

ITEM 1: PART 2A FOR FORM ADV (FIRM BROCHURE)



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This brochure provides information about the qualifications and business practices of Watts Gwilliam & Co., LLC. If you have any questions about the contents of this brochure, please contact us at 888-324-8998 or email jeff@wattsgwilliam.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.

Additional information about Watts Gwilliam & Co. also is available on the SEC's website at: www.adviserinfo.sec.gov.

NOTE: While Watts Gwilliam may refer to itself as a "registered investment advisor" or "RIA", Clients should be aware that registration itself does not imply any level or skill or training.

ITEM 2: MATERIAL CHANGES

Item 4 has been updated to list Optic Asset Management as a division of Watts Gwilliam & Company. Item 8 has also been updated to provide clarification on the firm's option management strategies (OPTIC).

Zona UC, LLC has been added as a private fund.

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ITEM 4: ADVISORY BUSINESS

Watts Gwilliam & Company LLC was established in May of 2004. The founding members include Jeffrey Stephen Watts, D. Bradford Gwilliam and David Bruce Watts. As of March 2023, the firm has total assets under management of approximately \$586 Million, managed on a discretionary basis.

Investment Advisory Services

The primary business of Watts Gwilliam & Co., LLC is to provide investment supervisory services. This is done through ongoing portfolio management and oversight. Prior to providing investment advisory services, our process includes an assessment of each client's individual needs, goals, risk appetite, and time horizon. Thereafter, Watts Gwilliam will allocate, and/or recommend that the client allocate, investment assets consistent with the designated investment objectives. The client may, at any time, impose reasonable restrictions, in writing, on our services. Portfolios receive on-going monitoring and reviews with proactive re-balancing of asset allocation as necessary.

Optic Asset Management

Optic Asset Management (OAM) is a division of Watts Gwilliam & Co. that oversees the company's professionally managed option strategies (see Item 8 below). Some clients may engage our firm for the sole purpose of accessing this strategy and not engaging in other broad-based wealth management services. This is also the name through which we typically offer sub-advisory services. In these situations, advisors unaffiliated with Watts Gwilliam & Co. outsource the investment supervisory services of certain clients to our firm. Details of these arrangements are further discussed in the section entitled Other Financial Industry Activities and Affiliations.

Types of Securities

Watts Gwilliam & Co. generally limits its money management to Equities, ETFs, Mutual Funds, Bonds, Fixed income, Debt Securities, Hedge Funds, REITs, Private Placements, Government Securities and both listed and over-the-counter options. We may use other securities as well to help diversify a portfolio when applicable.

Financial Planning

On certain occasions, we advise clients on matters not directly involving securities. This general guidance, commonly considered Financial Planning, may include advice related to issues such as retirement, education, and estate planning. Often, the result of this planning is used to better advise the client on issues related to the investment supervisory services discussed previously.

ITEM 5: FEES AND COMPENSATION

Watts Gwilliam & Co., and its division Optic Asset Management, offer its services for a fee based on a percentage of assets under management. Fees are determined on a case-by-case basis, considering such things as account value, complexity, and other factors. While fees vary based on many factors, our maximum fee is 1.25% per year. The value of accounts used for billing is based on the market value of investments held in the account (see Billing Process). At times, we may instead propose a fixed fee for portfolio management.

Fixed fees for financial planning services are based on the complexity of the planning and agreed to by the client in advance. We project our fixed fees to range from \$500 to \$3,500 for the initial plan development. Update sessions and follow up work may require separate arrangements. At times, the advisor may decide to waive these fees, or apply fees paid for financial planning services toward the client's annual assets under management fees.

Fees paid by the client are disclosed on the signed client agreement and reported on custodial statements for the month in which they are assessed.

Minimum Annual Fee

We have established a minimum annual household fee of \$2,500. This account minimum may have the effect of making our services impractical for accounts with fewer assets. Watts Gwilliam & Co. may decide to waive this minimum based upon certain criteria such as anticipated future earning capacity, anticipated future additional assets, related accounts, account composition, pro bono activity, etc.

