on a quarterly basis for any gains earned that are above the stated high-water mark.

High-Water Mark Component: The “high-water mark” is a key component of the performance fee calculation. This refers to the fact that SocialTrader will only receive its performance fee based on market gains within the account that are above the account's highest historical quarterly value previously charged by our firm. The high-water mark is perpetual for existing accounts, and the firm will utilize the initial account value, once all transfers have settled into the account, for the benchmark for new (first year) accounts.

Example 1: Existing Account: An existing account of \$2 million during the previous quarter had an average value of \$2.1 million, resulting in a five percent (5%) gain for the reported quarter. The asset-based fee for the period would be \$2,625 (0.125% quarterly asset-based fee x \$2.1 million). The account’s historical high-water mark is \$1.95 million; therefore, the performance fee for the quarter would be based on the gain of \$150,000, or \$30,000 ($\$150,000 \times 20\%$). The combined fee would be \$32,625 for the sample period.

If the historical high-water mark had been \$2.2 million, the firm would not receive its performance fee for the sample quarter, but it would retain the asset-based fee of \$2,625.

Example 1: New Account: A new account valued at \$1.5 million had gained 10% (\$150,000) during the previous quarter, resulting in an account value of \$1.65 million. When the account had been originally invested with the firm, the initial asset value had been \$1,475,000 (first year high-water mark); therefore,

the gain for this period would be \$175,000. The asset-based fee of \$2,062.55 ($0.125\% \times \1.65 million) plus the performance fee of \$35,000 ($\$175,000 \times 20\%$) had resulted in a total fee of \$37,062.50.

If the historical (first year) high-water mark had been \$1.75 million, the firm would not receive its performance fee for the sample quarter, but it would retain the asset-based fee.

Subscription Services – Fixed Fee

We assess a monthly fixed fee for our digital investment strategy advice/newsletter. The fee varies based on the amount of customized research, ranging from \$15 to \$199/month; paid in advance.

Termination of Services

Either party may terminate the agreement at any time by communicating their intent to terminate in writing via the SocialTrader platform. Our firm will not be responsible for further advice or transactional services upon receipt of the termination notice. It will also be necessary that our firm inform the custodian that the relationship between our firm and the client has been terminated. The client has the right to terminate their SocialTrader relationship without penalty within five business days after entering into the agreement with our firm. We will refund any advance payment within 30 days of termination notice. However, when a client terminates an engagement after the five-business day rescission period, we assess a fee on a per day prorated basis for services incurred from either (i) as a new client, the date of the engagement to the date of the firm's receipt of termination notice, or (ii) all other engagements, the last billing period to the date of the firm's receipt of written termination notice. If we are unable to deduct our fees from the client's account at the custodian, then our earned fees will be due upon the client's receipt of our invoice. If we must issue an invoice, it will include the total fee assessed, covered time period, calculation formula utilized, and reference to the assets under management in which the fee was based.

Potential Additional Fees

Any transactional or service fees (sometimes termed *brokerage fees*), individual retirement account fees, qualified retirement plan fees, account termination fees, or wire transfer fees will be borne by the account holder per the custodian fee schedule. In addition, advisory fees paid to our firm for its services are separate from any internal fees or charges a client may pay for mutual funds, ETFs, exchange-traded notes (ETNs) or similar investments. Additional information about our fees in relationship to our brokerage and operational practices are referenced in Item 12 of this document.

External Compensation involving the Sale of Securities

SocialTrader and its personnel do not charge or receive a commission or mark-up on a client's securities transactions, nor do we receive SEC Rule 12b-1 fees ("trails") from a mutual fund company. Our clients retain the right to purchase recommended or similar investments through a service provider (e.g., brokers and agents) of their own choice.

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

As noted in Item 5, we serve client portfolios under either an asset-based fee schedule or performance-based fee. Only "qualified" clients are eligible to be served by our firm via our performance-based fee offering as described in SEC rule 205-3 (paraphrased in Item 4). SocialTrader serves traditional asset-based fee accounts alongside eligible "qualified" investors as earlier described who choose to compensate our firm through performance-based fees. It is important that clients are aware of our advisory arrangements and the potential conflicts of interest they present. For example, there is the appearance that a firm such as ours has an incentive to focus its efforts on performance-based fee engagements since the firm might earn

greater income from those accounts. In addition, if there were a limited supply of a particular security deemed appropriate for both performance fee and non-performance fee accounts, there may be concern that a firm would be incented to allocate to the performance fee client first since there is the chance of increased revenue. Furthermore, performance-based fee engagements are only made available to specific eligible clients per regulation and those clients may require a more aggressive investment mandate or overall strategy. There may also be instances in which a security may be appropriate for a performance-based account but not for a non-performance fee client engagement. All accounts are invested in liquid securities and in markets in which fully allocating to all accounts is not a perceived issue when establishing or exiting a position (holding). On the rare occasion that these positions could not be established or liquidated the same day, then account trades would be fairly allocated on a prorated basis between performance fee and non-performance fee accounts. We believe these potential conflicts are offset by trading in liquid securities, defined investment objectives for each client, internal firm policies with respect to allocation of client orders, as well as transparency and clear disclosure of such conflicts of interest throughout each respective engagement.

Item 7 - Types of Clients

SocialTrader currently provides its services to individuals and high net worth individuals, as well as offering our platform to small business and/or retirement plan sponsors interested in employing our technology solution for their personnel. Refer to Items 4 and 5 for our minimum income, minimum asset levels and other similar preconditions. Our firm reserves the right to decline services to any prospective client for any nondiscriminatory reason.

Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

Our platform employs what we believe to be an appropriate blend of fundamental, technical, cyclical, and charting analyses. For example, fundamental analysis may involve evaluating economic factors including interest rates, the current state of the economy, or the future growth of an industry sector. Technical and cyclical analysis involve studying the historical patterns and trends of securities, markets, or economies as a whole in an effort to determine potential future behaviors, the estimation of price movement, and an evaluation of a transaction before entry into the market in terms of risk and profit potential. The resulting data may then be applied to graphing charts, which is then used to assist in the prediction of future price movements based on price patterns and trends. In addition to our own research, we may draw from sources that include:

- ☐ financial periodicals
- ☐ research reports from economists and other industry professionals
- ☐ company press releases and annual reports
- ☐ regulatory filings (i.e., prospectus, financial filings, etc.)
- ☐ inspections of corporate activities, and
- ☐ corporate rating services.

