



PROFESSIONAL MONEY MANAGEMENT SERVICES

**LORENCE & VANDER ZWART**

**(LVZ ADVISORS, INC.)**

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**March 3, 2016**

This Brochure provides information about the qualifications and business practices of LVZ Advisors, Inc. (referred to in this Brochure as “us,” “we,” “our,” or “our firm”). If you have any questions about the contents of this Brochure, please contact Ryan Vander Zwart, Chief Compliance Officer, at 616-394-4994 or [rvanderzwart@lvzadvisors.com](mailto:rvanderzwart@lvzadvisors.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

We are a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provides you with information about which you determine to hire or retain an investment adviser.

Additional information about us is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2. SUMMARY OF MATERIAL CHANGES

This item requires us to summarize any material changes to this Brochure since our last annual update on March 23, 2015 and they are the following:

Item 5 – Fees and Compensation: We updated the information related to the \$3.50 convenience fee charged solely to solicitors per account where a monthly fee billing is chosen. We also clarified that the small balance fee on accounts under \$10,000 in value will automatically be charge solely to the solicitor and not the client regardless of whether the \$60 annual small balance fee on balances under \$100,000 is paid by the client, as may have been select on the Solicitor’s Disclosure Brochure.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss: Under the Specialties Portfolios subheading, we renamed our High Income model to Multi-Asset Income to better reflect that we seek income opportunities around the world and across both traditional and alternative asset classes. However, the investment objectives and potential risks remain unchanged. We also renamed our Advanced Strategies-Moderate model portfolio to Advanced Strategies. However the investment objectives and potential risks remain unchanged. We have discontinued offering the Advanced Strategies Conservative portfolio.

We renamed the Income portfolio to the Capital Preservation and Income portfolio and revised the definition to better reflect the other assets that may be held within this portfolio.

We also now offer the LVZ Blue Chip Select model portfolio, which was introduced in our interim Brochure on June 1, 2015. Our LVZ Blue Chip Select strategy will be predominantly comprised of individual large domestic capitalized equity securities. The primary objective is growth while employing trailing stop-loss orders. A material risk in such a strategy is the possibility of being stopped out of a holding during a whipsaw price movement when a security may fall below a stop price for a brief period and then rebound above it. For more information, please see the Brochure.

Item 14 – Client Referrals and Other Compensation: We updated information on the solicitor training and marketing expense reimbursement arrangement as disclosed in our Solicitor’s Disclosure Brochure indicating the kinds of training and business development reimbursements we provide and that range from 0.025% up to 0.045%, depending on the total new business referred and assets under management. These expenses do not increase client fees. For more detail, please see the Brochure.

In addition to these changes, we have made certain other non-material changes throughout the Brochure.

If you would like a copy of our Brochure, please contact us via email at [rvanderzwart@lvzadvisors.com](mailto:rvanderzwart@lvzadvisors.com) or by phone at 616-39-4994.

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## **ITEM 4. ADVISORY BUSINESS**

### ***Our Owners and Principals***

We are an investment advisor registered with the SEC since 2006, and previously with the State of Michigan since 1995. Our firm was established in 1960 by John J. Lorence. John was joined in business by his son Jim Lorence in 1985. In 1992, Jim Lorence became the President of the firm. Ryan Vander Zwart joined the firm in 1994 and became Senior Vice-President of the firm in 2011. Nate Baumann joined the firm in 2007 and became Vice-President of the firm in 2011.

We are required to disclose the persons owning twenty-five percent (25%) or more of our firm's common stock. Jim Lorence and Ryan Vander Zwart are both principal owners of the firm and each owns more than twenty-five percent (25%) of the firm's outstanding common stock.

### ***Our Financial Advisory Services***

We provide financial advisory services to clients through investment management, investment consulting for assets outside our management, financial planning, and management of third-party investment managers.

#### **Investment Management**

We provide investment management services on a discretionary basis for individuals, trusts, estates, charitable organizations, corporations, and corporate pension and profit-sharing plans. We offer several types of portfolio management styles investing in mutual funds, ETFs, and variable annuity separate accounts using our proprietary investment strategies described below. See Item 8 for more information about our methods of analysis, investment strategies, and associated risks.

Our core services are described in the following paragraphs and the related fees are described in the next section of this brochure, entitled, "Item 5 Fees and Compensation."

#### **Investment Management as 3(38) Fiduciary Manager for Qualified Plans**

As part of our services to qualified retirement plans which are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), we will act as a fiduciary of the plan under Section 3(21)(A) and as an Investment Manager under Section 3(38) of ERISA. As a 3(38) investment manager, the plan fiduciary gives us discretionary authority to manage the plan's assets. This means that the plan fiduciary shifts its fiduciary responsibility to us for the selection of the plan's investments. For all qualified plan clients, your representative will work with the plan fiduciary to develop a formal written investment policy statement for the plan, or they will review and amend

the existing investment policy statement, which establishes the plan's specific standards and processes for investment operations. The investment policy statement may also place restrictions on the types of investments the plan invests its assets in. The representative uses the plan's investment policy statement to recommend the portfolio. We will receive a copy of the plan's investment policy statement and will continually monitor the performance of the plan's investments.

### **Services Common to Investment Management Accounts**

Investment management accounts will be managed according to our suitability questionnaire or similar document based upon your investment objectives, time horizon, risk tolerance, and any other financial information that may be special or unique to you. All accounts will be managed using one or more of our portfolio management styles. When working with our advisory representatives or solicitors, you should take care to ensure that the information you provide us is accurate and complete as it will play a key role in our ability to properly assess your investment objectives and risk tolerance. We do not independently verify or update personal information that you provide to us. Promptly inform us of any material changes in your personal information, financial circumstances (including cash flow needs), investment objectives, or risk tolerance. We will assume that you have not had any material changes in their circumstances unless you tell us.

As specified in our investment management agreement, you will grant us discretionary investment authority to manage your account(s). Discretionary investment authority permits us to direct the purchase or sale of securities held in your account in accordance with your suitability questionnaire without obtaining your permission for each individual transaction. However, you retain individual ownership of all securities and you have the opportunity to place reasonable restrictions or modifications on the types of investments in your account; although, if we deem your instructions to be unreasonable, we will decline to enter into an investment management agreement with you or we will terminate the existing agreement with you. Your assets will generally be invested in Exchange Traded Funds ("ETFs"), no-load or load-waived mutual funds, or the subaccounts of variable annuities if you own them and engage us to advise you on managing them. Unless otherwise agreed, there are no specific limitations on the securities to be bought or sold, or on the amount of such securities for a particular account, other than the standard limitations inherent in actions prudently taken in the context of your particular circumstances and consistent with portfolio management styles. Discretionary investment management authority does not permit us to withdraw or transfer money from your account, except as described below to pay our fees.

While we will use our best efforts to recommend investments that are designed to address your investment objectives and risk tolerance, we cannot assure you our

recommendations will achieve your objectives. Past performance of investments is not necessarily indicative of their future returns.

