

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

March 28, 2019

**Southern Wealth Management, LLP**

SEC File No. 801-64071

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This brochure provides information about the qualifications and business practices of Southern Wealth Management, LLP. If you have any questions about the contents of this brochure, please contact us at [tgile@southernwealth.com](mailto:tgile@southernwealth.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any state securities authority. Registration with the SEC or State Regulatory Authority does not imply a certain level of skill or expertise.

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

**Item 2: Material Changes**

This Firm Brochure is our disclosure document prepared according to regulatory requirements and rules. Consistent with the rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

There are no material changes to the prior brochure dated August 22, 2018.

### 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 .....  | 5  |
|          | A. Description of Your Advisory Firm .....   | 5  |
|          | B. Description of Advisory Services Offered .....  | 5  |
|          | C. Client-Tailored Services and Client-Imposed Restrictions .....                              | 7  |
|          | D. Wrap Fee Programs .....   | 7  |
|          | E. Client Assets Under Management .....  | 7  |
| Item 5:  | Fees and Compensation .....  | 8  |
|          | A. Methods of Compensation and Fee Schedule .....  | 8  |
|          | B. Client Payment of Fees .....  | 10 |
|          | C. Additional Client Fees Charged .....  | 10 |
|          | D. Prepayment of Client Fees .....   | 11 |
|          | E. External Compensation for the Sale of Securities to Clients .....                           | 11 |
| Item 6:  | Performance-Based Fees and Side-by-Side Management .....                                       | 11 |
| Item 7:  | Types of Clients .....   | 12 |
| Item 8:  | Methods of Analysis, Investment Strategies, and Risk of Loss .....                             | 12 |
|          | A. Methods of Analysis and Investment Strategies .....   | 12 |
|          | B. Investment Strategy and Method of Analysis Material Risks .....                             | 19 |
|          | C. Concentration Risks .....   | 20 |
| Item 9:  | Disciplinary Information .....   | 20 |
|          | A. Criminal or Civil Actions .....   | 20 |
|          | B. Administrative Enforcement Proceedings .....  | 20 |
|          | C. Self-Regulatory Organization Enforcement Proceedings .....                                  | 21 |
| Item 10: | Other Financial Industry Activities and Affiliations .....                                     | 21 |
|          | A. Broker-Dealer or Representative Registration .....  | 21 |
|          | B. Futures or Commodity Registration .....   | 21 |
|          | C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest ..... | 21 |
|          | D. Recommendation or Selection of Other Investment Advisers and Conflicts of Interest .....    | 22 |
| Item 11: | Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading .....   | 22 |
|          | A. Code of Ethics Description .....  | 22 |

|          |   |    |
|----------|---|----|
| B.       | Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest.....                               | 22 |
| C.       | Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest.....                                 | 22 |
| D.       | Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest..... | 23 |
| Item 12: | Brokerage Practices .....   | 23 |
| A.       | Factors Used to Select Broker-Dealers for Client Transactions.....  | 23 |
| B.       | Aggregating Securities Transactions for Client Accounts .....   | 26 |
| Item 13: | Review of Accounts .....  | 27 |
| A.       | Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved .....                          | 27 |
| B.       | Review of Client Accounts on Non-Periodic Basis .....   | 28 |
| C.       | Content of Client-Provided Reports and Frequency .....  | 28 |
| Item 14: | Client Referrals and Other Compensation.....  | 28 |
| A.       | Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest.....                            | 28 |
| B.       | Advisory Firm Payments for Client Referrals .....   | 28 |
| Item 15: | Custody .....   | 29 |
| Item 16: | Investment Discretion.....  | 29 |
| Item 17: | Voting Client Securities.....   | 29 |
| Item 18: | Financial Information .....   | 30 |
| A.       | Balance Sheet.....  | 30 |
| B.       | Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients .....                   | 30 |
| C.       | Bankruptcy Petitions During the Past Ten Years.....   | 30 |

**A. Description of Your Advisory Firm**

Southern Wealth Management, LLP ("Southern Wealth" or "the firm"), is a limited liability partnership formed under the laws of the state of Texas and is principally owned by Richard Jones, Thomas Gile and Michael Olson. Southern Wealth is an independent wealth management firm that has been offering investment advisory and financial planning services since April 2005.

**B. Description of Advisory Services Offered**

Southern Wealth is an independent investment advisory, financial planning, and tax firm offering a variety of financial services to individuals and high-net-worth individuals, trusts, retirement plans, pension and profit sharing plans, charitable organizations, tax exempt, corporations, and other business entities. Advisory services may include investment strategy, portfolio management, financial and estate planning, accounting, tax preparation, tax compliance, business valuation, selection of other advisers, and consulting services. Southern Wealth provides its investment advisory services on a non-discretionary basis.