Investment Strategies

SocialTrader recognizes each client's needs, goals, and tolerance for risk are different; subsequently, strategies and underlying investment vehicles will vary based on the client's portfolio requirements. The following strategies sample the general types that may be suggested.

It is common to find a broad range of open and closed-ended mutual funds, ETFs, individual listed equities (stocks), long-short equity strategies, fixed income securities, listed real estate investment trusts (REITs), master limited partnerships (MLPs), cryptocurrencies, and level one options.

Active Management

Active management involves a conscious decision-making process which deviates from a particular market-neutral position (i.e., a benchmark such as the S&P 500) to generate excess returns over full market cycles (typically 5-10+ years). These strategies can be more concentrated (fewer portfolio holdings) as well as more volatile (swings in portfolio value) relative to their respective benchmarks, and fees are traditionally higher than those paid for passive, or indexing, portfolios. Successful active management strategies are expected to achieve superior risk-adjusted returns relative to their benchmark over 5+ year time horizons with some measure of consistency, while unsuccessful strategies may underperform either before or after portfolio management fees are deducted. Investors wishing to outperform the market or achieve a comparable rate of return while employing active risk-management techniques, may choose to employ active investment management strategies.

Core + Satellite

When creating asset class "building blocks" or model portfolios, our firm may employ a Core + Satellite approach which incorporates a proportionately large position (the "Core") in a particular style or strategy coupled with a variety of smaller exposures targeting additional themes, market segments, or investing styles. Most commonly, the core portion of the portfolio consists of a low-cost "passive" strategy, coupled with complementary active management approaches in smaller quantities. When deciding between active and passive management, special consideration may be given to the relative success of all managers in a particular category in achieving their stated objectives. Categories where a majority of investment managers (e.g., mutual fund managers) have historically underperformed their benchmark/index may find greater amounts allocated to passive strategies, while active managers may play a greater role in sections of the portfolio where there is greater potential to outperform the categories' respective benchmark/index.

Modern Portfolio Theory

Modern Portfolio Theory centers around the idea of creating an efficient, or optimized, portfolio by combining various securities, asset classes, and investing styles with the goal of maximizing expected future return for each unit of expected risk. Long-term historical risk, return, and cross-asset correlation data and trends are utilized as a baseline for developing forward-looking risk and return expectations for individual investment categories or styles. These assumptions may then be adjusted to account for prevailing market or economic conditions, anticipated demographic shifts or changes in investor demand and fund flows, and shifts in perceived tail-risk probabilities to better account for current market environments. Modern Portfolio Theory influences the asset allocation approach, but it traditionally does not incorporate specific consideration for the downside risk of portfolio components and the portfolio as a whole. Greater attention is focused on the potential for "tail risk" ⁴ or "black swan" events⁵ when constructing asset allocation portfolios. This is accomplished with scenario analysis and portfolio stress testing via a thorough and critical

⁴ **Tail Risk** is a form of portfolio risk that arises when the possibility that an investment will move more than three standard deviations from the mean is greater than what is shown by a normal distribution.

⁵ A **Black Swan** is an unpredictable event that is beyond what is normally expected of a situation and has potentially severe consequences. Black swan events are characterized by their extreme rarity, severe impact, and the widespread insistence they were obvious in hindsight.

review of back-tested portfolio performance at various points in history, coupled with real-world observations and insights regarding any unique risk factors present in the contemporary market environment.

Passive Management

Passive management involves investing in a portfolio intended to mirror the returns and risk characteristics of a broad-market index such as the S&P 500, NASDAQ 100, Russell 2000, etc. Various approaches are employed to achieve this result with varying levels of success. With passive strategies, the primary two factors for consideration are the strategies' success with replicating benchmark risk and return profiles, and the cost associated with employing the strategy. Investors more concerned with excessive fees than excess or risk-managed returns will generally prefer to invest through these types of strategies.

Tactical Investing

We use short-term ("tactical") positions to take advantage of capital appreciation opportunities in underpriced/oversold securities or to capture gains from overpriced/overbought securities or market segments. The firm adopts this position to investing when significant current events or changes in the marketplace prompt revisions to the firm's term outlook and subsequently result in changes to client portfolios to reflect this shift in perspective.

Risk of Loss

Our firm believes its strategies and investment recommendations are designed to produce the appropriate potential return for the given level of risk; however, there is no guarantee that a planning goal or investment objective will be achieved. Past performance is not necessarily indicative of future results. Investing in securities involves risk of loss that clients should be prepared to bear. While the following list is not exhaustive, we provide some examples of such risk in the following paragraphs, and we believe it is important that our clients review and consider each prior to investing. Note that some of the referenced risks reflect underlying assets of mutual funds and ETFs.

Active Management

A portfolio that employs a range of active management strategies at times may outperform or underperform various benchmarks or other strategies. In an effort to meet or surpass these benchmarks, active portfolio management may require more frequent trading or "turnover." This may result in shorter holding periods, higher transactional costs and/or taxable events generally borne by the client, potentially reducing, or negating certain benefits of active asset management.

Catastrophic Risk

Natural or man-made catastrophes can disrupt financial markets and impact securities prices. Examples include terrorist attacks, natural disasters, war, etc. Investment companies can use "exigent circumstances" or "force majeure" as a defense against claims of loss by investors.

Charting and Technical Analyses

The risk of investing based on technical analyses and their supporting charts is that these analyses may not consistently predict a future price movement and the current price of a security may reflect all known information. Further, a particular change in the market price of a security may follow a random pattern and may not be as predictable as desired. This may occur due to analyst bias or misinterpretation, a sector analysis error, late recognition of a trend, etc.

Company Risk

When investing in securities, such as stocks, there is always a certain level of company or industry-specific risk that is inherent in each company or issuer. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. This is also referred to as *unsystematic risk* and can be reduced or mitigated through diversification.