Market volatility can sometimes change asset values. When this happens, the values of your assets may become somewhat inconsistent with your desired asset allocation objectives, as stated in your investment policy statement. If we think it is appropriate, we will rebalance your portfolio to match your allocation objectives.

## **Portfolio Management Styles**

We have two basic types of portfolio management styles: Classic and Specialty. In our Classic management style we have established five model portfolios: 1) Growth, 2) Growth and Income, 3) Balanced, 4) Income and Growth, and 5) Income. Each of these portfolios as well as the portfolios discussed below is described more fully later in this brochure in the section entitled, “Item 8 Methods of Analysis, Investment Strategies, and Risk of Loss.” We actively manage these portfolios and from time to time change the equity and fixed income allocations within the portfolios. Upon request, we will screen our Classic Portfolios and exclude certain investments that violate basic Christian values. As a form of socially responsible investing, we refer to these portfolios as Biblically Responsible Investment (BRI) Portfolios.

The Specialty Portfolios consist of four model portfolios: Strategic Income, Multi-Asset Income, Balanced Total Return, Strategic Growth, Advanced Strategies, Advanced Strategies Conservative, and Blue Chip Growth. Each of these portfolios was developed to meet unique investment objectives of certain clients who have a high demand for current income or growth.

When you engage us to provide investment management services, the assets you select for our management will be transferred to a custodian of your choice. Once your assets are transferred to the custodian, we may hold them in short-term money market funds due to current market conditions or if we are in the process of changing our model allocations.

## **Outside Management Consulting Services**

If you engage us for our outside management consulting services, we will consult with you regarding your investment choices on selected assets pursuant to our Outside Management Service Consulting Agreement. In so doing, we will build a model to determine trading opportunities for your investments but you will be responsible to implement our recommended strategy by entering into a separate contract with a securities broker-dealer, bank, mutual fund company, insurance company, or other financial services provider of your choosing. We charge clients a flat quarterly fee for

this service, as described in more detail in the “**FEES AND COMPENSATION**” section beginning on page 9.

## **Financial Planning**

Our financial planning services include furnishing financial and investment advice, recommending the purchase and sale of securities, or assisting in selecting and monitoring unaffiliated investment managers. These services and fees are set forth in our Financial Planning and Consulting Agreement signed by both of us. If you engage us for this service, we will develop a formal, written and comprehensive financial plan designed specifically for your goals, which includes an analysis of all current assets including employer sponsored retirement plans and personal property, liabilities, insurance, taxation, and estate planning. As with our Outside Management Consulting Services, you will be responsible to implement our advice and enter into a separate contract with a securities broker-dealer, bank, mutual fund company, insurance company, or other financial services provider of your choice.

## **Selection and Monitoring Other Managers**

We also provide services to evaluate, select, and monitor the investment performance of independent investment managers (“Third-Party Managers”) pursuant to a Financial Planning and Consulting Agreement. Third-Party Managers may offer specialized expertise and experience in specific asset classes to diversify the client’s investment portfolio and strategies.

Initially, we perform a limited background investigation on each Third-Party Manager, based on the public information provided to us, such as their Form ADV Part 2A (like this document). We may from time to time update our limited background check on a Third-Party Manager, if warranted, by known changes in the Third-Party Manager’s circumstances.

If you engage us to select and monitor other money managers, we will together with you decide which Third-Party Manager to use, based on the suitability information you provide us. You will then directly hire that Third-Party Manager using the Third-Party Manager’s contract and pay the Third-Party Manager’s fees and charges, described in its Form ADV Part 2A and contract. While we may be able to negotiate exceptions, generally you will be subject to any minimum account size or other conditions imposed by each Third-Party Manager. After you hire the Third Party Manager, we will monitor and periodically report to you on the Third-Party Manager’s performance with respect to the assets it is managing on your behalf.

Third-Party Managers are not affiliated with our firm and we are not responsible for their services, actions, omissions, or performance. Our responsibility is limited to

initially evaluating and recommending suitable investment advisers for your account based upon reasonably available information at the time and periodically reporting on the Third-Party Manager's investment performance for your account. If we receive any compensation from a Third-Party Manager for making a referral, you will receive a specific disclosure brochure describing the referral, the relationship, and the compensation.

### **Termination of Services**

You may terminate any of our services, without incurring a fee or penalty, within the first five business days after the date you sign our client services contract. After this initial five-business day period, either of us may terminate the agreement for any reason upon five business days' written notice. You are responsible for any transaction for your account that has been initiated but not settled prior to our receipt of your termination notice.

Upon termination of our investment management services, any pre-paid advisory fees will be prorated and, if more than \$5.00, refunded based on the number of days services were rendered during that calendar quarter, with the exception of the Small Balance fee described below in Fees and Compensation. Refunds of fees paid from a tax-qualified plan or account should be returned to the plan or account, when possible, if adequate notice is given prior to the plan or account closing and/or loss of authorization so the refund is not treated as a distribution. Some plan custodians may treat such refunds as new contributions, which may reduce the amount of other contributions clients can make during that tax year.

Upon termination of our financial planning and consulting services, we typically do not refund the initial deposit if we have already performed services for your benefit. If we completed the project, you are responsible for paying the balance due for our services rendered.

Upon termination of our management of Third-Party Managers, you may continue using the Third-Party Manager; however, our responsibilities for your account and monitoring the Third-Party Manager's performance terminates.

### ***Assets Under Management***

As of December 31, 2015, we had \$357,546,000 of assets under our management on a discretionary basis.



## ITEM 5. FEES AND COMPENSATION

### ***Investment Management Fee Schedule***

We may negotiate our investment management service fees based upon each client's circumstances taking into account the aggregate value of related accounts, the complexity of a client's account, or similar matters. Generally, the range of our advisory fees is:

#### **Asset Allocation Portfolios**

An asset allocation portfolio contains a majority of exchanged traded funds, closed ended/open ended mutual funds or fixed income securities but may also include a minority position in individual equities.

Account Size	\$100,000 and above
Annual Advisory Fee	Up to 2.0% of account assets

We determine fees based on the client's initial account value, as reported by the client's account custodian and the value of the account at the end of each subsequent billing period. We prorate fees for the first billing period based on the day the account is opened. We bill our fees either monthly or quarterly in advance, as specified in our Investment Management Agreement with the client. We calculate fees based upon the value of the client's account(s) on the last day of the prior period (either last day of the month or quarter). Fees are calculated based upon the actual number of days in the billing period.

If the client chooses monthly fee billing, the solicitor incurs a convenience fee of \$3.50 per account, per month. We do not pass this charge to the client, but rather offset the solicitor's fee by the same amount.