Billing Process

Watts Gwilliam & Co. bills client accounts for a given quarter on or around the first business day of that quarter by applying one-fourth of the applicable annual fee to the closing market value on the just-concluded quarter's last trading day. An account billed on the first business day of January, for example, applies one-fourth of the appropriate household rate to the account's market value on the last trading day of December. Accounts are normally billed on the first business day of January, April, July and October. On occasion, various factors may cause a delay in the actual billing of an account. However, when this occurs, the billing is still calculated as if it had been done on the first day of the quarter. Market value is determined by the account custodian and is reported on client statements. In certain situations, such as illiquid private placement investments, the custodian may not report a value. In this case, the amount will be determined as the value on the books and records of the issuer of the investment. This amount may be higher or lower than the market value if that investment were to be sold. Clients authorize us in our client agreement and custodial paperwork to deduct fees directly from their account.

When an account is first placed under Watts Gwilliam & Co.'s management, billing begins on the first business day of the account being managed. In this case, fees are calculated on a daily, pro-rata basis, based on the number of days remaining in the quarter. The fee is applied to the initial value of the account on the first day of Watts Gwilliam & Co.'s management.

If an account is fully removed from Watts Gwilliam & Co.'s management during a billing quarter, the already-billed quarterly fee is pro-rated as specified in the client agreement and the difference between the assessed fee and the pro-rated fee is refunded promptly to the client. Clients may close accounts without penalty on the last day of any month, upon written notification of Watts Gwilliam & Co.

Investors who use margin to purchase securities will be billed on the total value of all investments, which means that the billable account value will be higher than had they not leveraged the account through margin.

Billing Process (Financial Planning)

We bill clients for financial planning fees upon completion of the agreed-upon services. Fees for financial planning services are invoiced directly to the client rather than deducted directly from an investment account.

Other Fees & Expenses

Watts Gwilliam may charge a quarterly fee up to \$15 per account to cover technology costs for various platforms available for client use. This will be disclosed on the client agreement.

Your account will incur fees and expenses charged by third-party service provided that are not related to our advisory fees. For example, brokerage firms may charge transaction fees to purchase and sell securities in your accounts. These transaction fees, or ticket charges, will vary based on the type of security being traded. Your account may incur other activity fees such as IRA fees and wire fees. Custodial and brokerage (transaction, account, and activity) fees will be disclosed in your brokerage account-opening paperwork.

ITEM 6: PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Watts Gwilliam & Company does not charge performance-based fees on accounts held and managed through our institutional custodians. However, members of the firm may, from time to time, be involved in the management of private placement investments simultaneous to managing client assets as described in the section Advisory Business (above). These private investments may include performance-based fees. There may be times when certain of our clients choose to participate in these private investments. In these situations, money invested by our clients into these funds is not considered a billable asset for fee calculations. Instead, assets held in private funds are assessed a fee at the fund level (meaning there is no double-dipping of fees). Because some members of the firm may receive additional compensation through performance fees based on the success of the investment, a conflict of interest exists. Details of these offerings are outlined in the investment's disclosure documents.

Currently, certain members of Watts Gwilliam & Co. are also managers of the Vista Capital Fund III, LLC, Vista Capital Fund IV: AK Courtyard and Zona UC, LLC. These funds seek to generate returns by investing in both commercial and residential real estate, and real estate backed investments. David Watts, Brad Gwilliam, and Jeffrey Watts advise on the strategic direction of the funds and are responsible for servicing the clients. Certain clients of Watts Gwilliam & Co. may also invest in these offerings and the fees and compensation paid to us may be different than what are paid through more traditional investments. Fees for these funds may be higher and, therefore, may present a conflict of interest for members of Watts Gwilliam to recommend these funds over other investments. Additional information on the funds can be found in Item 8 of this brochure.

ITEM 7: TYPES OF CLIENTS

Watts Gwilliam & Co. provides investment advisory services to individuals, participants in pension and profit-sharing plans, trusts, estates, charitable organizations, pooled investment vehicles and corporate or business entities.

ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Investment Strategies

When managing client portfolios, Watts Gwilliam & Co. generally places an emphasis on strategic asset allocation, utilizing investments from a broad spectrum of asset classes to achieve diversification. As such, investments are generally done with a long-term time horizon. This helps minimize both taxes and trading expenses.