Core + Satellite Risk

Strategies involving Core + Satellite investing may have the potential to be affected by “active risk” (or “tracking error risk”), which might be defined as a deviation from a stated benchmark. Since the core portfolio attempts to closely replicate a stated benchmark, the source of the tracking error or deviation may come from a satellite portfolio or position, or from a “sample” or “optimized” index fund or ETF that may not as closely align the stated benchmark.

Country/Regional Risk

World events such as political upheaval, financial troubles, or natural disasters will adversely affect the value of securities issued in foreign countries or regions. This risk is especially high in emerging markets where securities may be substantially more volatile and less liquid than securities in more developed countries. Because registered investment company securities (e.g., a mutual fund) may invest a large portion of its assets in securities located in any one country or region, including emerging markets, its performance may be hurt disproportionately by the poor performance of its investments in that area.

Cryptocurrency Risks

The “common concerns” involving investing in cryptocurrencies include:

- ❑ Volatility: Cryptocurrency markets are highly volatile, making them unsuitable for most investors looking to meet long-term savings or retirement goals
- ❑ No recourse: Cryptocurrency and many crypto-related investments are subject to minimal regulatory oversight, and there may be no recourse should the cryptocurrency disappear due to a cybersecurity breach or hack
- ❑ Untraceable: Cryptocurrency or crypto-related investments only exist on the internet. Issuers can be located anywhere in the world, so it may be impossible to trace and recover lost funds through the courts
- ❑ Uninsured: Cryptocurrency accounts are not insured by US or Canadian depository insurance
- ❑ Unregulated: Cryptocurrency investors rely upon unregulated exchanges that may lack appropriate internal controls, making them susceptible to fraud, theft, and hacking
- ❑ Hackable: Creating a digital wallet to store cryptocurrency involves installing software on an investor’s computer. As with any software download, hackers may include malicious code, and
- ❑ Vulnerable: Purchasers of cryptocurrencies rely on the strength of their own computer systems as well as systems provided by third parties to protect purchased cryptocurrencies from theft.

Currency Risk

The risk of loss from fluctuating foreign exchange rates when a portfolio has exposure to foreign currency or in foreign currency traded investments is known as currency risk.

Cyclical Analysis

Cyclical analysis (a form of technical analysis) may experience risk due to an economic cycle that may not be as predictable as preferred; many fluctuations may occur between long term expansions and contractions. The length of an economic cycle may be difficult to predict with accuracy and therefore the risk of cyclical analyses is the difficulty in predicting economic trends. Consequently, the changing value of securities is affected.

Defensive Risk

Due to concerns about possible market declines, on occasion a portion of a portfolio may be allocated to cash or cash equivalents. In doing so, that portfolio may miss opportunities to realize subsequent increases in the value of other investments.

Derivatives Risks

The use of futures contracts, forward contracts, options, and swaps is subject to market risk, leverage risk, correlation risk, liquidity risk and hedging risk. Market risk is the risk that the market value of an investment may move up and down, sometimes rapidly and unpredictably. Leverage risk is the risk that since derivatives may be purchased for a fraction of their value, a relatively small price movement in a derivative may result in an immediate and substantial loss or gain for an account and may also cause an account to liquidate portfolio positions when this would not be advantageous to do so to satisfy account obligations. Correlation risk is the risk that changes in the value of the derivative may not correlate perfectly or at all with the underlying asset, rate, or index. Liquidity risk is described below. Hedging risk is the risk that derivative instruments used for hedging purposes may also limit any potential gain that may result from the increase in value of the hedged asset. To the extent that an account engages in hedging strategies, there can be no assurance that these strategies will be effective or that there will be a hedge in place at any given time. An account's use of forwards and swaps also is subject to credit risk and valuation risk. Credit risk is the risk that the counterparty to a derivative contract will default or otherwise become unable to honor a financial obligation. Valuation risk is the risk that the derivative may be difficult to value. Options are described in an adjacent paragraph. Each of these risks could cause an account to lose more than the principal amount invested in a derivative instrument.

Distressed Securities

Distressed securities, whether debt or equity instruments, are issued by a company that is near or currently going through bankruptcy. A security can be considered "distressed" if it fails to maintain certain covenants, such as the requirement to meet specific bond obligations, or the inability to maintain a particular "asset to liability ratio," or credit rating. As a result, these financial instruments suffer substantial reduction in their value. Due to implicit risk, they offer higher-risk investors the potential for high returns ("buy-low, sell-high"). Obviously, since they are "distressed," they have a higher risk of failure and can fall to a "worthless" status.

Emerging Markets Securities

Investments in emerging markets securities are considered speculative and subject to heightened risks in addition to the general risks of investing in foreign securities. Unlike more established markets, emerging markets may have governments that are less stable, markets that are less liquid, and economies that are less developed. In addition, the securities markets of emerging market countries may consist of companies with smaller market capitalizations and may suffer periods of relative illiquidity; significant price volatility; restrictions on foreign investment; and possible restrictions on repatriation of investment income and capital.

Foreign investors may be required to register the proceeds of sales, and future economic or political crises could lead to price controls, forced mergers, expropriation or confiscatory taxation, seizure, nationalization, or creation of government monopolies.

Equity (Stock) Risk

Common stocks are susceptible to general stock market fluctuations and to volatile increases or decreases in value as market confidence in and perceptions of their issuers change. If an investor held common stock or common stock equivalents of any given issuer, they may be exposed to greater risk than if they held preferred stocks and debt obligations of the issuer.

Preferred stocks can be affected by interest rate and liquidity risks (described in adjacent paragraphs). Also note that their dividend payment is not guaranteed; some are subject to a call provision, meaning the issuer can redeem its preferred shares on demand, and usually when interest rates have fallen.

Exchange-Traded Funds

ETF risks include risks due to their underlying securities (e.g., stocks, bonds, etc.), and can be affected by risks such as market, currency, credit, political, interest rate, etc., that are described in adjacent paragraphs. The liquidity of the underlying stocks in the index can affect "ETF liquidity." Liquidity risk can result from an insufficient number of "active participants" performing their duties as intermediaries and liquidity providers in the ETF market. "Spread risk" may also occur, which is the difference between the bid and the ask price of a security. Since ETF transactions are priced throughout the day and are traded on the exchanges like stocks, widening spreads may occur and have an impact on certain portfolios or transactions. As with any security, if the ETF "fails," the investor may lose their gains and invested principal. ETFs can carry additional expenses based on their share of operating expenses and certain brokerage fees. Indexed ETFs have the potential to be affected by "active risk;" a deviation from its stated index.