#### **Small Balance Fee**

Unless we grant an exception, if the client's quarterly account value remains below \$100,000, we will charge the account a \$60 annual small balance fee to either the client or the Solicitor that referred the client to us, as indicated in the Solicitor's Disclosure Brochure signed by the client. This small balance fee is in addition to the account's investment management fee, and is not refunded when the account is terminated. However, if the account balance falls under \$10,000, the small balance fee will automatically be charged to the solicitor, regardless of which option was chosen on the Solicitor's Disclosure Brochure. This fee is deducted in either quarterly or monthly increments depending on the chosen fee liquidation mode on the contract. At times, for the client's benefit, we will also waive the advisory fees on an account for a period of time negotiated with the client. This may be to incentivize the client to transfer the

account or to help offset against certain previous fees assessed to the client. Our small balance quarterly fees are determined in the following manner:

Quarterly: If [Quarterly Account Value] < \$100,000 = \$15 small balance fee

Monthly: If [Monthly Account Value] < \$100,000 = \$5 small balance fee

### **Non-Traded Assets**

We charge a flat investment advisory fee to monitor and advise clients on any non-traded assets in their account. We negotiate the fee depending on a number of factors including, the complexity of the assets, the amount invested, and the availability of information about the assets. This fee is in addition to the investment management fee, described above, paid to invest the client's account in one of our model portfolios.

### **Management Fees**

We may waive our management fee at any time, in our own discretion. Generally, we waive all management fees, including fees from the firm and Solicitors, when both of the following occur at the same time: a) the account is funded with the custodian and ready to be managed within five days of the end of the billing period; and b) the total gross fee to be processed is less than \$5.00.

### ***Direct Billing to Client's Custodian***

Under the Investment Management Agreement, the client authorizes us to directly bill our fees to the custodian for the client account. The custodian's periodic statements will show each fee deduction from the client's account. Clients may withdraw this authorization for direct billing of these fees at any time by notifying us or their custodian in writing. However, we do not charge interest on overdue accounts and our fees are premised upon this automated billing process. If clients choose to withdraw the direct billing authorization, we may need to change our fee structure or terminate our services for the client.

### ***Financial Planning and Consulting Fees***

Depending on the services requested, our fees range from hourly, flat, or ongoing monthly rate fee for our financial planning services and other consultations, as stated in the Financial Planning and Consulting Agreement. We quote fees for financial plans in advance, and one-half of the estimated fee is due before we begin the planning services. The fee balance is due when we present the plan to the client.

We bill fees for other consulting services in arrears. For hourly billing projects, our maximum fee is \$300 per hour, based on the complexity of the project and the seniority of the representative performing the services. For fixed fee projects, we quote a fixed dollar amount, which may be based on a percentage, up to 3%, of the client's assets we are analyzing. In some

cases, we may agree to an on-going monthly fee for on-going advisory services, billed and paid in advance or in arrears as specified in the Financial Planning and Consulting Agreement. Our minimum fee is \$250, which is negotiable under certain circumstances.

### ***Third-Party Manager Monitoring Fee***

Our advisory fees for this service may range up to 1.5% of the client's assets managed by a Third-Party Manager, as specified in our Financial Planning and Consulting Agreement. Our advisory fees are in addition to the fees charged by the Third-Party Manager. This is not a "wrap fee" program. Clients are also responsible for fees and charges for brokerage and custodial services incurred in connection with the Third-Party Manager's management of the client's account.

### ***Outside Management Consulting Services***

We may also consult with clients relative to investments that we cannot manage directly. In so doing, we build a model to determine trading opportunities. The fee, payable in advance, is \$750 per quarter. All fees are negotiable depending upon the characteristics of the account, such as the complexity of the services requested by the client, the investment choices and the accessibility of the investment and historical performance data.

### ***Advisory Fee Off-Sets***

As described in more detail set forth under the Section titled "**OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**" beginning on page 21, our firm's principals and some of our employees are also registered representatives of NEXT Financial Group, Inc., a securities broker-dealer headquartered in Houston, Texas ("NEXT"). Clients may choose to implement our advice by separately entering into a brokerage account agreement with NEXT, but clients are under no obligation to do so or to use any of NEXT's brokerage services.

Similarly, our principals and some of our employees are insurance agents. When clients choose to purchase or sell securities using NEXT's brokerage services, or purchase insurance through our principals or employees, we may reduce our fees by the amount of some or all of the commissions we earned in those transactions for the first year from the point of purchase of such product. However, if clients purchase or sell securities through a solicitor that is a registered representative of a broker dealer, as further described in the "**CLIENT REFERRALS AND COMPENSATION**" section beginning on page 27, the solicitor may or may not utilize a similar policy and off-set his or her commission. Also, if such products are sold by and through a registered representative to a client before the client becomes our client, the client must notify us of the date of purchase and we may negotiate the advisory fee off-set on a case by case basis. By giving our clients the benefit of this advisory fee off-set, we seek to mitigate the conflict of interests created by our receipt of these commissions. We may not give credit for our commissions in excess of our fees.

More information about the factors that we consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions) is contained in the **BROKERAGE PRACTICES**” section beginning on page 23.

### ***Other Fees and Expenses***

Our advisory fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses that you may incur. Your account will separately pay for those services and will be reported to you on your custodian’s account statements. You may incur certain charges imposed by custodians, brokers, third party investment advisers, variable annuity insurance companies and other third parties, such as: fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

Mutual funds and ETFs typically charge their shareholders various advisory fees and expenses associated with the establishment and operation of the funds. These fees will generally include a management fee, shareholder servicing, other fund expenses, and sometimes a distribution fee. If the fund also imposes sales charges, clients may pay an initial or deferred sales charge. These separate fees and expenses are disclosed in each fund’s current prospectus, which is available from the fund or we can provide it to you upon request.

Consequently, for any type of fund investment, it is important for you to understand that you are directly and indirectly paying two levels of advisory fees and expenses: one layer of fees at the fund level and one layer of advisory fees and expenses to us. Generally speaking, most mutual funds may be purchased directly, without using our services and without incurring our advisory fees. Also, many mutual funds pay shareholder servicing fees (12b-1 fees) to brokerage firms and their registered representatives in consideration of their services to the fund’s shareholders. Such charges, fees and commissions are exclusive of and in addition to our fee, and, except as otherwise disclosed in this Brochure, we will not receive any portion of these commissions, fees, and costs. Under some circumstances, described in the section above entitled “Advisory Fee Off-Set,” we may reduce our advisory fees because of the brokerage or other compensation a client pays for the client’s account transactions. As noted below, our principals and representatives are registered representatives of NEXT and therefore in that capacity may receive this type of compensation with respect to clients who invest in these funds.

Variable annuity insurance companies charge various expense fees based on mortality rates and the cost of selected benefit riders against the assets in the subaccounts of their policy holders. These fees are in addition to any investment management fees imposed by third-party investment advisers. Like other types of investments, commissions are also paid for the purchase of variable annuities and there may be substantial surrender charges. Commission charges, surrender charges, and other expenses are disclosed in the variable annuity prospectus. As with

fund fees noted above, it is important for you to understand that if you engage us to provide investment management services for the allocation of the subaccounts, you are paying directly and indirectly two layers of advisory fees: one layer of fees at the subaccount level and one layer of advisory fees to us, both of which are in addition to the fees imposed by the variable annuity insurance company for mortality and rider expenses.