From time to time, and where suitable to client circumstances and preferences, we may use short sales, margin transactions, structured investment strategies, and other trading strategies, including options (see OPTIC below).

OPTIC Option Strategies

Our firm offers options trading services for investors seeking a professionally managed solution. Some investors who utilize this service have large, concentrated stock positions. Others desire that an option overlay be placed on some, or all, of the portfolios we manage for them. While all such strategies can be customized, the four composite overlay strategies we offer are referred to as SPY Optic, Div Optic, Growth Optic, and TLT Optic. These are also offered as Separately Managed Accounts. More information on each of these specific strategies is available upon request.

Optic strategies seek to provide income through the receipt of option premiums, while attempting to provide the client appreciation in the underlying stock or index. While the goal of the strategy is to participate in as much upside as possible, the performance can't be guaranteed. When utilizing an Optic strategy, clients typically continue to hold the underlying stock position and thus maintain the downside risk in the stock. If the stock position loses value, the client's return is the loss in stock price less the returns of the Optic strategy. The underlying stock may also appreciate above the strike prices of options sold. In this case, the client may not fully participate in the appreciation. Clients who use an Optic strategy without owning the underlying stock (naked options) are subject to additional risks, including theoretically unlimited risk in the case of naked calls. These risks should be carefully considered prior to investing.

While we do not assist clients in establishing concentrated stock positions, for those investors and institutions who do have large, single stock positions, we may be hired to assist them in diversifying or seeking to add income through the receipt of option premiums. Watts Gwilliam & Co. does not liquidate these kinds of positions without communication with the client. Instead, we work with clients to establish a structured exit strategy that includes the use of options.

At times, we may combine the selling of calls with the purchase of a put option. This structure, called a collar, will limit the upside growth in the stock (through the call option), but protect the downside risk through the put option. We often refer to this strategy as “Dynamic Collars”, as the selling of calls can be done actively through an Optic strategy while a longer-term put is held statically in the account. There are times that we use this strategy for clients as a moderate-risk approach to investing in stocks or as a fixed-income alternative.

Watts Gwilliam may advise clients on the use of other structured investments designed for specific purposes such as hedging, monetization, etc. These strategies may be managed by Watts Gwilliam, or, in certain situations, we may partner with investment banks for specific purposes.

Private Funds and Other Investment Strategies

Galaxy Plus Hedge Fund-Watts Gwilliam Overlay Fund

The Galaxy Fund is a private placement fund that is available only to accredited investors with a minimum investment amount of \$100,000. The fund invests in stocks while using the OPTIC strategy as an income enhancement. The fund will generally invest in the S&P 500 index through ticker symbol SPY. However, the fund may utilize other holdings to achieve its objective. The investment is administered through New Hyde Park Alternative Funds, LLC and offers weekly liquidity to investors. Watts Gwilliam does not have custody of the money in the Fund. The investment is packaged in this format to allow Watts Gwilliam to manage the strategy as a single pool, as opposed to trading the stocks and options on an account-by-account basis. Doing so provides more efficiency for the manager while lowering trading costs. Fees for the investment are charged at the fund level. Therefore, Watts Gwilliam’s client holdings in the Galaxy Fund are excluded from billing at the individual account level (not double charged). Although this fund does not include performance-based fees, fees for investing in the Galaxy Fund may be different than those charged at the account level. Investors should refer to the fund’s legal documents for more information on fees, risks, and other important disclosures.

Vista Capital Fund III, LLC

Vista Capital Fund III, LLC (Fund III) is a private fund investing primarily in real estate (commercial and residential), with a focus on purchasing properties that require some development and improvement prior to resale. As a secondary option, the properties will be held as income producing assets. We believe that current economic conditions favor development in small retail, commercial, industrial and residential, particularly in situations where a purchase agreement or long-term lease is in force prior to investing. This fund is illiquid and may be purchased by only our clients who qualify according to the investment’s legal offering memorandum. VIII Partners, LLC, manages fund II. This management LLC is owned and managed by Jeffrey Watts, David Watts, Brad Gwilliam and Ben Cooper. Client assets that are invested in the fund are charged fees at the fund level. The value of client assets put into the fund are excluding from other billing. Because the fund offers a performance-based incentive fee, there is a conflict of interest in recommending this investment to clients. However, within our fiduciary duties, we are careful to ensure that no client invests at a level that would create excessive risk to their total portfolio allocation. *Vista Capital Fund III is currently closed to new investors.*