**B.1. Portfolio Management Services**

Southern Wealth provides continual advice to clients regarding investment of funds based on their individual needs. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, Southern Wealth develops a personal investment policy and creates and manages a portfolio based on that policy. Account supervision is guided by the stated objectives of the client (i.e., maximum capital appreciation, growth, income, or growth and income).

Southern Wealth will create a portfolio consisting of one or all of the following: individual equities, bonds, other investment products, and no-load and load-waived mutual funds. Southern Wealth will allocate the client's assets among various investments, taking into consideration the overall management style selected by the client. Mutual funds will be selected on the basis of any or all of the following criteria:

- the fund's performance history
- the industry sector in which the fund invests
- the track record of the fund's manager
- the fund's investment objectives
- the fund's management style and philosophy
- the fund's management fee structure

Portfolio weighting between funds and market sectors will be determined by each client's individual needs and circumstances. Clients will have the opportunity to place reasonable restrictions on the types of investments that will be made on their behalf. Clients will retain individual ownership of all securities.

When appropriate to the needs of the client, Southern Wealth may recommend the use of option writing. Because this investment strategy involves certain additional degrees of risk, it will only be recommended when consistent with the client's stated tolerance for risk. In addition to its own portfolio management services, Southern Wealth provides access to investment service programs in which client accounts are managed by independent third-party investment advisers. These programs provide additional investment opportunities among mutual funds, variable annuities, stocks, bonds and additional securities.

Based on a client's individual circumstances and needs, Southern Wealth will recommend an appropriate investment program to the client. Factors considered in making this recommendation include account size, risk tolerance, the opinion of each client, and the investment philosophy of the third-party independent adviser. Southern Wealth will assist the client in reviewing the client's income and expenditures, investment objectives, risk tolerance, liquidity requirements, investment restrictions, and other relevant factors. Southern Wealth will provide this information to program sponsors selected by the client. Southern Wealth will meet with the client on a regular basis as determined by the client to review the account. Southern Wealth will contact the client on at least an annual basis to review the client's investments. Southern Wealth will also provide updated information about clients' financial circumstances as necessary to program sponsors.

During regular account reviews, if Southern Wealth believes a different program becomes more suitable for a client's particular needs, then the firm may suggest that the client contract with a different program sponsor. In such a case, Southern Wealth will assist the client in selecting a new program. However, any move to a new program is solely at the discretion of the client. Third-party investment programs generally include services by independent investment advisers consisting of proprietary model portfolios. The independent investment advisers manage model portfolios based on the goals of the portfolio rather than the individual circumstances of any client account. Model portfolios may include mutual funds and/or insurance products, or also individual stocks and bonds. The investment adviser representative of Southern Wealth may assist the client to determine the appropriate asset allocation among available portfolios.

In addition to providing Southern Wealth with information regarding their personal financial circumstances, investment objectives and tolerance for risk, clients are required to provide the firm with any reasonable investment restrictions that should be imposed on the management of their portfolio, and to promptly notify the firm of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. On a quarterly basis, Southern Wealth's reports to clients will remind clients of their obligation to inform the firm of any such changes or any restrictions that should be imposed on the management of the client's account. Southern Wealth will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

## **B.2. Financial Planning Services**

Southern Wealth also provides advice in the form of a financial plan. Clients purchasing this service will receive a detailed financial plan designed to achieve their stated financial goals and objectives. In general, the financial plan will address any or all of the following areas of concern:

- *General Financial Planning:* Includes professional services such as estate and gift planning, tax projections, long-term cash flow planning, and charitable planning. Fees for such services are assessed on an hourly basis.
- *Personal:* Family records, budgeting, personal liability, estate information, and financial goals.
- *Tax & Cash Flow:* Income tax and spending analysis and planning for past, current, and future years. Southern Wealth will illustrate the impact of various investments on a client's current income tax and future tax liability.
- *Death & Disability:* Cash needs at death, income needs of surviving dependents, estate planning, and disability income analysis.
- *Retirement:* Analysis of current strategies and investment plans to help the client achieve his or her retirement goals.
- *Investments:* Analysis of investment alternatives and their effect on a client's portfolio.

- *Bill Payment Services:* For certain of its family office clients, as mutually agreed between the client and SWM, the firm will provide bill paying services. Such services will be billed in accordance with the firm's financial planning fee arrangements.

Southern Wealth gathers required information through in-depth personal interviews. Information gathered includes a client's current financial status, future goals, and attitudes toward risk. Related documents supplied by the client are carefully reviewed and an appropriate document is prepared. Should a client choose to implement the recommendations contained in the plan, Southern Wealth suggests the client work closely with his or her attorney, accountant, insurance agent, and/or stockbroker or investment adviser. Implementation of financial plan recommendations is entirely at the client's discretion. Financial planning recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company.