## **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

We do not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **ITEM 7. TYPES OF CLIENTS**

We provide portfolio management services to individuals, high net worth individuals, trusts, estates, charitable organizations, corporations, and corporate pension and profit-sharing plans.

We impose certain conditions for starting or maintaining an account. A minimum of \$100,000 of cash and/or securities is generally required to open an account. We may waive this requirement if, for example, a client has additional or related accounts that together exceed the minimum requirements.

We generally require that accounts maintain a value of approximately \$100,000. We may require a client to add to the amount in order to maintain the minimum or request that the account be terminated. These conditions are negotiable in light of specific client's circumstances and relationships with our firm and our principals and representatives. There is no minimum asset size for our financial planning services.

## **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### ***Methods of Analysis***

We combine fundamental and technical methods of analysis with a qualitative, top down approach to major economic, political, and social trends with both historical and potential future perspectives. The trends are interpreted as to their potential future impact on various asset classes. Our analysis is managed by one or more of our portfolio managers, counselors, and economic consultants who collectively make up our Investment Committee. The Investment Committee utilizes our proprietary system to monitor various lagging, coincident, and leading economic indicators and statistics in making its determinations of potential future values and asset allocations. There are risks associated with this method, including the risk that economic, political, and social trends will change unpredictably, which is why we continuously monitor and test our interpretations using various methods and obtain information from a variety of sources.

Fundamental analysis is a technique that attempts to determine a security's value by focusing on the economic and financial well-being of a company. When conducting fundamental analysis, various factors are evaluated including, but not limited to, a review of a company's financial statements, determining whether the company's revenue is growing, if the company is profitable, if the company is in a strong enough position to beat its competitors in the future, and if the company is able to repay its debts. Because it can take a long time for a company's value to be reflected in the market, the risk associated with this method of analysis is that a gain is not realized until the stock's market price rises to the company's true value.

We also utilize technical analysis to evaluate potential investments. Unlike fundamental analysis, technical analysis does not analyze the company's value, but instead analyzes the trends and movements in a security's price in the market. Technical analysis also studies the supply and demand in the market in an attempt to determine what direction, or trend, will continue in the future. However, there are risks involved with this method, including the risk that the trends will change unpredictably, which is why we use a combination of methods and obtain information from a variety of sources.

The information we obtain is derived from a number of sources, both public and by purchase, including financial newspapers and magazines, research materials prepared by third-parties, corporate rating services, annual reports, prospectuses, filings with the SEC, and company press releases. We also use a number of databases available to professional investment advisers by paid subscriptions. These databases are reviewed on a regular basis by the Investment Committee. We believe these resources for information are reliable and regularly depend on them for making our investment decisions; however, we are not responsible for the accuracy or completeness of this information.

## ***Investment Strategies***

We primarily offer two portfolio management styles: Classic and Specialty. Within each of these two major portfolio management styles, we offer several strategy sub-categories to focus on different investment objectives and risk attributes. Your assets will generally be invested in ETFs, no-load or load-waived open-end mutual funds, closed-end funds, or the subaccounts of variable annuities if you own them and engage us to advise you on managing them.

It is also important for you to understand that while we make every effort to manage client portfolios according to our model portfolios' asset allocations, not all client accounts will mirror the specific allocations of our model portfolios. This is because some clients have securities in their accounts that were legacy positions prior to our engagement as their investment manager and that cannot be sold without adverse tax consequences, or because some clients have otherwise restricted us from selling the securities in their accounts. Also, we may decide, given a client's particular financial situation, that the client's account requires a higher or lower

allocation to equities, fixed income, or cash equivalents than what may be in our model portfolios.

## **Classic Portfolio Management**

The five strategy subcategories for our Classic portfolio management styles are as follows:

- **Growth Portfolio**

Our Growth Portfolio target equity exposure is 80% to 100% growth equity funds. This is a diversified portfolio for investors with a relatively high tolerance for risk and a longer term investment time horizon. The main objective of this portfolio is capital appreciation. While this portfolio will experience volatility similar to that of the equity markets, the Investment Committee from time to time may allocate up to 20% of assets to fixed income and/or money market funds in order to seek to lower the volatility relative to an all-equity portfolio.

- **Growth and Income Portfolio**

This portfolio target equity exposure is 60% to 80% equity funds with the remainder allocated to fixed income and money market funds. This portfolio is designed with a dual strategy of seeking capital appreciation and current income through dividends or interest payments.

- **Balanced Portfolio**

As its name implies this portfolio target exposure is 40% to 60% equity funds with the remainder allocated to fixed income funds to provide investors with balanced and varied exposure to the stock and bond markets and intended to provide income and potential for some upside for capital appreciation from exposure to equity funds.

- **Income and Growth Portfolio**

This portfolio equity exposure is 20% to 40% equity funds with the remainder allocated to fixed income and money market funds. It is designed for investors seeking income, with a secondary consideration of capital appreciation. The main objective of this portfolio is to seek to reduce volatility by more exposure to dividend and interest paying securities funds.

## Specialty Portfolios

Our Specialty Portfolios consist of three subcategories of income-oriented portfolio management and one subcategory for growth-oriented portfolio management:

- **Multi-Asset Income**

The Multi-Asset Income portfolio is designed for investors seeking current income, with capital appreciation as their secondary objective. The portfolio's strategy allows it to seek income opportunities around the world and across both traditional and alternative asset classes. This allocation seeks to capitalize on lower rated investments that have greater risk to capital, but also the potential to generate a higher level of income.

- **Strategic Income**

Investing primarily in ETFs, the Strategic Income Portfolio is designed to be more dynamic in nature to take advantage of the High Yield Bond market. It utilizes Investment Committee research and the shorter-term asset allocation advice of our consultant economist to make tactical changes across the spectrum of fully invested, neutral, and defensive asset allocations.

- **Balanced Total Return**

The Balanced Total Return Portfolio seeks to provide a portfolio for those clients less tolerant of market volatility. We seek to accomplish this by diversifying the portfolio among balanced funds chosen by the Investment Committee based on manager tenure, overall fund age, and historical performance.

- **Strategic Growth**

The Strategic Growth Portfolio was designed to be more tactical in nature and to take advantage of the growth potential of equities, while preserving the option to utilize fixed-income and cash positions. It also utilizes Investment Committee research and shorter-term asset allocation advice of our consultant economist to make tactical changes across the spectrum of fully invested, neutral, and defensive portfolio asset allocations.

- **Advanced Strategies**

Our Advanced Strategies portfolio is intended for investors seeking lower volatility while retaining the prospect for capital appreciation. The portfolio objective is to lower volatility through enhanced diversification



and strategic asset allocation. The portfolio's dynamic strategy allows it to invest in a broad range of both traditional and alternative asset classes.