Vista Capital Fund IV: AK Courtyard, LLC

Vista Capital Fund IV: AK Courtyard, LLC (Fund IV) is a private fund investing primarily in the development, construction and operation of a Courtyard Marriott hotel located in Anchorage Alaska. This fund is considered non-diversified as its investing in a single project. Fund IV is illiquid and may be purchased by only our clients who qualify according to the investment's legal offering memorandum. Vista Partners AK, LLC, manages the fund. This management LLC is managed Ben Cooper, with Jeffrey Watts, David Watts and Brad Gwilliam overseeing the manager, providing strategic direction to the fund and handling client administrative issues. Fund IV will not be accessed a fee and serves as a pass-through vehicle to the actual investment LLC. All fees will be charged at that level, with the manager (Vista Partners AK) being compensated through that LLC. We've used this structure to eliminate any double charging of fees. The value of client assets put into the fund are excluding from other billing done by Watts Gwilliam & Co. Because the principals of Watts Gwilliam are compensated through the performance of the fund, there is a conflict of interest in recommending this investment to clients. However, within our fiduciary duties, we are careful to ensure that no client invests at a level that would create excessive risk to their total portfolio allocation. *Vista Capital Fund IV is currently closed to new investors.*

Zona UC, LLC

Zona UC, LLC is a private fund investing in the real estate entity known as Utah City Holdings (UCH). UCH is a multi-asset development company that includes Flagship Homes, a Utah based home builder, land development and entitlement assets, various income producing real estate assets and a Utah City town center development, consisting of residential and commercial development. Zona UC is managed by V-III Partners, LLC. This management LLC is owned and managed by Jeffrey Watts, David Watts, Brad Gwilliam and Ben Cooper. The value of client assets put into the fund are excluding from other billing (excluded asset). Because the fund offers a performance-based incentive fee, there is a conflict of interest in recommending this investment to clients. However, within our fiduciary duties, we are careful to ensure that no client invests at a level that would create excessive risk to their total portfolio allocation. *Zona UC, LLC is currently closed to new investors.*

Watts Gwilliam PATH Program

The PATH program is a technology-based platform designed to help investors who are in the accumulation phase of their wealth management cycle. The program allows clients to electronically establish accounts, set goals, and save toward those objectives. Unlike Watts Gwilliam's private clients (non-PATH clients), investors in this program receive advice and are serviced primarily through electronic methods (email, webinars, etc). While our advisors are available to assist when needed, investors in this program receive less one-on-one guidance and consultations.

Investment management in PATH is done through automated investment platforms that streamline deposits, rebalancing and portfolio allocation. Accounts in the program are diversified using only exchange traded funds (ETFs) and will include investments in U.S. and non-U.S. stocks, bonds, cash, and other liquid investments. Technology is used to ensure that the portfolio is kept within a tolerable range. Any triggers to rebalance the account (market movements, new cash deposits, etc) happen automatically and at the discretion of the manager.

The PATH program uses Betterment Securities (Betterment) as the custodian of the account. This means that accounts are opened at Betterment, in the name of the investor, and Watts Gwilliam is designated as the advisor to oversee the account. Betterment is responsible for providing account statements (at least quarterly), tax reporting, etc. While Betterment provides many benefits to the clients (goal modeling, tracking, automatic investment programs, etc), they also provide services intended to help us manage the account. Some of these services are to assist with back-office functions related to the account, educational events, technology support, etc. We believe that our selection of Betterment for this program is in the best interest of our clients. Our selection is primarily supported by the scope, quality, and price of Betterment Securities' services and not Betterment Institutional and Betterment Securities' services that benefit only us.

Fees and costs for the program are disclosed on the client agreement. The calculation of fees in this program is done as described above. However, unlike private clients of Watts Gwilliam, fees charged in the PATH program are done in arrears, not in advance. As clients in the program grow their wealth, they may be encouraged to leave PATH for the opportunity to receive more one-on-one counsel and advisement as a private client.