Please note: While some of our advisory professionals are CPAs, Southern Wealth is not a CPA firm and does not provide accounting or attest services.

### **B.3. Consulting Services**

Clients can also receive investment advice on a more limited basis. This may include advice on only an isolated area of concern, such as estate planning, retirement planning, reviewing a client's existing portfolio, or any other specific topic. Southern Wealth also provides specific consultation and administrative services regarding the investment and financial concerns of the client. Additionally, Southern Wealth provides advice on non-securities matters. Generally, this is in connection with the rendering of estate planning, insurance, and/or annuity advice.

### **B.4. Valuation Services**

The firm offers valuation services primarily for family limited partnerships, trust and related entities. The firm does not offer valuation services for businesses in the M&A context.

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

Clients' accounts will be managed on the basis of their financial situation and investment objectives, and in accordance with any reasonable restrictions they have imposed on the management of their accounts—for example, restricting the type or amount of security to be purchased in the portfolio.

## **D. Wrap Fee Programs**

Southern Wealth does not participate in wrap fee programs. (Wrap fee programs offer services for one all-inclusive fee.)

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

As of December 31, 2018, Southern Wealth manages \$1,951,542,158 of discretionary assets and \$509,001,872 of non-discretionary assets. In addition, Southern Wealth advises on \$54,334,001 that do not constitute regulatory assets as defined by the SEC.

## Item 5: Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### A.1. Asset-Based Fee Schedule – Portfolio Management, Third-Party Manager Selection, and Monitoring Services

The annual fee for portfolio management services will be charged as a percentage of assets under management, according to the following schedule:

| <u>Assets Under Management</u> | <u>Annual Fee Rate*</u> |
|--------------------------------|-------------------------|
| \$0–\$1,000,000                | 1.00%                   |
| \$1,000,001–\$3,000,000        | 0.75%                   |
| \$3,000,001–\$5,000,000        | 0.50%                   |
| \$5,000,001–\$10,000,000       | 0.35%                   |
| \$10,000,001–\$15,000,000      | 0.25%                   |
| In Excess of \$15,000,000      | 0.20%                   |

\* Fees are negotiable.

A minimum of \$1,000,000 of assets under management is required for this service. As such, there is an implied minimum fee of \$10,000. For clients with portfolio values less than \$1,000,000, the client may find comparable services at more favorable pricing elsewhere. This account size and the fee structure may be negotiable under certain circumstances, and Southern Wealth may waive the minimum requirement in its sole discretion. Southern Wealth may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

Asset-based fees are always subject to the investment advisory agreement between the client and Southern Wealth. Such fees are paid quarterly in advance. The client and the client's custodian or broker-dealer will be invoiced at the beginning of each calendar quarter, based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of the previous quarter, as mutually agreed upon by the client and Southern Wealth. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter.

The client authorizes the qualified custodian to automatically deduct the fee and all other charges payable hereunder from the assets in the account when due, with such payments to be reflected on the next account statement sent to the client. Southern Wealth may modify the fee at any time upon 30 days' written notice to the client. In the event the client has an ERISA-governed plan, fee modifications must be approved in writing by the client.

A client investment advisory agreement may be canceled either by party with 30 days' prior written notice. Upon termination, any unearned, prepaid fees will be refunded. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

##### A.1.a. Important Disclosure – Custodian Investment Programs

Please be advised that the firm utilizes certain custodians/broker-dealers. Under these arrangements we can access certain investment programs offered by our custodian that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. Please note the following:

***Limitation on Mutual Fund Universe for Custodian Investment Programs:*** Please note that as a matter of policy we prohibit the receipt of revenue share fees from any mutual funds utilized for our advisory clients' portfolios. Nonetheless, if the firm decides to take these 12b-1 fees in the future, please



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

***Additional Disclosure Concerning Wrap Programs:*** In addition, our custodian offers certain wrap fee programs that (i) allow our investment adviser representatives to select mutual fund classes that either have no transaction fee costs associated with them but include embedded 12b-1 fees that lower the investor's return ("sometimes referred to as "A-Shares," depending on the mutual fund issuer), or (ii) allow the use of mutual fund classes that have transaction fees associated with them but do not carry embedded 12b-1 fees (sometimes referred to as "I-Shares," depending on the mutual fund sponsor). Our wrap fee programs offer investment services and related transaction services for one all-inclusive fee (except as may be described elsewhere in this Brochure). The trading costs are typically absorbed by the firm and/or the investment representative. If a client's account holds A-Shares within a wrap fee program, the firm and/or its investment adviser representative avoids paying the transaction fees charged by other mutual fund classes, which in effect decreases the firm's costs and increases its revenues from the account. Effectively the cost is transferred to the client from the firm in the form of a lower rate of return on the specific mutual fund. This creates an incentive for the firm or investment adviser to utilize such funds as opposed to those funds that may be equally appropriate for a client but do not carry the additional cost of 12b-1 fees borne by the client. As a policy matter, the firm does not allow funds that impose 12b-1 or revenue sharing fees on the client's investment within its wrap fee programs. Should a client prefer an A-Share class or mutual fund share class that has embedded 12b-1 and/or revenue sharing fees, then the utilization of such funds within the wrap fee program requires specific written client consent acknowledging the conflict. Clients should understand and discuss with their investment adviser representative the types of mutual fund share classes available in the wrap fee program and the basis for using one share class over another in accordance with their individual circumstances and priorities.