- **LVZ Blue Chip Select**

Our LVZ Blue Chip Select strategy will primarily be comprised of domestic large capitalized equity securities. The primary objective is growth while employing trailing stop-loss orders. A stop-loss order is designed to limit losses or in some cases to lock in a certain level of profit. As soon as the price of the security hits the stop-loss price (or falls below it), the order becomes a market order. Stop-loss orders are generally based on the bid price of a security, which is the price that the market is willing to pay if the security is sold. Using stop-loss orders does not guarantee against losses or assure the protection of gains. If there is a lack of liquidity, the bid-ask spread could be large enough to cause an investor to be stopped out at an unfavorable price or during a whipsaw price movement when a security may drastically fall below a stop price for a brief time and then suddenly rebound above the stop-loss price. For this reason, stop-loss orders are usually disabled for after-hours trading due to risk of increased price volatility causing execution at an unfavorable price.

- **Capital Preservation and Income**

The portfolio is primarily allocated to fixed income securities including money market funds. It may include, to a lesser degree, convertible bonds and preferred stock. It is designed for investors seeking current income and low exposure to the equity markets. Investors will have exposure to both bond and equity risk.

## **Biblically Responsible Investment ("BRI") Portfolios**

A form of socially responsible investing, we will, upon request, screen our Classic Portfolios to exclude certain investments that violate core Christian values. The screening process attempts to limit exposure to companies that support these values, such as abortion and pornography. On platforms where we cannot execute this strategy, we will implement a "cleaner water" approach. For example, if more than one option is available, we will select the investment that is the "cleanest" choice, while maintaining a responsible investment strategy.

If you choose to use BRI screening in our portfolio management, you should be aware that it could cause your account(s) to underperform compared to similar portfolios that do not apply such screening. Accordingly, you may forego opportunities to buy

certain securities when it might otherwise be advantageous to do so, or you may sell securities for reasons when it might otherwise be disadvantageous to do so.

### ***Types of Investments and Risk of Loss***

We offer advice about a wide variety of investments, including open and closed-end mutual funds, ETFs, as well as fixed and variable annuities, each having different types and levels of risk. All investments in securities include a risk of losing your principal (invested amount) and any profits that you have not realized. You should be prepared to bear that risk. Stock markets and fixed-income markets fluctuate substantially over time and the performance of any investment is not guaranteed. Obtaining higher rates of return on investments typically entails accepting higher levels of risk. Based upon discussions with you, we will attempt to identify the balance of risks and rewards that is appropriate and comfortable for you. However, it is still your responsibility to ask questions if you do not understand fully the risks associated with any investment or investment strategy.

Our judgments about the attractiveness, value, and potential appreciation of a particular asset class or individual security may be incorrect, and there is no guarantee that the securities we select will perform as anticipated. Our estimate of value may be wrong or, even if our estimate is correct, it may take a long time before the price and value converge. As a result, there is a risk of loss in the value of the assets we manage that is out of our control. We seek to reduce your risk through diversification and active management. Although we will do our best in managing your assets, we cannot guarantee any level of performance or that you will not experience a loss in your portfolio. Past performance is one relatively important consideration with respect to any investment or investment advisor, but it is not a predictor of future performance.

### **Mutual Funds**

We often recommend mutual funds of different kinds to promote portfolio diversification within various asset classes, such as industry sectors, domestic/international, or equities/bonds. We may recommend periodic purchases, sales, and exchanges of those mutual fund shares within mutual fund families and between different mutual fund families when there are changes in your needs or our asset allocation models based upon market conditions or economic developments.

The different kinds of mutual funds we use each have inherently different risk characteristics and should not necessarily be compared side by side. A bond fund with below-average risk, for example, should not be compared to a stock fund with below average risk. Even though both funds have low risk for their respective categories, stock funds overall have a higher risk/return potential than bond funds.

Of all the asset classes, cash investments (i.e. money markets) offer the greatest price stability, but have yielded the lowest long-term returns. Bonds generally experience more short-term price swings, and, in turn, have generated higher long-term returns. However, stocks historically have been subject to the greatest short-term price fluctuations—and have provided the highest long-term returns.

The risks in any given mutual fund depend on the investments it holds. For example, a bond fund has interest rate risk and income risk. Bond prices are inversely related to interest rates. If interest rates go up, bond prices will go down and vice versa. Bond income is also affected by a change in interest rates. Bond income (yields) are directly related to interest rate changes. If interest rates rise, bond yields rise and vice versa. Income risk is greater for a short-term bond fund than for a long-term bond fund. However, in a long term bond fund, your principal is subject to higher principal risk.

Similarly, a sector stock fund (which invests in a single industry, such as telecommunications) is at risk that its price will decline due to developments in its industry. A stock fund that invests across many industries is more sheltered from this industry related risk. However, while diversification across industries can help reduce your risk of loss from investing in a single sector, it may limit your opportunity for a significant gain if a single industry or sector increases dramatically in value.

With respect to sector funds, some of our income-oriented investment strategies involve the use of mutual funds that invest significantly in real estate investment trusts or REITs. REITs are companies that own and manage real estate. Unlike corporations, REITs do not have to pay income taxes if they meet certain Internal Revenue Code requirements to distribute at least 90% of their taxable income to their shareholders and receive at least 75% of that income from rents, mortgages, and property sales. REITs also offer the potential for higher income than an investment in common stocks would generally provide. However, the real estate industry is particularly sensitive to economic downturns. The value of REIT securities and, consequently, mutual funds that invest in them, can be affected by changes in real estate values and rental income, property taxes, interest rates, tax, and regulatory requirements, as well as the management skill and creditworthiness of REIT issuers.

Additionally, some of our income-oriented investment strategies involve the use of sector mutual funds that invest significantly in higher-yield, higher risk debt investments that are rated below BBB or its equivalent by nationally recognized securities rating agencies rating such investments. Investments rated below BBB or its equivalent are below-investment grade in quality (sometimes referred to as “junk bonds”). This rating reflects a greater possibility that the issuers may be unable to make timely payments of principal and interest and thus default. If this happens, or is perceived as likely to happen, the values of those investments will be more volatile and

likely to fall, which can affect the value of the mutual fund share values.

With respect to all classes of mutual funds and ETFs, diversification does not protect you from an overall decline the market. You should consider these risks in determining whether to use our services.

## **Index Funds and Exchange-Traded Funds**

As with virtually all types of securities, index fund shares and ETF shares will change in value and you could lose money by investing in them. An investment in an ETF in particular involves risk similar to those of investing in any fund of equity securities traded on an exchange (typically called, closed-end funds). Both index funds and ETFs seek investment results that correspond generally to the price and yield of an index. You should anticipate that the value of these shares would decline, more or less, in correlation with any decline in the value of their corresponding indexes. Some ETFs may invest in small capitalization and mid-capitalization companies. Such companies may experience greater price volatility than larger, more established companies.

Sometimes referred to as a “tracking error,” expenses and other portfolio factors may affect the performance of an ETF or an index fund so that the performance will not exactly match the performance of their respective underlying indexes.