Methods of Analysis

Watts Gwilliam & Co. uses a combination of charting, technical and fundamental methods to assess risks and opportunities in the financial markets.

Throughout the investment process, we review numerous sources of information such as financial newspapers and magazines, research materials prepared by others, annual reports, prospectuses and filings with the Securities and Exchange Commission, rating services and company press releases.

Risk of Loss

Investing in securities involves risk of loss. Despite all due care, investment decisions made for our client accounts are subject to various market, currency, economic, political and business risks, and those investment decisions will not always be profitable. Examples of specific risks are described in more detail below.

ITEM 9: DISCIPLINARY INFORMATION

Watts Gwilliam & Company has no disciplinary events.

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Certain of Watts Gwilliam & Co.'s associated persons are also licensed insurance agents. Within this capacity, they may recommend the purchase of insurance products, such as life insurance and index annuities. These advisors may be compensated by the insurance company for selling insurance or fixed (or index) annuities. This does present a potential conflict of interest and all such transactions are done with proper disclosures.

ITEM 11: CODE OF ETHICS

Watts Gwilliam & Co. has a duty of utmost good faith to act solely in the best interests of each of our clients. Our clients entrust us with their funds, which in turn places a high standard on our conduct and integrity. Our fiduciary duty compels all employees to act with the utmost integrity in all our dealings. This fiduciary duty is the core principle underlying our Code of Ethics and represents the expected basis of all our dealings with our clients. Our written code of ethics includes standards of conduct, protection of material, non-public information, and personal conduct. A copy of our code of ethics is available upon request.

Client Related Securities

From time to time, our officers, and other employees, may invest alongside the firm's clients. This is done to both align the interests of the firm personnel and firm clients and as an expression of confidence in our portfolio management efforts. It is also acknowledged that we perform investment management for clients with varying investment goals and risk profiles. As such, the investment advice may differ between clients and investments made by the company's officers. When a decision is made to purchase, or sell, a security, priority will always be given to the client's orders before those of a related or associated person to the advisor.

ITEM 12: BROKERAGE PRACTICES

Watts Gwilliam & Co. uses Fidelity Investments, Charles Schwab & Co., Interactive Brokers and Betterment Securities (PATH Program discussed above) as its custodians for private client assets. The firm has chosen these custodians based on reasonable, straightforward commission structure, integrity, and financial stability. As a function of using the services of these custodians for its private clients' assets, the firm enjoys access to certain research reports to which we might not otherwise have access. The availability of these reports is in no way a function of the number or type of trades the firm executes on behalf of its clients. Watts Gwilliam & Co. receives no cash benefits from the custodians.

Watts Gwilliam participates in the Schwab Advisor Network (the "Program") offered by Charles Schwab & Co., member FINRA/SIPC ("Charles Schwab"), an unaffiliated SEC-registered broker-dealer and FINRA member. Charles Schwab offers to independent investment advisors services that include custody of securities, trade execution, clearance, and settlement of transactions. Watts Gwilliam receives some benefits from Schwab through its participation in the Program. (Please see the disclosure under Item 14. below.)

In addition to the custodians listed above, Watts Gwilliam & Co. may, from time to time, utilize other custodians for transactions not available through Fidelity, Schwab, Interactive Brokers or Betterment. Such cases are generally not applicable to most of the firm's clients. However, when such cases arise, only custodians that are widely recognized for their financial size and strength are used.

Order Aggregation

Transactions for each client account generally will be affected independently, unless we decide to purchase or sell the same securities for several clients at approximately the same time. We may choose to aggregate such orders to obtain best execution or to allocate equitably among our client's differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among our clients in proportion to the purchase and sale orders placed for each client account on any given day.

Participation or Interest in Client Transactions

The trading fees paid by our clients comply with the duty to obtain "best execution." In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Financial Institution's services and the fees for those services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Watts Gwilliam & Co. seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions. It is also our policy to not accept client's instructions for directing brokerage transactions to a particular broker-dealer in exchange for benefits to be made to the client (Client Directed Brokerage Arrangements).