## **A.2. Financial Planning and Consulting Fees**

Financial planning and consulting fees will be charged in one of three ways:

- *Fixed Fee:* As a fixed fee, typically ranging from \$1,000 to \$15,000 depending on the nature and complexity of each client's circumstances.
- *Hourly Basis:* On an hourly basis, ranging from \$100 to \$400 per hour depending on the nature and complexity of each client's circumstances as well as the individual conducting the work. If appropriate, an estimate for total hours may be determined at the start of the advisory relationship.
- *Invoicing in Monthly/Quarterly in Arrears or Monthly/Quarterly in Advance:* Under certain circumstances, if the client contracts with Southern Wealth for consulting work, Southern Wealth will invoice the client monthly in arrears for fees due. Some corporate clients may be invoiced quarterly in advance for fees due.

A financial planning or consulting agreement may be canceled by either party with 30 days' prior written notice. Upon termination, any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement. Upon termination of a financial planning or consulting contract for certain corporate clients who are charged quarterly in advance, all unearned, prepaid fees will be promptly refunded.

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

### **B.1. Payment of Asset-Based Fees**

Southern Wealth will deduct advisory fees directly from the client's account provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account.

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

### **B.2. Payment of Financial Planning and Consulting Fees**

For financial planning and consulting services, Southern Wealth will, if the client elects the fixed fee option, invoice the client on a monthly basis in arrears.

## **C. Additional Client Fees Charged**

The fees charged by Southern Wealth do not include fees charged by any exchange-traded fund, mutual fund, pooled investment vehicle, separate account manager, or any broker-dealer or custodian selected by the client. The investment management fees charged by separate account managers are disclosed in each manager's disclosure Brochure and Brochure Supplement, and such fees are separate and distinct from the fees charged by Southern Wealth. The management fees for pooled investment vehicles are disclosed in their confidential offering memoranda and applicable subscription documents; in the case of an exchange-traded fund or mutual fund, fees and charges are disclosed in the respective fund's prospectus. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, the client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using Southern Wealth may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian. Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

## **D. Prepayment of Client Fees**

### **D.1. Investment Advisory Fees**

Southern Wealth requires prepayment of fees for its investment advisory services. For pension consulting, financial planning, and consulting services where clients elect the asset-based fee alternative, Southern Wealth's fees will either be paid directly by the client or disbursed to Southern Wealth by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

A client investment advisory agreement may be canceled by either party with 30 days' prior written notice. Upon termination, any unearned prepaid fees will be refunded. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

### **D.2. Financial Planning and Consulting Fees**

Southern Wealth, depending upon the billing option selected by the client, may require the prepayment of fees for pension consulting, financial planning, and consulting services. For the fixed fee alternative clients must pay 50% of the estimated fee at the time the advisory agreement is signed. The balance of the fee will be due upon presentation of the final report to the client. In certain limited instances, if the client contracts with Southern Wealth for financial planning or consulting work, Southern Wealth will invoice the client monthly in arrears for fees due. Some corporate clients may be invoiced quarterly in advance for fees due.

A financial planning or consulting agreement may be canceled by either party with 30 days' prior written notice. Upon termination, any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement. Upon termination of a financial planning or consulting contract for certain corporate clients who are charged quarterly in advance, all unearned, prepaid fees will be promptly refunded.

## **E. External Compensation for the Sale of Securities to Clients**

Southern Wealth's advisory professionals are compensated primarily through a salary and bonus structure. Southern Wealth's advisory professionals may be paid sales, service or administrative fees for the sale of mutual funds or other investment products. Southern Wealth's advisory professionals may receive commission-based compensation for the sale of securities and insurance products. Investment adviser representatives, in their capacity as a Southern Wealth Securities from an advisory client's Southern Wealth Securities brokerage account unless commissions earned on such securities transactions occurred at least a 12–18 months prior to the transfer. Please see Item 10.C. for detailed information and conflicts of interest.

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

Southern Wealth does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in their best interests.

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

Southern Wealth offers its investment services to various types of clients, including individuals and high-net-worth individuals, trusts, retirement plans, pension and profit sharing plans, charitable organizations, tax exempt, corporations, and other business entities. Although Southern Wealth provides investment services to the various types of clients mentioned, the services are conditioned upon meeting certain minimum criteria established by the firm for each of the investment programs it offers.