Leveraged and/or inverse ETFs attempt to achieve multiples of the performance of an index or benchmark or the opposite (inverse) of the performance of the tracked index or benchmark. This strategy attempts to increase profit from upward drifting markets, or hedge exposures to, downward drifting markets. There is risk involving this strategy and part of the concern is due to leveraged and inverse exchange traded funds "reset" daily, which means they are designed to achieve their stated objectives on a *daily basis*. It is due to the compounding effect of daily adjustments that ETF performance over longer periods of time can differ significantly from the performance (or inverse of the performance) of an underlying index or benchmark during the same period. This effect is potentially magnified during volatile markets. If effects contrary to the ETF strategy occur, losses may be significant; therefore, leveraged and/or inverse ETFs will be considered for portfolios either properly hedged or for clients able to sustain potentially higher risks. Leveraged and inverse ETFs should not be employed in portfolios where a "buy-and-hold" philosophy is important.

Fixed Income Risks

Various forms of fixed income instruments, such as bonds, money market or bond funds may be affected by various forms of risk, including:

- ❑ Call Risk - During periods of falling interest rates, issuers of callable bonds may call (redeem) securities with higher coupons or interest rates before their maturity dates. The owner of the bond would then lose any potential price appreciation above the bond's call price and would be forced to reinvest the unanticipated proceeds at lower interest rates, resulting in a decline in the owner's income.

Call risk is generally low for short-term bond funds, moderate for intermediate-term bond funds, high for long-term bond funds, and high for high-yield bonds.

- ❑ **Credit Risk** - The potential risk that an issuer would be unable to pay scheduled interest or repay principal at maturity, sometimes referred to as “default risk.” Credit risk may also occur when an issuer’s ability to make payments of principal and interest when due is interrupted. Bondholders are creditors of an issuer and have priority to assets before equity holders (e.g., stockholders) when receiving a payout from liquidation or restructuring. When defaults occur due to bankruptcy, the type of bond held will determine seniority of payment.
- ❑ **Interest Rate Risk** - The risk that the value of the fixed income holding will decrease because of an increase in interest rates. The longer the maturity of the bond, the more sensitive its value is to changes in interest rates. Bond prices and interest rate changes are inversely correlated.
- ❑ **Prepayment Risk** - The prepayment risk is the premature return of principal on a fixed-income security. When principal is returned early on a security, future interest payments will not be paid on that part of the principal. The owner of the security would lose any price appreciation above the principal and be forced to reinvest the unanticipated proceeds possibly at lower interest rates, resulting in a decline of dividends, income, and returns. The risk of prepayment is most prevalent in fixed-income securities such as callable bonds and mortgage-backed securities.
- ❑ **Reinvestment Risk** - With declining interest rates, investors may have to reinvest interest income or principal at a lower rate.
- ❑ **State Government and Municipal Securities Risk** - State government and municipal securities are subject to various risks based on factors such as economic and regulatory developments, changes or proposed changes in the federal and state tax structure, deregulation, court rulings and other factors. Repayment of state and municipal securities depends on the ability of the issuer or project backing such securities to generate taxes or revenues. There is also a risk the interest on an otherwise tax-exempt municipal security may be subject to federal income tax. Unfavorable developments in any economic sector may have far-reaching ramifications on the overall state and municipal market.
- ❑ **US Government Securities Risk** - US government securities are subject to varying interest rates and inflation risks. Not all US government securities are backed by the full faith and credit of the US government. Certain securities issued by agencies and instrumentalities of the US government are only insured or guaranteed by the issuing agency or instrumentality, which must rely on its own resources to repay the debt. As a result, there is a risk that these entities will default on a financial obligation.

Foreign Securities Risk

Investments in securities of foreign companies, including direct investments as well as investments through American Depositary Receipts (ADRs), can be more volatile than investments in US companies. Diplomatic, political, or economic developments, including nationalization or appropriation, could affect investments in foreign companies. Foreign securities markets generally have less trading volume and less liquidity than US markets. In addition, the value of securities denominated in foreign currencies, and of dividends from these securities, can change significantly when foreign currencies strengthen or weaken relative to the US dollar. Financial statements of foreign issuers are governed by different accounting, auditing, and financial reporting standards than the financial statements of US issuers and may be less transparent and uniform than in the United States. Thus, there may be less information publicly available about foreign issuers than

about most US issuers. Transaction costs generally are higher than those in the US and expenses for custodial arrangements of foreign securities may be somewhat greater than typical expenses for custodial arrangements of similar US securities. Some foreign governments levy withholding taxes against dividend and interest income. Although in some countries a portion of these taxes are recoverable, the non-recovered portion will reduce the income received from the securities comprising an account's portfolio. These risks may be heightened with respect to emerging market countries since political turmoil and rapid changes in economic conditions are more likely to occur in these countries.

Fundamental Analysis

The challenge involving fundamental analysis is that information obtained may be incorrect; the analysis may not provide an accurate estimate of earnings, which may be the basis for a security's value. When a security's price adjusts rapidly to new information, such an analysis may result in unfavorable performance.

Futures Investing

The risks associated in futures (e.g., managed futures funds) investing include interest rate risk, liquidity, operational, settlement and the use of leverage; topics addressed in adjacent paragraphs of this section.

Inflation Risk

Also called *purchasing power risk*, inflation risk is the chance that the cash flows from an investment will not be worth as much in the future because of changes in purchasing power due to inflation.

Legal or Legislative Risk

Legislative changes or court rulings may adversely impact the value of individual investments, market sectors, or the overall market.

Liquidity Risk

Liquidity risk is the inability to readily buy or sell an investment for a price close to the true underlying value of the asset due to a lack of buyers or sellers. There are times when there is no trading volume/market depth to support a security's current price. As such, the true value of the bond (for example) may not be supported by the current price. Conversely, when trading volume is high, there is also a risk of not being able to purchase a particular issue at the desired price.