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services that assist us in our investment decision-making process. Such research generally will be used to service all of our clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because we do not have to produce or pay for the products or services. The products received qualify as "brokerage or research services" under Section 28(e) of the Securities Exchange Act of 1934 ("Exchange Act").

ITEM 13: REVIEW OF ACCOUNTS

A member of our investment committee and/or the advisor reviews individual accounts on an ongoing basis. This process is facilitated by the fact that we run model portfolios, not unique accounts for each household. While some client portfolios are created, and managed, outside our investment models, using models creates efficiency in overseeing client assets. Certain clients may impose restrictions on their holdings. In cases of such restrictions, we work carefully to align the portfolio as closely as possible to our models. Accounts are monitored on a portfolio management system that provides current and comprehensive information concerning account performance, asset allocation (both globally across all household accounts and on accounts individually), and the progress of individual positions in the portfolio.

Account reviews are a routine firm function and monitored through practice management software. Reviews can also be triggered, or intensified, by unexpected performance, shifting market conditions, or changing client preferences or circumstances. In both routine and unusual circumstances, the central purpose of the review process is to ensure that the firm's clients

understand both what and how their accounts are doing. An additional purpose is to reaffirm that the client's investment mix remains suitable for their changing needs.

Clients receive monthly statements for each of their investment accounts. The production of these statements is generally outsourced to the account custodian. Upon request, clients may receive more detailed reports through the firm's portfolio management software (available through our website) and may access account information using our custodian's Internet resources. We advise clients to compare custodian statements with any separate adviser statements.

Watts Gwilliam & Co. typically meets with clients in person on a quarterly or semiannual basis. Some clients may desire more, or less, frequent meetings. During these meetings, client accounts are thoroughly reviewed and any changes in the client's needs and goals are discussed. These meetings are also used to update the client's other investment and financial planning needs. While scheduling client meetings in advance is preferred, clients may visit the office at any time. In addition to these written or formal methods, the firm communicates regularly with its clients through email and telephone.

Clients are responsible to keep Watts Gwilliam & Co.'s advisors informed as to any personal changes in their financial condition. WGC cannot make material changes to a client's portfolio if it is not notified of a client's particular developments. We remind clients to notify their advisor promptly of any changes that could impact the management of their portfolio.

ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

Economic Benefits Provided by Third Parties for Advice Rendered to Clients

As referenced in Item 12 above, Watts Gwilliam receives economic benefits from account custodians.

Compensation for Client Referrals

If a client is introduced to Watts Gwilliam by a solicitor, Watts Gwilliam may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-1 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any referral fee is paid solely from the Watts Gwilliam's investment advisory fee and will not result in any additional charge to the client. If the client is introduced to the Registrant by an unaffiliated solicitor, the solicitor will provide each prospective client with a copy of the current version of this Brochure and a separate written disclosure statement disclosing the terms of the arrangement between the Registrant and the solicitor, including the compensation to be paid by Watts Gwilliam & Co. to the solicitor.

Watts Gwilliam may receive client referrals from Charles Schwab through its participation in the Schwab Advisor Network (SAN). In addition to meeting the minimum eligibility criteria for participation in SAN, we may have been selected to participate in SAN based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade, an affiliate of Charles Schwab & Co. Charles Schwab (and TD Ameritrade) is a discount broker-dealer independent of and unaffiliated with Watts Gwilliam and there is no employee or agency relationship between them. Charles Schwab has established SAN as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. Charles

Schwab does not supervise Watts Gwilliam and has no responsibility for our management of client portfolios or our other advice or services. Watts Gwilliam pays Schwab an on-going fee for each successful client referral. The Solicitation Fee is an annualized fee based on the amount of referred client assets. Watts Gwilliam will also pay the Solicitation Fee on assets received from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired us on the recommendation of such referred client. Watts Gwilliam will not charge clients referred through SAN any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to Charles Schwab to its clients. For information regarding additional or other fees paid directly or indirectly to Charles Schwab, please refer to the SAN disclosure form. Watts Gwilliam's participation in SAN raises potential conflicts of interest. Charles Schwab will most likely refer clients through SAN to investment advisors that encourage their clients to custody their assets at Schwab and whose client accounts are profitable to Charles Schwab. Consequently, in order to obtain client referrals, Watts Gwilliam may have an incentive to recommend to clients that the assets under management by Advisor be held in custody with Charles Schwab and to place transactions for client accounts with Charles Schwab. In addition, Watts Gwilliam has agreed not to solicit clients referred to it through SAN to transfer their accounts from Schwab or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. Watts Gwilliam's participation in SAN does not diminish its duty to seek best execution of trades for client accounts.