A minimum of \$1,000,000 of assets under management is required for the investment advisory service. As such, there is an implied minimum fee of \$10,000. For clients with portfolio values less than \$1,000,000, the client may find comparable services at more favorable pricing elsewhere. This account size and the fee structure may be negotiable under certain circumstances. Southern Wealth may group certain related client accounts for the purpose of achieving the minimum account size and determining the annualized fee.

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

### **A. Methods of Analysis and Investment Strategies**

#### **A.1. Methods of Analysis**

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

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

- Optimization involves the use of mathematical algorithms to determine the appropriate mix of assets given the firm's current capital market rate assessment and a particular client's risk tolerance.
- Quantitative methods include analysis of historical data such as price and volume statistics, performance data, standard deviation and related risk metrics, how the security performs relative to the overall stock market, earnings data, price to earnings ratios, and related data.
- Technical analysis involves charting price and volume data as reported by the exchange where the security is traded to look for price trends.
- Computer models may be used to attempt the future value of a security based on assumptions of various data categories such as earnings, cash flow, profit margins, sales, and a variety of other company specific metrics.

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

## **A.2. Important Disclosure – Custodian Investment Programs**

Please be advised that the firm utilizes certain custodians/broker-dealers. Under these arrangements we can access certain investment programs offered by our custodian that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. Please see Item 5.A. of this Brochure for detailed information.

## **A.3. Mutual Funds, Exchange-Traded Funds, Independent Investment Managers and Pooled Investment Vehicles, Individual Equity and Fixed Income Securities**

Southern Wealth may recommend (i) separate account managers to manage client assets, and (ii) no-load and load-waived funds, pooled investment vehicles, and individual securities (including fixed income instruments). Such management styles will include, among others, large-, mid- and small-cap value, growth and core; emerging markets; and alternative investments. Southern Wealth may also assist the client in selecting one or more appropriate manager(s) for all or a portion of the client's portfolio. Such managers will typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that Southern Wealth will take into account when recommending managers to clients. A description of the criteria to be used in formulating an investment recommendation for mutual funds, exchange-traded funds, individual securities (including fixed income securities), managers, and pooled investment vehicles is set forth below.

Southern Wealth has or may form relationships with third-party vendors that

- provide a technological platform for separate account management
- prepare performance reports
- perform due diligence monitoring of funds, managers, and pooled investment vehicles
- perform billing and certain other administrative tasks

Southern Wealth may utilize additional independent third parties to assist it in recommending and monitoring individual securities, mutual funds, managers, and pooled investment vehicles to clients as appropriate under the circumstances.

Southern Wealth reviews certain quantitative and qualitative criteria related to individual securities, funds, and managers and to formulate investment recommendations to its clients. Quantitative criteria may include

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

Qualitative criteria used in recommending funds or managers include the investment objectives and/or management style and philosophy of a fund or manager, a fund or manager's consistency of investment style, and employee turnover and efficiency and capacity. Southern Wealth will discuss relevant quantitative and qualitative factors pertaining to its managed portfolios with clients, as required by such clients.

Quantitative and qualitative criteria related to funds and managers are reviewed by Southern Wealth on a quarterly basis or such other interval as mutually agreed upon by the client and Southern Wealth. In

addition, funds or managers are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the fund or manager by Southern Wealth (both of which are negative factors in implementing an asset allocation structure). Based on its review, Southern Wealth will make decisions regarding the retention or discharge of a fund or manager.

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

Southern Wealth will regularly review the activities of funds and managers it has selected. Southern Wealth reviews research material prepared by others as well as a variety of financial publications.

#### **A.4. Material Risks of Investment Instruments**

Southern Wealth typically invests or suggests independent money managers who invest in equity securities, corporate debt instruments, municipal fixed income instruments, government securities including asset-backed securities, and options on securities as detailed below:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange-traded funds
- Corporate debt securities, commercial paper, and certificates of deposit
- Municipal securities
- U.S. government securities
- Private placements
- Option contracts on securities
- Pooled investment vehicles
- Structured products
- Government and agency mortgage-backed securities
- Corporate debt obligations
- Mortgage-backed securities
- Collateralized obligations

##### **A.4.a. Equity Securities**

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

securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

#### **A.4.b. Warrants and Rights**

Warrants are securities, typically issued with preferred stock or bonds, that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends, and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors, and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

#### **A.4.c. Mutual Fund Securities**

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

#### **A.4.d. Exchange-Traded Funds ("ETFs")**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>"), iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear their pro rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

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

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

#### **A.4.e. Corporate Debt, Commercial Paper, and Certificates of Deposit**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the



coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of 10 years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be prepayment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

#### **A.4.f. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax-free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **A.4.g. U.S. Government Securities**

U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **A.4.h. Private Placements**

Private placements carry significant risk in that companies using the private placement market conduct securities offerings that are exempt from registration under the federal securities laws, which means that investors do not have access to public information and such investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the start-up phase of their business or require additional capital to complete another phase in their growth objective. In addition, the securities issued in connection with private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are thus illiquid and cannot be readily converted to cash.