## **Variable Annuities**

Variable annuities are highly complex financial products offered by insurance companies. They are regulated under both securities and insurance laws, and related rules and regulations. Variable annuities offer many kinds of benefits and features which may or may not have value to you depending on your circumstances, which we can discuss with you. The key difference from a fixed annuity is that the variable annuity can fluctuate during the accumulation or investment period and during the payout or income period. Additionally, if you are a policy holder, you bear the investment risk to the extent that you allocate premiums to the separate account of the variable annuity. The separate account generally offers several investment options called subaccounts, which usually consist of the same or similar mutual funds that are available outside of an annuity contract. Because of that, they are subject to the same risks as those described above for equity and fixed-income mutual funds. If you allocate premiums to the guaranteed account, you do not bear market risk on that allocation. However, the guaranteed account is part of the general account of the insurance company and is subject to risk based on the creditworthiness of the insurance company as to the timely payment of principal and interest. It is important for you to understand that while the separate account and the subaccount options are subject to the risks described for mutual funds, they are not part of the general account of the issuing insurance company and not subject to adverse changes in the insurance company’s credit risk.

If suitable, we recommend variable annuities by several insurance companies. Many of our clients own annuity contracts issued by insurance companies, whose products allow us to simultaneously manage multiple client subaccount allocations by aggregating purchase and sell orders with no transaction charges, which permits us to more efficiently provide clients better service. However, these products are not suitable for all clients in all circumstances and there are substantial costs associated with them, as described in each variable annuity's prospectus.

## **Alternative Asset Classes and Investment Strategies**

Our model portfolios may allocate a percentage of assets to alternative asset classes and alternative investment strategies, which, in our judgment, we believe will help achieve their respective investment objectives as described in the "Investment Strategies" section above.

These allocations are made solely by the use of listed or open-end mutual funds or ETFs that invest in alternative assets or employ alternative investment strategies rather than our directly employing the strategies or investing in individual securities or commodities in your account.

Alternative asset class funds may include those that make investments in the following:

Direct or indirect investments in futures contracts, including financial, energy, agricultural, and livestock futures. Futures contracts are derivative instruments that reflect the expected future value of a commodity, currency, or equity index. Because futures instruments are derivatives and based on the price movements of a physical or current commodity, or an economic variable linked to such price movements, the value of futures instruments may fluctuate quickly and dramatically and may not correlate to price movements in other asset classes.

Other derivative financial instruments (for example, stock or stock index options) whose value depends upon, or is derived from the value of something else, such as a stock or a stock index, may be employed and may be used for hedging and non-hedging purposes, including as a substitute for a direct investment in securities of one or more issuers. Derivatives, like futures, involve special risks and may result in losses.

Leveraged loans, which are typically bank loans made to below-investment grade companies with higher than standard debt obligations, offer a higher-return potential than investment grade bonds, but tend to have lower volatility than high yield bonds. Bank loans generally float or shift to prevailing interest rates and may provide a hedge in a rising interest rate environment.

Alternative investment strategy funds include the use of techniques that have additional risks beyond the usual market and investment risks that mutual funds carry. The alternative strategies include the following:

Margin transactions or the use of leverage, which involves borrowing a part of the sum needed from a broker in purchasing securities. The collateral for the loan is generally the securities held by the money manager. By only putting up a portion of the total funds needed to hold securities, it can magnify the effects to the equity in the account due to changes in the value of the underlying investments carried. Leveraging therefore creates a greater risk of total loss of value to an investor than would have otherwise have been the case in a non-leveraged strategy.

Some derivative investment strategies are also leveraged, which means they expose the underlying mutual fund portfolio to greater volatility and a risk of loss greater than the investment in the derivative. As a result, derivatives may magnify or otherwise increase investment losses in a mutual fund employing these alternative strategies and investments.

Short selling, which is a technique used to attempt to profit from the falling price of a security, involves selling a security that has been borrowed from a third party, usually a broker, with the intention of buying an identical security back at a later date at a lower price to return it to the third party. Short sales are subject to the risk that instead of declining, the price of the security or other instrument sold short will rise. If the price increases between the date of the short sale and the date on which the fund manager replaces the security or other instrument borrowed to make the short sale, the fund will experience a loss, which is theoretically unlimited. In addition, a lender of a security may request, or market conditions may dictate, that securities sold short be returned to the lender on short notice, which may result in the fund manager having to buy the securities sold short at an unfavorable price. This may result a loss or in reducing or eliminating any anticipated gain. In a rising stock market, short positions may reduce a mutual fund's overall performance.

Certain funds may employ a non-diversified strategy, which means they may invest their assets in the securities of a smaller number of issuers than a diversified fund. While the potential of gain is greater than in a diversified fund, investments in securities of a limited number of issuers exposes the portfolio to greater market risk and potential losses than in a more diversified portfolio. In any case, diversification does not assure a profit or protect against loss in a down market.

## **ITEM 9. DISCIPLINARY INFORMATION**

As a registered investment adviser, we are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of our firm or the integrity of our management. We have no legal or disciplinary events to disclose.

## **ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### ***NEXT Financial Group, Inc. and Insurance Services***

Jim Lorence, Ryan Vander Zwart, and Nathan Baumann are all registered representatives and investment advisory representatives of NEXT Financial Group, Inc. ("NEXT"), which is dually registered with the SEC as a full service securities broker-dealer and investment adviser. As registered representatives of NEXT, they can earn commissions on securities transactions and 12b-1 fees for mutual funds that they may recommend in their capacity as registered representatives of NEXT. They can also earn fees on advisory assets under management at NEXT in their capacity as advisory representatives of NEXT.

In addition, these individuals are licensed insurance agents who offer life and health insurance as independent agents, as well as insurance agents offering variable insurance products through NEXT. Commissions earned on variable insurance and some life insurance products are typically higher, and in some instances substantial, compared to commissions earned on mutual funds or other securities. Because of this, there exists the potential conflict of interest in the recommendation made by a representative that serves in several capacities as an advisory representative and a registered representative or insurance agent earning a commission on the products that are recommended by him or her. We seek to mitigate these conflicts of interest by making full disclosure to you of the compensation. Additionally, as described above and as provided in our client service agreements, we may reduce our advisory fees in consideration of these individuals receiving such commissions. You are also under no obligation to implement investment or insurance recommendations through NEXT or through any insurance companies with which advisory representatives and/or employees of our firm are contracted or registered. Commissions may be higher or lower at NEXT than at other broker-dealers. Full disclosure is provided to you prior to executing any transaction. Our firm and our representatives receive no commissions if you choose to purchase securities or variable insurance through a broker-dealer other than NEXT or life and health insurance through other agents.

### ***NEXT Financial Holdings, Inc.***

Jim Lorence and Ryan Vander Zwart are also stockholders in NEXT's parent company. NEXT Financial Holdings, Inc., a nonpublic company. Mr. Lorence owns more than 5% but less than 10% of the parent company while Mr. Vander Zwart owns less than 5%. As stockholders, both individuals may benefit from securities transactions if the value of the company increases or

if dividends are paid. Additionally, we are required to pay fees to NEXT for their compliance oversight services. Such fees may also contribute to the value of the shares of NEXT Holdings.