As disclosed under Item 12 above, Watts Gwilliam may recommend Schwab to Clients for custody and brokerage services. There is no direct link between our participation in the program and the investment advice we give to Clients, although Watts Gwilliam receives economic benefits through its participation in the program that are typically not available to Charles Schwab retail investors. These benefits 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 Advisor 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; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Advisor by third party vendors. Some of the products and services made available by through the program may benefit Advisor but may not benefit its client accounts. These products or services may assist us in managing and administering Client accounts, including accounts not maintained at Charles Schwab. Other services made available by the program are intended to help us manage and further develop our business. The benefits we receive do not depend on the amount of brokerage transactions directed to Charles Schwab. As part of our fiduciary duties to clients, we always endeavor to put the interests of clients first. Clients should be aware, however, that the receipt of economic benefits by our firm in and of itself creates a potential conflict of interest and may indirectly influence the Advisor's choice for custody and brokerage services.

ITEM 15: CUSTODY

Custody by investment advisers means holding client funds or securities, directly or indirectly, or having the authority to obtain possession of them. For example, advisers have custody when the adviser has possession of client funds and securities or has power of attorney to sign checks on a client's behalf, to withdraw funds or securities from the client's account, or to otherwise dispose of a client's assets for any purpose other than authorized trading. Investment advisers who have custody of their clients' funds or securities must safeguard those funds as required by the SEC's "custody rule." The custody rule is designed to provide additional safeguards for investors against the possibility of theft or misappropriation by investment advisers who are registered with the SEC.

In most cases, Watts Gwilliam & Co. does not take possession of client funds (custody). Instead, our firm chooses custodians to hold client accounts (see Brokerage Practices above). On occasion, we may manage private investments that require the use of custody to manage the investment. Currently, we manage and have custody in the Vista Capital Fund III (see above). In so much as a client has chosen to invest in this fund, our firm does have "custody" of this portion of their investments. In accordance with custody rules, the fund completes an annual audit, and follows other necessary guidelines to safeguard our client's fund that are invested in the fund.

Standing Letters of Authorization (SLOA)

An SLOA is a letter signed by the client and addressed to the custodian (often on a standard form provided by the custodian) authorizing Watts Gwilliam & Co. to instruct the custodian to disburse funds or securities from a client account. For example, a client may use an SLOA to set up instructions to gift shares of stock from their brokerage account to a charity of their choosing. Establishing a pre-approved link between the investment account and the charity is done through an SLOA. Although these instructions are set up in advance, by the client, the fact that the advisor has the authority to initiate the transfer creates custody. Custody resulting from SLOAs is monitored and controlled by the company's policies and procedures. For example, all SLOA's must be initiated and signed directly by the client. Additionally, the ultimate beneficiary of the transfer cannot be a related party to Watts Gwilliam & Co. Although our firm will use an SLOA at a client's request, policies and procedures are in place to regulate their use and to protect the clients account.

ITEM 16: INVESTMENT DISCRETION

Watts Gwilliam & Co. generally manages assets on a fully discretionary basis. This is done only at the client's written request. This means that we are able to direct transactions to buy, or sell, securities in client accounts without first approving the transaction with the client. In these instances, we implement an investment program that is considered prudent, appropriate, and suitable to the nature of the account and our understanding of the client's general characteristics. You may elect to limit this discretion. For example, you may request that we contact you prior to trading a specified security or may impose restrictions on the types of securities used. Limitations are listed on the client agreement.

The ability to exercise discretion and trade client accounts is limited to trading authority. Watts Gwilliam & Co. is not authorized to move money outside of accounts registered to the client.

ITEM 17: PROXY VOTING

We do not complete or participate in proxy voting for clients.

ITEM 18: FINANCIAL INFORMATION

There are no financial conditions that are reasonably likely to impair our ability to meet contractual commitments to clients.