Long/Short Investing

The objective of long/short investment strategy is to seek risk-adjusted returns with low market correlation. A portfolio using this strategy attempts to accomplish its objective primarily through a combination of long investment positions and short selling to achieve capital appreciation while attempting to preserve capital and mitigate risk through hedging activities. This strategy principally involves using equities and equity-based ETFs, but may also involve non-equity ETFs (i.e., bond ETFs, commodity ETFs). "Shorting" or "short sale" is the sale of a security, futures contract or similar investment vehicle not owned by the investor with the belief that the price of the security or futures contract (index or benchmark) will fall and allow the investor to buy the position at the lower price to make a profit. If, however, the price of the security or futures contract (or index) rises and requires the investor to buy it back later at the higher price, it may result in a loss. Also, due to its relaxed restrictions on the use of short positions and leverage, this type of investment strategy can have extended market exposures.

Macroeconomic Risk

Macroeconomic risk derives from the behavior of industries and governments and the relationships between them rather than from individual companies. It concerns fiscal and monetary policies, trade and investment flows and political developments on a national and international scale. Business cycles, depressions, inflation, unemployment, interest rates, valuations, prices, and imports/exports volumes are all unpredictable and can lower or destroy investment portfolios. Central banks and governments often return to inflationary policies and excessive fiat currency issuance through borrowing and printing. These macroeconomic maneuvers may possibly support or increase the nominal value of investment assets short term but lead to inflation and asset bubbles and later crashes.

Market Risk

This is also called systematic risk. In cases where markets are under extreme duress, many securities lose their ability to provide diversification benefits.

MLP Risks

Investing in Master Limited Partnerships involves risks related to their underlying assets, as well as the risks associated with pooled investment vehicles (certain pooled investments may be less regulated than others). In addition, MLPs that concentrate in a particular industry, or a particular geographic region are subject to risks associated with the specific industry or region. A potential benefit derived from an MLP is dependent on the holding being treated as a partnership for income tax purposes; if part or all the MLP is not, it may have potential adverse tax effects on a portfolio.

Money Market Funds

A money market fund is managed to maintain a stable net asset value (NAV) of \$1 per share, the value of the fund may fluctuate, and you could lose money (termed “breaking the buck”). Money market funds are a type of mutual fund investing in high-quality, short-term debt securities, pays dividends that generally reflect short-term interest rates and seeks to maintain a stable NAV per share (typically \$1). An investment in a money market mutual fund is generally not insured or guaranteed by the Federal Deposit Insurance Corporation, National Credit Union Share Insurance Fund, or any government agency.

Mutual Funds

As with ETFs, the risk of owning an open or closed-ended mutual fund is reflected in the underlying security(ies). Mutual funds are affected by risks such as market, interest rate, currency, credit, political, active risk, etc., as described in adjacent paragraphs. It is important to note that even “conservative” funds, such as a money market fund or fixed income fund, can and have lost their value below the principal amount invested. Mutual funds typically carry additional expenses based on their share of operating expenses and trading (brokerage) fees, which may result in the potential duplication of certain fees paid by the investor. Indexed mutual funds can also be adversely affected by “QDI ratios” that are described in a following paragraph. There are essentially nine main types of mutual fund shares classes, as well as sub-classes for some of these. Some open and closed-ended funds are sold through brokerage firms and assess a commission (“load”) in addition to their underlying fees earlier noted, while others are offered through investment advisers, retirement plans and other institutions. “No load” funds are also available to the public through brokerage firms, and they usually incur trading (brokerage) fees. If a client chooses to purchase a mutual fund on their own through a broker/dealer, they should consider the trading fees, internal operating costs, as well as potential commissions they pay through that executing firm. Our firm is not a broker/dealer, nor is the firm or its staff associated with a broker/dealer, and no one in our firm is compensated by a “loaded” fund.

Operational Risk

The potential for loss resulting from inadequate or failed internal processes, systems, actions of people, or external events. Many industries institute policies and procedures to respond and initiate alternative or supporting operations following a significant business disruption, while others do not. The level of operational risk and appropriate response are not uniform in definition, requirement, or measurement, including within the financial services sector.

Options Risks

Risks involving options trading are detailed in the Chicago Board Options Exchange's "The Characteristics and Risks of Standardized Options" brochure that can be found at: <http://www.cboe.com>.

- ▣ Covered Calls: The downside loss potential of a covered call can be substantial, comes from owning the underlying shares in the equity (stock) position, and is limited only by the stock declining to zero. An increase in volatility has a negative financial effect on a covered call.
- ▣ Protective Puts: If the stock position declines significantly below the strike price by expiration, on assignment, the investor may be obligated to purchase shares well above their current price. Stock bought under this circumstance reflects a loss compared to its market price at the time. However, this loss would be unrealized if the investor holds the shares and is positioned to profit from an increase in their price. Any investor whose motivation in writing a cash-secured put is to buy underlying stock should be committed to a target price for a possible purchase and select a strike price accordingly.

Passive Management

If a portfolio employs a passive, efficient markets approach, there is a risk of generating lower-than-expected returns due to its broad diversification when compared to a portfolio more narrowly focused.

Political Risk

The risk of financial and market loss because of political decisions or disruptions in a particular country or region may also be known as "geopolitical risk."

Qualified Dividend Income Ratios

While ETFs and mutual funds are known for their potential tax-efficiency and higher "qualified dividend income" (QDI) percentages, there are asset classes within these investment vehicles or holding periods that do not benefit. Shorter holding periods, as well as commodities and currencies (possible underlying holding of an ETF or mutual fund), may be considered "non-qualified" under certain tax code provisions.

REIT Risks

REIT risk include (i) following the sale or distribution of assets an investor could receive less than their principal invested, (ii) fluctuations involving the value of the assets within the REIT, (iii) a reliance on the investment manager to select and manage assets, (iv) changes in interest rates, laws, operating expenses, and insurance costs, (v) tenant turnover, and (iv) the impact of current market conditions.

Regulatory Risk

The risk of having the "license to operate" withdrawn or suspended by a regulator or having conditions or rule interpretations applied (retrospectively or prospectively) that adversely impact the economic value of a firm or an investment.