#### **A.4.i. Options on Securities**

A call option is a contract under which the purchaser of the call option, in return for a premium paid, has the right to buy the security (or index) underlying the option at a specified price at any time during the term of the option. The writer of the call option, who receives the premium, has the obligation upon exercise of the option to deliver the underlying security against payment of the exercise price. A put option gives its purchaser, in return for a premium, the right to sell the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy, upon exercise of the option, the underlying security (or a cash amount equal to the value of the index) at the exercise price. The amount of a premium received or paid for an option is based upon certain factors, including the market price of the underlying security, the relationship of the exercise price to the market price, the historical price volatility of the underlying security, the option period and interest rates.



#### **A.4.j. Pooled Investment Vehicles**

A pooled investment vehicle, such as a commodity pool or investment company, is generally offered only to investors who meet specified suitability, net worth and annual income criteria. Pooled investment vehicles sell securities through private placements and thus are illiquid and subject to a variety of risks that are disclosed in each pooled investment vehicle's confidential private placement memorandum or disclosure document. Investors should read these documents carefully and consult with their professional advisors prior to committing investment dollars. Because many of the securities involved in pooled investment vehicles do not have transparent trading markets from which accurate and current pricing information can be derived, or in the case of private equity investments where portfolio security companies are privately held with no publicly traded market, Southern Wealth will be unable to monitor or verify the accuracy of such performance information.

#### **A.4.k. Structured Products**

Structured products are designed to facilitate highly customized risk-return objectives. While structured products come in many different forms, they typically consist of a debt security that is structured to make interest and principal payments based upon various assets, rates or formulas. Many structured products include an embedded derivative component. Structured products may be structured in the form of a security, in which case these products may receive benefits provided under federal securities law, or they may be cast as derivatives, in which case they are offered in the over-the-counter market and are subject to no regulation.

Investment in structured products includes significant risks, including valuation, liquidity, price, credit and market risks. One common risk associated with structured products is a relative lack of liquidity due to the highly customized nature of the investment. Moreover, the full extent of returns from the complex performance features is often not realized until maturity. As such, structured products tend to be more of a buy-and-hold investment decision rather than a means of getting in and out of a position with speed and efficiency.

Another risk with structured products is the credit quality of the issuer. Although the cash flows are derived from other sources, the products themselves are legally considered to be the issuing financial institution's liabilities. The vast majority of structured products are from high-investment-grade issuers only. Also, there is a lack of pricing transparency. There is no uniform standard for pricing, making it harder to compare the net-of-pricing attractiveness of alternative structured product offerings than it is, for instance, to compare the net expense ratios of different mutual funds or commissions among broker-dealers.

#### **A.4.l. Government and Agency Mortgage-Backed Securities**

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and

principal, and FHMLC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities. Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. government.

#### **A.4.m. Corporate Debt Obligations**

Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. Southern Wealth may also invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

#### **A.4.n. Mortgage-Backed Securities**

Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations, and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities, or by non-governmental entities such as special-purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, Southern Wealth may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and underwriting criteria for individual mortgages included in the pools. In addition, many mortgages included in pools are insured through private mortgage insurance companies.

Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled prepayments as loans in the underlying mortgage pool are paid off by the borrowers. Additional prepayments to holders of these securities are caused by prepayments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As prepayment rates of individual pools of mortgage loans vary widely, it is not possible to accurately predict the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

#### **A.4.o. Collateralized Obligations**

Collateralized mortgage obligations ("CMOs") are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-class debt obligations. Payments of principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as "tranches") of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all

tranches on a monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

Collateralized debt obligations ("CDOs") include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of high-risk, below-investment-grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

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

### **B.1. Leverage**

Although Southern Wealth, as a general business practice, does not utilize leverage, there may be instances in which exchange traded funds, other separate account managers and, in very limited circumstances, Southern Wealth will utilize leverage. In this regard please review the following:

The use of leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment and the investor may be required to post additional collateral or be required to liquidate the security collateral. The use of leverage entails borrowing, which results in additional interest costs to the investor. In addition, the use of leverage enhances the price volatility of the collateral securities which can result in significant loss.

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

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

### **B.2. Short-Term Trading**

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

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

### **B.3. Short Selling**

Southern Wealth generally does not engage in short selling but reserves the right to do so in the exercise of its sole judgment. Short selling involves the sale of a security that is borrowed rather than owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the security.