### ***J. Lorence & Associates, Inc.***

Jim Lorence, Ryan Vander Zwart and Nathan Baumann are owners of J. Lorence & Associates, Inc., which provides tax preparation services. Many clients of our firm are also clients of J. Lorence & Associates. These services are provided under a separate agreement and are separate and distinct from the services provided by our firm. You are welcome, but never obligated to utilize the tax preparation services offered by J. Lorence & Associates.

### ***Other Industry Activities***

We also participate in a network of financial service providers who periodically gather to share professional ideas and experiences. Other participants of this network may refer prospective clients to our firm for its expertise, and we may refer clients to other network participants for their expertise. Unless separately disclosed to you, these are made on an uncompensated basis, though participants may benefit from future cross-referrals. If compensation will be paid for the referral, then you will receive a specific disclosure brochure about the nature of the referral, the referral relationship, and the referral compensation. Compensation or future benefits that we or other network participants receive from referrals creates conflicts of interests which you should carefully consider before proceeding with such referrals. You are never obligated to accept a referral and will not be charged any additional fee for it.

## **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS, AND PERSONAL TRADING**

We have adopted a Code of Ethics describing the standards of business conduct we expect all officers, directors, employees, and advisory representatives to follow. The Code also describes certain reporting requirements with which particular individuals associated with or employed by us must comply. We will provide a copy of the Code of Ethics to you or prospective client upon request.

Our principals and representatives will often own the same securities recommended to our clients. Generally, these securities will be shares of open ended mutual funds or stocks and bonds actively traded on a national securities exchange or market where the time and size of their purchases or sales will not affect transactions for our clients. In the unlikely event that we do recommend the purchase or sale of a thinly traded security to a client, we will ensure that such transactions do not adversely affect clients nor improperly benefit our principals and representatives, typically by completing their transactions after all client transactions have been made. Orders for clients and orders for our own accounts may sometimes be aggregated or “batched” into one large order in accordance with our trade aggregation and allocation policy (described in connection with our brokerage placement practices below). Aggregated orders



may achieve better execution for all participating accounts and those benefits will be fairly allocated among all participating accounts.

You may request a copy of our Code of Ethics by contacting our Chief Compliance Officer, Ryan Vander Zwart.

## **ITEM 12. BROKERAGE PRACTICES**

### ***Directed Brokerage***

We recommend that clients use Fidelity Brokerage Services (“Fidelity”) or, at times, TD Ameritrade as custodian of their assets and for their securities brokerage services. We primarily recommend Fidelity because we believe that Fidelity offers excellent brokerage account services and enhanced technology and flexibility for each client’s needs and objectives. At times, we may also recommend TD Ameritrade, which also offers excellent brokerage account services.

When clients direct that all of the securities transactions for their accounts be handled by a particular broker-dealer of their choosing, clients must negotiate brokerage commissions and charges with the registered representative of that broker-dealer. Our firm cannot effectively negotiate for lower brokerage expenses on behalf of a client when the broker-dealer’s registered representative is affiliated with our firm or when the business cannot be taken to a different brokerage service provider. Accordingly, clients that direct brokerage services may pay significantly more for brokerage services in some transactions. Transactions for client-directed brokerage accounts cannot be aggregated with discretionary brokerage accounts. Additionally, when we purchase mutual fund shares through our recommended custodians, we are often given preferential treatment with regard to fees that are beneficial to our clients, including load-waived mutual funds, no transaction fee mutual funds, and institutional fund share classes, which generally have lower internal expenses than are otherwise available to individual retail investors. We also occasionally invest in mutual funds that are closed to new investors, but remain available to us and our clients who use Fidelity.

### ***How We Select Brokers/Custodians***

There are other discount brokerage firms who offer brokerage services often at a lower rate than Fidelity or TD Ameritrade because they only execute transactions and carry securities brokerage accounts. However, they may not provide as wide of an access to load-waived and institutional mutual fund share classes. We believe, therefore, that the quality and value added by Fidelity and TD Ameritrade’s services are competitive with other full-service brokerage firms and outweigh the perceived cost advantages of a discount broker. Among the factors we look at in recommending the use of a broker/custodian, we seek one who will hold your assets and execute transactions on terms that are generally most advantageous when compared to other available providers. We consider a wide range of factors, including the following:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody);
- Capability to execute, clear, and settle trades (buy and sell securities for your account);
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payments, etc.);
- Breadth of available investment products (mutual funds - no-load, load-waived, and no transaction fee funds);
- Availability of investment research and tools to assist us in making investment decisions;
- Competitiveness of the price of the services (commission rates, margin interest rates, etc.) and the willingness to negotiate the prices;
- Reputation, financial strength and stability; and
- Prior service to us and our other clients.

While we recommend that you use Fidelity or TD Ameritrade as your custodian, you will decide whether to do so and will open your account directly with them by entering into a brokerage account agreement with them. We do not have discretionary authority to open the account for you, although we are happy to assist you with completing the required account forms to do so.

### **Services Available to Us from Fidelity and TD Ameritrade**

Both Fidelity and TD Ameritrade provide us and our clients with access to institutional brokerage services - trading, custody, reporting and related services - many of which are not typically available to their retail customers. They also makes available various support services. Some of those services help us manage or administer our clients' accounts while others help us manage our business. These support services are generally available on an unsolicited basis (we don't request them) and at no charge to us.

**Services that Benefit You:** The institutional brokerage services through these custodians include access to a broad range of investment products, execution of security transactions, and custody of client assets. The investment products available through them include some that we might not otherwise have access to or that would require a significantly higher minimum initial investment by our clients. These services described in this paragraph generally benefit you and your account.

**Services That May Not Directly Benefit You:** Fidelity and TD Ameritrade also

make available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both theirs and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained with them. In addition to investment research, both custodians also make available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations; account statements and tax-related statements);
- Facilitate trade execution and allocated aggregated trade orders for multiple client accounts;
- Providing pricing and other market data;
- Facilitate payment of our fees from our clients' accounts; and
- Assist with back-office functions, recordkeeping and client reporting.

### **Soft Dollars**

Fidelity and TD Ameritrade provide all of these services on an unsolicited, no cost basis. We have not entered into any contractual soft-dollar arrangements with them or any other broker-dealer to receive research related products or services in exchange for placing a certain amount of commission dollars with the broker-dealer.

### ***Trade Allocation and Aggregation Policy***

We have adopted a trade allocation policy to govern how we handle the aggregation of orders for more than one client's account. From time to time and only where appropriate, we aggregate orders for securities transactions for more than one client and, in appropriate circumstances, include proprietary accounts. In doing so, we strive to treat each client fairly and will not favor one client or a proprietary account over another client. When executed, we will allocate the aggregated order in accordance with policies and procedures intended to achieve fair treatment. The purpose of aggregating orders is for our administrative convenience and, in some transactions, to obtain better execution for the aggregated order than might be achieved by processing each of the transactions separately.