Research Data

When research and analyses are based on commercially available software, rating services, general market and financial information, or due diligence reviews, a firm is relying on the accuracy and validity of the information or capabilities provided by selected vendors, rating services, market data, and the issuers themselves. While our firm makes every effort to determine the accuracy of the information received, we cannot predict the outcome of events or actions taken or not taken, or the validity of all information researched or provided which may or may not affect the advice on or investment management of an account.

Sequence of Return Risk

The risk of receiving lower or negative returns due to early withdrawals from an investment account.

Settlement Risk

Also called *delivery risk*. The risk that one party will fail to deliver the terms of an investment contract with another party (contra-party) at the time of settlement. Settlement risk can be a risk associated with default, along with any timing differences in a settlement between the two parties.

Small- and Mid-Capitalization Company Risk

The small- and mid-capitalization companies in which an account may invest may be more vulnerable to adverse business or economic events than larger, more established companies. Investments in these small- and mid-sized companies may pose additional risks, including liquidity risk, because these companies tend to have limited product lines, markets, and financial resources, and may depend upon a relatively small management group. Small- and mid-cap stocks, therefore, may be more volatile than those of larger companies. These securities may be traded over the counter or listed "off-exchange."

Socio Political Risk

The risk of instability in a region due to war, terrorism, pandemics, etc., that might affect investment markets.

Item 9 - Disciplinary Information

Neither the firm, nor its management, have been involved in a material criminal or civil action in a domestic, foreign, or military jurisdiction, an administrative enforcement action, or self-regulatory organization proceeding.

Item 10 - Other Financial Industry Activities and Affiliations

Our firm and its management are not registered, nor has an application pending, to register as a Financial Industry Regulatory Authority (FINRA) or National Futures Association (NFA) member firm or as an associated person of such firms. We are not required to be registered with a FINRA or NFA regulated firm, nor do they supervise our firm, its activities, or our associates.

Neither SocialTrader nor its management is or has a material relationship with any of the following types of entities:

- ☐ accountant or accounting firm

- ☐ another investment adviser, to include financial planning firms, municipal advisers, sub-advisers, or third-party investment managers (nor do we recommend/refer, select, or utilize their services)
- ☐ bank, credit union or thrift institution, or their separately identifiable department or division
- ☐ insurance company or insurance agency
- ☐ lawyer or law firm
- ☐ pension consultant
- ☐ real estate broker, dealer, or adviser
- ☐ sponsor or syndicator of limited partnerships
- ☐ trust company, or an
- ☐ issuer of a security, such as an investment company or other similar pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, “hedge fund,” and/or offshore fund).

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

Code of Ethics

We have adopted a Code of Ethics that establishes policies for ethical conduct for our personnel. Our firm accepts the obligation not only to comply with applicable laws and regulations but also to act in an ethical and professionally responsible manner in our services and activities. Firm policies include prohibitions against insider trading, circulation of industry rumors, and certain political contributions, among others. We periodically review and amend our Code of Ethics to ensure that they remain current, and we require firm personnel to annually attest to their understanding of and adherence to the firm’s Code of Ethics. A copy of the firm’s Code of Ethics is made available to any client or prospective client upon request.

Firm Recommendations and Conflicts of Interest

Our associates are prohibited from borrowing from or lending to a client unless that client is an approved financial lending institution, such as a bank or broker/dealer.

Neither our firm nor its associates are authorized to recommend to a client, or effect a transaction for a client, involving any security in which our firm or a “related person” (associates, their immediate family members, etc.) has a material financial interest, such as in the capacity as an underwriter, adviser to the issuer, etc.

SocialTrader does not trade for its own account (e.g., proprietary trading). The firm’s related persons are restricted to buying or selling mutual funds in order to avoid securities that are the same as, similar to, or different from, those recommended to clients for their accounts. Any exceptions must be approved in writing by our Chief Compliance Officer, and personal trading accounts are reviewed on a quarterly or more frequent basis.

Item 12 - Brokerage Practices

Factors Used to Select Broker/Dealers for Client Transactions

Client accounts must be separately maintained by a qualified custodian (generally a broker/dealer, futures commission merchant, national bank, or trust company) that is frequently reviewed for its capabilities to serve in that capacity by their respective industry regulatory authority. Our firm is not a custodian, there is not an affiliate that is a custodian, nor does a custodian supervise our firm, its activities, or our associates.

We do not receive referrals from a custodian, nor would client referrals be a factor in our recommendation of a custodian.

We prefer that our portfolio management clients use the services of Interactive Brokers LLC (“Interactive Brokers”), an Interactive Brokers Group, Inc. company, and a FINRA and SIPC member firm.⁶ Interactive Brokers self-clears and custodies its client accounts. Our firm is independently owned and operated and is not legally affiliated with Interactive Brokers. While we recommend that clients use Interactive Brokers, each client will decide whether to do so and will open their account with the custodian by entering into an account agreement directly with the custodian. We do not technically open an account for a client, although we will assist them in doing so. If a client does not wish to place their assets with Interactive Brokers as custodian of record, we may serve as portfolio manager for the account maintained at a custodian of the client’s choosing if that custodian’s policies allow us to do so and following the client’s written authorization via the other custodian’s limited power of attorney document.

Interactive Brokers offers firms like ours various services, which include custody of client assets, trade execution, clearance, and settlement, etc. Our firm may receive other benefits from our preferred custodian through participation in their independent advisor support program. These benefits may include the following products and services (provided either without cost or at a discount):

- ☐ receipt of duplicate client statements and confirmations
- ☐ research related products and tools
- ☐ access to trading desks serving our clients
- ☐ access to block trading services
- ☐ the ability to have advisory fees deducted directly from a client’s accounts (per written agreement)
- ☐ resource information related to capital markets and various investments
- ☐ access to electronic communications networks for client order entry and account information
- ☐ access to mutual funds with no transaction fees, and
- ☐ discounts on marketing, research, technology, and practice management products or services provided to our firm by third-party providers.

The noted products and services made available to us by our custodian and their affiliates help our firm but may not directly benefit each client account maintained at that custodian or client accounts maintained at another custodian. While our firm does not think these services are considered "brokerage or research services" under Section 28(e) of the Securities Exchange Act of 1934, certain jurisdictions where we serve client accounts believe that these services fall under this definition. The availability of these services benefits our firm because we do not have to produce or purchase these services as long as clients maintain assets in accounts at our recommended custodian.