### **B.4. Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

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

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

## **C. Concentration Risks**

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

## **Item 9: Disciplinary Information**

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

Southern Wealth has nothing to disclose for this item.

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

Southern Wealth has nothing to disclose for this item.

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

Southern Wealth has nothing to disclose for this item.

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

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

Southern Wealth is not registered as a broker-dealer, but its affiliate Southern Wealth Securities, LLC ("SWS LLC") is a registered broker-dealer. Certain Southern Wealth professionals are registered with SWS LLC. As a result, such professionals are subject to the oversight of SWS LLC and the Financial Industry Regulatory Authority, Inc. ("FINRA"). As such, clients of Southern Wealth should understand that their personal and account information is available to FINRA and SWS LLC personnel in the fulfillment of their oversight obligations and duties.

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

Additionally, one of Southern Wealth's partners is a registered representative of M Holdings Securities, Inc. ("M Holdings"), a FINRA and SEC-registered broker-dealer and member of SIPC. M Holdings is a financial services company engaged in the sale of investment products.

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

Southern Wealth is not registered as a commodity firm, futures commission merchant, commodity pool operator, or commodity trading adviser and does not have an application to register pending.

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

#### **C.1. Southern Wealth Securities, LLC**

Southern Wealth Securities, LLC ("SWS LLC") is a FINRA registered broker-dealer and an affiliate of Southern Wealth. Southern Wealth and its related persons may be licensed through SWS LLC and be compensated on a transaction fee basis through commissions. In this regard, such SWS LLC registered persons may have an economic incentive to recommend securities transactions through such affiliate broker-dealer.

#### **C2. Insurance Sales**

Capital Plan is an insurance agency that was acquired by Southern Wealth. With respect to the provision of financial planning services, Southern Wealth professionals may recommend insurance products offered through its affiliate Capital Plan and receive a commission for doing so. Please be advised there is a potential conflict of interest in that there is an economic incentive to recommend insurance and other investment products. Also be advised that Southern Wealth professionals strive to put their clients' interests first and foremost. Other than for insurance products that require a securities license, such as variable insurance products, clients may utilize any insurance carrier or insurance agency they desire. For

products requiring a securities and insurance license, clients may be limited to those insurance carriers that have a selling agreement with Southern Wealth's professionals' employing broker-dealer.

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

Other than what is provided in Item 10.C above, Southern Wealth does not recommend separate account managers or other investment products in which it receives any form of compensation from the separate account manager or investment product sponsor.

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

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

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

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

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

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

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

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

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

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

- require our advisory representatives and employees to act in the client's best interest
- prohibit fraudulent conduct in connection with the trading of securities in a client account
- prohibit employees from personally benefitting by causing a client to act, or fail to act in making investment decisions

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

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

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

Southern Wealth, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other of the firm's clients. Southern Wealth will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. In the absence of an average price, a review will be performed to ensure the client is receiving the same or better price. It is Southern Wealth's policy to place the clients' interests above those of the firm and its employees.

### **Item 12: Brokerage Practices**

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

##### **A.1. Custodian Recommendations**

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

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



#### **A.1.a. How We Select Brokers/Custodians to Recommend**

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

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- capability to execute, clear, and settle trades (buy and sell securities for client accounts)
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- breadth of investment products made available (stocks, bonds, mutual funds, exchange-traded funds (ETFs), etc.)
- availability of investment research and tools that assist us in making investment decisions
- quality of services
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- reputation, financial strength, and stability of the provider
- their prior service to us and our other clients
- availability of other products and services that benefit us, as discussed below

#### **A.1.b. Soft Dollar Arrangements**

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

#### **A.1.c. Institutional Trading and Custody Services**

Schwab provides Southern Wealth with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services are generally available to independent investment advisers on an unsolicited basis, at no charge to them so long as a certain minimum amount of the adviser's clients' assets are maintained in accounts at Schwab. Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or that would require a significantly higher minimum initial investment.

#### **A.1.d. Other Products and Services**

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

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



Schwab also offers other services intended to help Southern Wealth manage and further develop its business enterprise. These services may include

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

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

#### **A.1.e. Independent Third Parties**

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

#### **A.1.f. Additional Compensation Received from Custodians**

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

- Receipt of duplicate client statements and confirmations
- Research-related products and tools
- Consulting services
- Access to a trading desk serving Southern Wealth participants
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts)
- The ability to have advisory fees deducted directly from client accounts
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees and to certain institutional money managers
- Discounts on compliance, marketing, research, technology, and practice management products or services provided to Southern Wealth by third-party vendors

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

enterprise. The benefits received by Southern Wealth or its personnel through participation in these programs do not depend on the amount of brokerage transactions directed to the broker-dealer.