We will not aggregate orders for a client having a directed brokerage relationship with a client who does not have a directed brokerage relationship with the same broker-dealer. A consequence of not aggregating a client's order with other orders for the same securities is that the client may not obtain as good a price or as low a cost in a separate transaction as clients whose orders have been aggregated.

Each account that participates in an aggregated order will participate at the average share price for all transactions ordered by our firm in that security on a given business day. If permitted by the broker-dealer effecting the transaction, transaction costs will be shared on a pro rata basis. Some broker-dealers charge brokerage commissions to each participating client in accordance with the size of that client's part of the aggregated order, regardless of the total size of the aggregated order. If an aggregated order is not filled in its entirety, it will be allocated among participating accounts on a pro rata basis.

## ***Trade Error Policy***

We have the responsibility to effect orders correctly, promptly and in the best interests of our clients. We have established an error correction policy, to identify and correct any errors as promptly as possible without disadvantaging you or benefiting us in any way.

We have defined a "trade error" to mean when we have purchased or sold a financial instrument for a client account and that action is then determined to have been a mistake and the error results in a financial gain or loss for the client. Examples of errors may include:

- Purchases or sales of an incorrect or unintended security or quantity of securities for a client account;
- Purchases or sales of securities for the incorrect or unintended client account;
- Purchases or sales of securities that are not authorized by the client's investment guidelines or applicable law or regulations (e.g. prohibited transaction under ERISA);
- Purchase or sale transpositions (where an intended purchase is entered as a sale, or vice versa); and
- Trade misallocations.

If the error is our responsibility, your transaction will be corrected and we will reimburse you for any loss resulting from an inaccurate or erroneous order. Generally, if related trade errors result in both gains and losses in the client's account, they may be netted. Our primary custodians are Fidelity and TD Ameritrade and their policies differ on the treatment of trade error corrections.

**Trade Error Losses** - If a trade error occurs at Fidelity or TD Ameritrade and it results in a loss in the client's account, the client's account is reimbursed for the entire amount of the loss as soon as practical after the discovery of the error.

Trade Error Gains - If a trade error results in a gain, Fidelity and TD Ameritrade, respectively, will automatically sweep the gain from the designated trade error account and donate the proceeds to a charity designated by our firm.

### **ITEM 13. REVIEW OF ACCOUNTS**

The frequency and triggering factors for internal account reviews depend upon the services we provide to a client.

For our investment management service, we review client accounts on a regular basis, not less than quarterly. These reviews may be triggered by changes in a client's personal or financial information, market conditions or economic news or events. Reviews may involve the entire account or just specific securities held in the account. For our financial planning and consulting services, we review accounts at a client's request. The level of the review depends upon the client's request.

For portfolio management clients, we conduct reviews as requested by the client or at the time of significant new deposits or withdrawals, during substantial changes in market conditions, at our discretion, or according to the interval agreed upon at the time of engagement. Clients must contact us when a real or potential change in the client's financial condition occurs so we can review the portfolio along with the clients' new information to ensure the investment strategies continue to be appropriate.

Our principals review the securities within the client accounts on an ongoing basis. Responsibility for reviews is shared equally by the principals of our firm.

We provide reports, which would include portfolio performance and position statements, to our portfolio management clients or the client's solicitor, if applicable, upon client request. Clients may also receive such reports electronically upon request. These statements include the evaluation of each security in the account. We encourage personal meetings with each client at least annually.

For clients using our financial planning and consulting services, reports are provided upon completion of the project.

### **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

We may engage solicitors to market our services. If we do so, you will receive a separate solicitor's disclosure brochure describing our solicitation arrangements, the compensation we pay to the solicitor, and the terms of that relationship. You will also receive a copy of this Form ADV, Part 2A, as our disclosure brochure. If a solicitor refers you to us, your total advisory fees will be based, in part, on the amount of the solicitation fee we pay to the solicitor. You may be

paying more than our other clients for the same advisory services depending upon the amount of the advisory fees paid to the solicitor. Solicitors may include registered representatives of NEXT Financial Group or other broker dealers who may also receive compensation from their respective broker dealer as a result of marketing our services. As registered representatives of a broker dealer, the solicitors may also receive commissions, and in some cases, on-going servicing fees for transaction-based activity in your account(s). As described in further detail in the section titled “**FEES AND COMPENSATION – Advisor Fee Off-Sets**” beginning on page 12, solicitors that are registered representatives of a broker dealer may not follow our advisory fee off-set policy.

As part of our marketing effort, we regularly provide additional training and education to our selected solicitors in the subjects of due diligence, compliance, and the technical aspects of our services, all of which are valuable to the development of their business. Based on the regulatory assets under management from participating solicitors, we provide three levels of marketing and training expense reimbursements. Our training reimbursement includes travel, lodging, and food expenses. We may also pay to attend conferences or symposiums sponsored by broker-dealer firms who refer us business. The costs of the training and education, as well as the conferences or symposium sponsorships are reimbursed out of our portion of the advisory fees. They are not an additional expense to clients or any other investor. Additionally, expense reimbursements to solicitors may include certain marketing, business development, and client appreciation event expenses, if incurred. Reimbursement of these expenses range from 0.025% up to 0.045%, depending on the total new business referred and assets under management. In order to mitigate any potential conflicts of interest from our reimbursement arrangement, these costs do not increase client advisory fees and we disclose the reimbursement arrangement in our Solicitor’s Disclosure Brochure provided to clients who engage our services through a solicitor.

#### **ITEM 15. CUSTODY**

Clients receive statements from the broker-dealer, bank or other qualified custodian that holds and maintains the client’s investment assets on at least a quarterly basis. We urge clients to carefully review such statements and compare such official custodial records to the account statements that we may provide to clients, as described in the “**REVIEW OF ACCOUNTS**” section beginning on page 26. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

#### **ITEM 16. INVESTMENT DISCRETION**

As explained under the section above, “Item 4 - Advisory Business,” in our investment management services agreement you grant us limited discretionary authority over your account, including authority to select the identity and amount of securities to be bought or sold for your benefit and risk. Similarly, if you engage us to manage your account using third-party managers, you will grant us discretion to change those managers. Our discretion will be exercised in

accordance with your stated investment objectives. You may provide us with written investment guidelines or restrictions to limit our discretionary authority or we may develop an investment policy statement with you.

#### **ITEM 17. VOTING CLIENT SECURITIES**

As a matter of firm policy and practice, we will not be responsible for responding to proxies that are solicited with respect to annual or special meetings of shareholders of securities held in a client's account. Proxy solicitation materials will be forwarded to the client for response and voting.

#### **ITEM 18. FINANCIAL INFORMATION**

As a registered investment adviser, we are required to provide clients with certain financial information or disclosures about our financial condition if we have financial commitments that impair our ability to meet contractual and fiduciary commitments to our clients. We have not been the subject of a bankruptcy proceeding and do not have any financial commitments that would impair our ability to meet any contractual or fiduciary commitments to our clients.

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