A conflict of interest exists since our firm has an incentive to select or recommend a custodian based on our firm’s interest in receiving these benefits rather than our clients’ interests in receiving favorable trade execution. It is important to mention that the benefit received by our firm through participation in any custodian’s program does not depend on the amount of brokerage transactions directed to that custodian, and our selection of a custodian is primarily supported by the scope, quality, and cost of services provided as a whole, and not just those services that benefit only our advisory firm. Our firm conducts periodic assessments of any recommended service provider, which assessments generally involve a review of the

⁶ Our advisory firm is not, nor required to be, a Securities Investor Protection Corporation (SIPC) member. You may learn more about the SIPC and how SIPC serves member firms and the investing public by going to their website at <http://www.sipc.org>.

range and quality of services, reasonableness of fees, among other items, in comparison to industry peers. We will act in the best interest of our clients regardless of the custodian selected.

Best Execution

“Best execution” means the most favorable terms for a transaction based on all relevant factors, including those listed in the paragraph titled *Factors Used to Select Broker/Dealers for Client Transactions*. Our firm recognizes its obligation in seeking best execution for clients; however, it is believed that the determinative factor is not always the lowest possible cost but whether transactions represent the best “qualitative execution” while taking into consideration the full range of services provided. Our firm will seek services involving competitive rates, but it may not necessarily correlate to the lowest possible rate for each transaction. Our firm has determined having clients’ trades completed through our custodian is consistent with our obligation in seeking best execution. A review is regularly conducted by our firm regarding recommendations of a custodian in light of our duty involving best execution.

While our firm has access to a broad range of securities through our custodian, it is a finite number. In addition, not all investment managers, share classes, etc., are represented at each custodian. Due to these normal and customary limitations, not all portfolio holdings will be readily available, least expensive, best performing, etc. It is an unrealistic expectation for an investor to maintain a premise otherwise.

Directed Brokerage

Not all investment advisers require their clients to direct brokerage, nor do we think our operational relationship with our custodian is defined as “directed brokerage” per common industry practices. While our internal policy and operational relationship with our custodian necessitate client accounts custodied with them to have trades executed per their order routing requirements, we do not direct our custodian as to which executing broker should be selected for our clients’ trades, whether that is an affiliate of our preferred custodian or another executing broker of our custodian’s choice. As a result of our custodian’s own trade execution policies, however, a client may pay higher commissions or other transaction costs, experience greater spreads, or receive less favorable net prices on transactions than might otherwise be the case.

Since we routinely recommend a particular custodian to our clients, and that custodian may choose to use the execution services of its broker affiliate for some or all account transactions, there is an inherent conflict of interest involving our recommendation since our advisory firm receives various products or services earlier described. Note that we are not compensated for trade routing/order flow, nor are we paid commissions on such trades. We do not receive interest on an account’s cash balance.

Client accounts maintained by our custodian under our account master are unable to direct brokerage. As a result, they may pay higher commissions or other transaction costs, potentially experience greater spreads, or receive less favorable net prices on transactions for their account than would otherwise be the case if they had the opportunity to direct brokerage.

For accounts maintained at a custodian of the client’s choice (e.g., held-away accounts), the client may choose to request that a particular broker is used to execute some or all account transactions. Under these circumstances, the client will be responsible for negotiating, in advance of each trade, the terms and/or arrangements involving their account with that broker, and whether the selected broker is affiliated with their custodian of record or not. We will not be obligated to seek better execution services or prices from these other brokers, and we will be unable to aggregate transactions for execution via our custodian with

other orders for accounts managed by our firm. As a result, the client may pay higher commissions or other transaction costs, potentially experience greater spreads, or receive less favorable net prices on transactions for their account than would otherwise be the case.

Aggregating Securities Transactions

Trade aggregation involves the purchase or sale of the same security for several clients/accounts at approximately the same time. This may also be termed “blocked” or “batched” orders. Aggregated orders are effected in an attempt to obtain better execution, negotiate favorable transaction rates, or to allocate equitably among multiple client accounts should there be differences in prices, brokerage commissions or other transactional costs that might otherwise be unobtainable through separately placed orders. Our firm may, but is not obligated, to aggregate orders via its custodian. We do not receive additional compensation or remuneration as a result of aggregated transactions.

Transaction charges and/or prices may vary due to account size and/or method of receipt. To the extent that the firm determines to aggregate client orders for the purchase or sale of securities, including securities in which a related person may invest, the firm will generally do so in accordance with the parameters set forth in SEC No-Action Letter, *SMC Capital, Inc.* Note that when trade aggregation is not allowed or infeasible and necessitates individual transactions (e.g., withdrawal or liquidation requests, odd-lot trades, non-discretionary accounts, etc.), an account may potentially be assessed higher costs or less favorable prices than those where aggregation has occurred.

Item 13 - Review of Accounts

Our firm’s advice is rendered through its online delivery solution and is designed to be operated by the user (client) themselves. Clients have unlimited access and frequency to employ systems’ functionality and can review their account, portfolio allocation, etc., and update it as necessary. Our client services staff are available to assist clients via telephone, email, or online chat about platform technical issues they may experience, but they do not provide trading advice or enter trading orders.

Non-periodic reviews may occur via our systems when they are triggered by material market, economic or political events, or by changes in client’s financial situations. Clients should consider revisiting previously entered data to update their information if a material event has occurred.

Clients will receive electronic account statements prepared by the custodian of record on at least a quarterly basis. SocialTrader does not create an account statement for an advisory client, and we urge clients to carefully review statements they receive from the custodian of record for accuracy and clarity.