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

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

## **A.2. Brokerage for Client Referrals**

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

## **A.3. Directed Brokerage**

### **A.3.a. Southern Wealth Recommendations**

Southern Wealth typically recommends Schwab as custodian for clients' funds and securities and will execute securities transactions only at the client's custodian.

### **A.3.b. Client-Directed Brokerage**

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

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

### **B.1. Best Execution**

Southern Wealth, pursuant to the terms of its investment advisory agreement with clients, does not have discretionary investment authority.

### **B.2. Security Allocation**

Since Southern Wealth may be managing accounts with similar investment objectives, Southern Wealth may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by Southern Wealth in the

manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

Southern Wealth's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. Southern Wealth will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

Southern Wealth's advice to certain clients and entities and the action of Southern Wealth for those and other clients are frequently premised not only on the merits of a particular investment but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of Southern Wealth with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice or actions of Southern Wealth to or on behalf of other clients.

### **B.3. Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

### **B.4. Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

Southern Wealth acts in accordance with its duty to seek best price and execution and will not continue any arrangements if it determines that such arrangements are no longer in the best interests of its clients.

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

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

#### **A.1. Portfolio Management, Third-Party Manager Selection, and Monitoring Services**

While the underlying securities within portfolio management services accounts are continually monitored, such accounts are reviewed at least quarterly by a Southern Wealth manager assigned to such relationship. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables, such as the client's individual circumstances or the market, political, or economic environment. For third-party manager accounts, clients should refer to the independent registered investment adviser's disclosure document for information regarding the nature and frequency of reviews provided by that independent registered investment adviser.

### **A.2. Financial Planning**

Financial planning accounts will be reviewed as contracted for at the inception of the advisory relationship by the Southern Wealth manager assigned to such relationship.

### **A.3. Consulting Services**

Consulting services accounts will be reviewed as contracted for at the inception of the advisory relationship by the Southern Wealth manager assigned to such relationship.

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

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

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

### **C.1. Portfolio Management, Third-Party Manager Selection, and Monitoring Services**

Southern Wealth will provide quarterly reports summarizing account performance, balances, and holdings. Certain clients may contract for additional reports, such as monthly snapshot reports. For third-party manager accounts, clients should refer to the independent registered investment adviser's disclosure document for information regarding the nature and frequency of reports provided by that independent registered investment adviser. The client's independent custodian also provides account statements directly to the client no less frequently than quarterly. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports created on behalf of the client by Southern Wealth.

### **C.2. Financial Planning**

Financial planning clients will receive a customized financial plan that is mutually agreed upon by the client and Southern Wealth at the onset of the financial planning relationship. Additional reports will not typically be provided unless otherwise contracted for at the inception of the advisory relationship.

### **C.3. Consulting Services**

Consulting services clients will receive reports as contracted for at the inception of the advisory relationship.

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

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

Other than as described in Items 10 and 12 of this Brochure, Southern Wealth does not receive economic benefits from external sources.

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

Southern Wealth does not make payment for client referrals.

#### **Item 15: Custody**

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

- The client authorizes us to instruct their custodian to deduct our advisory fees directly from the client's account. The custodian maintains actual custody of clients' assets.
- Our authority to direct client requests, utilizing standing instructions, for wire transfer of funds for first-party money movement and third-party money movement (checks and/or journals, ACH, Fed-wires). The firm has elected to engage an independent public accountant to annually conduct a surprise custody exam audit.

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

Subject to the approval of the firm's Managing Partner, individual Southern Wealth professionals may act as trustee for client trusts. In addition, the firm offers bill paying services as well as first-party wire transfers for family office clients as mutually agreed upon between the client and the firm. As such, the firm is deemed to have custody of advisory clients' funds and hires an independent public accountant to conduct an annual surprise examination of client funds and securities.

#### **Item 16: Investment Discretion**

Clients may grant a limited power of attorney to Southern Wealth with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In those cases, Southern Wealth will exercise full discretion as to the nature and type of securities to be purchased and sold, and the amount of securities for such transactions. Investment limitations may be designated by the client as outlined in the investment advisory agreement. Alternatively, clients may grant Southern Wealth discretionary authority for the retention of independent third-party investment management firms. Please see the applicable third-party manager's disclosure brochure for detailed information relating to discretionary authority.

#### **Item 17: Voting Client Securities**

Southern Wealth does not take discretion with respect to voting proxies on behalf of its clients. Southern Wealth will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of Southern Wealth supervised and/or managed assets. In no event will Southern Wealth take discretion with respect to voting proxies on behalf of its clients.

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

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. Southern Wealth has no obligation to determine if securities held by the client are subject to a pending or

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

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

## **Item 18: Financial Information**

### **A. Balance Sheet**

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

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

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

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

There are no bankruptcy petitions to report.