SocialTrader advice is rendered through its online technology and is set up to be run by the client. Performance reports created by our custodian are available for the client when they access the firm’s services platform, and clients have unlimited access to the system as long as their account remains open with our advisory firm. This access also provides the client the ability to generate various reports to gauge their account progress. SocialTrader online performance reports are calculated using both time-weighted and money-weighted methodologies that are programmed into portfolio administration systems that are periodically back-tested by supervisory staff and/or qualified third parties to ensure accuracy. We do not validate performance reports created by systems external to ours and cannot attest as to whether other reports are calculated on a uniform and consistent basis. Our reporting system compounds daily portfolio-level returns from the period the account had been originally funded until the present time. Reports are intended to inform clients about investment performance on both an absolute basis and as compared to a well-known benchmark. We believe these are appropriate methods to evaluate portfolio performance since

not all are sensitive to the contributions or withdrawals the client makes to their account. Clients are urged to carefully review and compare account statements that they have received prepared by their custodian of record with any performance report received from our advisory firm.

Item 14 - Client Referrals and Other Compensation

We do not engage in solicitation activities. If we receive or offer an introduction to a client, we do not pay or earn a referral fee, nor are there established *quid pro quo* arrangements. Each client has the right to accept or deny such referral or subsequent services.

Item 15 - Custody

SocialTrader does not take physical custody of a client account. Our clients' accounts must be maintained by an unaffiliated, qualified custodian. Accounts are not to be maintained by our firm or any associate of our firm. In keeping with this policy involving our clients' funds or securities, our firm:

- ☒ restricts the firm or an associate from serving as trustee or having general power of attorney over a client account
- ☒ does not accept or forward client securities (i.e., stock certificates) erroneously delivered to our firm
- ☒ prohibits the firm or an associate to have the client's bank or investment account access information (i.e., passwords and user identification)
- ☒ does not allow the use of standing letters of authority (SLOAs) unless the:
 - ☒ client provides written instruction to their qualified custodian 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
 - ☒ client authorizes the firm in writing on their qualified custodian's form any power to direct transfers to the third party either on a specified schedule or from time to time
 - ☒ client's qualified custodian performs appropriate verification of the client's instructions, 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
 - ☒ client has the ability to terminate or change the instruction to the client's qualified custodian
 - ☒ firm 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
 - ☒ third party is not a related party to our firm and is located at a different address as the firm
 - ☒ client's qualified custodian sends the client a written initial notice confirming the instruction, and
 - ☒ client is annually provided notice reconfirming their instructions.
- ☒ will not collect advance fees of \$1,200 or more for services that are to be performed six months or more into the future, and
- ☒ prohibits associates from having authority to directly withdraw securities or cash assets from a client account. Although we may be deemed to have limited (aka. constructive) custody of an account since we may request the withdrawal of advisory fees from an account, we will do so only on the following terms as described in Item 5 and reemphasized below:
 - ☒ our firm will possess written authorization from the client to deduct advisory fees from an account held by the custodian,

- ☐ we will send the qualified custodian notice of the amount of the fee to be deducted from the client's account, and
- ☐ the client receives a statement directly from the account custodian of record.

The custodian will provide each account holder with their investment account transaction confirmations and account statements, which will include debits and credits as well as our firm's advisory fee for that period. Statements are provided on at least a quarterly basis or as transactions occur within their account. Our firm will not create an account statement for a client or serve as the sole recipient of a client's account statement.

As a reminder, if an account holder receives a report from any source (including our firm) that includes investment performance information, they are urged to carefully review and compare their statements that have been received from the custodian of record to determine that report's accuracy.

Item 16 - Investment Discretion

SocialTrader's platform is designed to enhance the client's portfolio and simplify their lives regarding investing and trading. To do this, we prefer that accounts are established under a discretionary trading agreement. Via limited power of attorney signed by the client, discretionary authority allows our firm to determine the securities to be bought or sold for a client's account and the amount of securities to be bought or sold for a client's account, including periodic rebalancing, without requiring the client's prior authorization for each transaction in order to meet stated investment objectives. This authority will be granted through the client's execution of both our engagement agreement and the custodian's account documents. Note that the custodian specifically limits our firm's authority within an account to the placement of trade orders and the request for the deduction of our advisory fees.

We require performance-based fee accounts to be managed solely under a discretionary agreement.

All other transactions would need to be conducted by the client on a "self-directed" basis (on their own) through our platform. We do not assist with self-directed trades. Clients must enter and submit desired buy or sell orders for execution by the custodian using our application. In addition, self-directed accounts are unable to be aggregated (see Item 12) and therefore may be assessed higher trading fees or receive less favorable prices than those accounts where trade aggregation (block or omnibus trades) had occurred.

Item 17 - Voting Client Securities

Clients may periodically receive proxies or similar solicitations sent directly from their account custodian. If we receive a duplicate copy, please note that we do not forward these or any correspondence relating to the voting of securities, class action litigation, or other corporate actions.

Clients maintain exclusive responsibility for directing the manner in which proxies solicited by issuers of securities that they beneficially own shall be voted, as well as making all other elections relative to mergers, acquisitions, tender offers or other legal matters or events pertaining to their holdings. Clients should consider contacting the issuer or their legal counsel involving specific questions they may have with respect to a particular proxy solicitation or corporate action.

Our firm does not vote proxies on a client's behalf; nor do we offer specific guidance on how to vote proxies. We will not offer guidance involving any claim or potential claim in any bankruptcy proceeding, class action securities litigation or other litigation or proceeding relating to securities held at any time in a client account, including, without limitation, to file proofs of claim or other documents related to such proceeding, or to investigate, initiate, supervise, or monitor class action or other litigation involving client assets. However, we

answer limited questions via our website's "frequently asked questions" with respect to what a proxy voting request or other corporate matter may be and how to reach the issuer or its legal representative.

Item 18 - Financial Information

Our advisory firm will not take physical custody of client assets, nor do we have the type of account authority to have such control. Fee withdrawals must be done through a qualified intermediary (e.g., custodian of record), per prior written agreement with the client.

Engagements with our firm do not require that we collect fees from a client of \$1,200 or more for our advisory services that we have agreed to perform six months or more into the future.

Neither our firm nor its management serve as general partner for a partnership or trustee for a trust in which the firm's advisory clients are either partners of the partnership or beneficiaries of the trust.

The firm does not have a financial condition likely to impair its ability to meet commitments to clients, nor has the firm been the subject of a bankruptcy petition.

Due to the nature of our firm's advisory services and operational practices, an audited balance sheet is not required nor included in this brochure.