



## **FORM ADV PART 2A- APPENDIX 1 WRAP FEE BROCHURE**

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This brochure provides information about the qualifications and business practices of First Allied Advisory Services, Inc. If you have any questions about the contents of this brochure, please contact us at 800-223-0989. 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.

First Allied Advisory Services, Inc. is a registered investment adviser. Registration of an investment adviser does not imply a certain level of skill or training.

This wrap fee brochure details important disclosure information about certain wrap fee programs that we offer. We do offer other wrap fee programs that are not discussed in this brochure.

Additional information about First Allied Advisory Services, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2- Summary of Material Changes

You are receiving a copy of this brochure to ensure you have important information to assist you in making investment decisions about the programs and services described in this document. Each year you will receive a summary of material changes that were made to the brochure over the previous year with instructions on how to receive an updated copy of the brochure, if you would like one. You will also receive an updated brochure or summary of material changes whenever important information changes.

The changes that have been made to this document since our annual amendment in March 2011 are summarized below:

- *Ownership Change*

In August 2011, First Allied Advisory Services, Inc. announced an ownership change. First Allied Advisory Services, Inc. was purchased by First Allied Holdings, Inc. ("FAH") from Advanced Equities Financial Corp. FAH is owned by Lovell Minnick Partners, LLC, an investment firm that focuses on investments in the financial services industry. In the same transaction, FAH also acquired First Allied Securities, Inc., First Allied Asset Management, Inc. (formerly Advanced Equities Asset Management, Inc.), First Allied Retirement Services, Inc., and FASI Insurance Services, Inc. While the ownership structure has changed for each of these firms, the management structure for each of these firms remains the same. The ownership change for each of these companies is set to be completed on or about November 1, 2011.

- *New Advisory Programs*

We have created new advisory programs since our last annual update. Detailed information about each of our advisory programs is included in the appropriate disclosure brochure. Although we have several wrap fee program brochures, this brochure details all of our non-wrap programs. If you would like information on the wrap fee programs we offer, please speak to your IAR.

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## Introduction

### *Background*

First Allied Advisory Services, Inc. ("FAAS"), a Delaware corporation, is an investment adviser registered with the Securities and Exchange Commission ("SEC"). Being registered does not mean that FAAS is endorsed by any regulatory authority; it simply means that FAAS is required to follow the rules established by the SEC. Representatives of FAAS' investment adviser are registered to conduct advisory business in each state where clients reside, according to each state's requirements. Throughout the remainder of this text, "we," "us," and "our" refers to FAAS.

FAAS was founded in 2007. In 2011, First Allied Holdings, Inc. ("FAH") purchased FAAS from Advanced Equities Financial Corp. ("AEFC"), who has owned FAAS since 2007. This transaction is set to be completed on or about November 1, 2011. In the same transaction, FAH acquired several affiliated companies that offer financial products and services (see Other Financial Industry Activities and Affiliations section of Item 9- Additional Information on page 12 for more information). FAH is owned by Lovell Minnick Partners, LLC ("Lovell Minnick"), an investment firm that focuses on investments in the financial services industry.

FAAS is not a custodian of any accounts. Accounts are custodied at Pershing, LLC ("Pershing"), Fidelity Investments ("Fidelity") or other approved custodians. The use of other custodians is limited, and may be allowed on a case by case basis with the approval of our management team. The majority of our custodial relationships are through an affiliated broker/dealer of ours, First Allied Securities, Inc. ("First Allied").

### *Our Corporate Structure*

FAAS has approximately 175 investment adviser representatives ("IARs"). Our IARs are independent contractors and business owners. Each IAR is responsible for maintaining his own client relationships. The IARs contract with us to utilize our advisory programs in an effort to help their clients meet financial goals and needs.

You pay us fees for our programs and services. We pay a portion of these fees to your IAR. The IAR's share of the fee may be different for different advisory programs. This presents a conflict of interest for our IARs because they may have an incentive to recommend a certain advisory program. We address this conflict of interest in Item 9- Additional Information, starting on page 11. The fees we retain may also be different between IARs, depending on their agreement with us.

Our back office operations are split between Chesterfield, MO and San Diego, CA. In addition, First Allied provides account services to us. First Allied is a broker/dealer registered with the Financial Industry Regulatory Authority ("FINRA"). In addition to being registered as investment adviser representatives with us, the majority of our IARs are also registered representatives of First Allied.

Our IARs have branch offices across the United States. Each of our IARs is supervised by another individual registered with our firm. The supervisor is called a designated registered principal ("DRP") or designated supervisory principal ("DSP"). DRPs are registered individuals that have contracted to work with us, and are IARs themselves. DSPs are our employees and located in our home office in San Diego.

### *Our Principal Officers*

Craig A. Junkins is Senior Managing Director of FAAS and has served as the senior executive of FAAS since its inception in 2006. Prior to that, Mr. Junkins served as the CEO for First Financial Planners, Inc., FFP Securities, Inc. and FFP Advisory Services, Inc. and worked for those two firms since February 2002. Prior to joining First Financial Planners, Inc. and FFP Advisory Services, Inc., Mr. Junkins was an Executive Vice President for AXA Advisors from 1998 to 2001.

Robin H. Rodermund currently serves as the Chief Operating Officer of FAAS. Ms. Rodermund has served in that position since September 2008. Ms. Rodermund began working for FFP Securities, Inc. and FFP Advisory Services, Inc. in 1990.

Adam Antoniadis is the Chief Executive Officer of First Allied Securities. He was formerly employed with First Allied Securities as President, CEO and Corporate Secretary from 1994 until 2004. Mr. Antoniadis also served as President of AEFC from 2004 to 2009. Prior to his employment at First Allied, Mr. Antoniadis was employed by Bishop Saxony Corporation as Corporate Secretary and with Berkeley Safe Deposit as Head Currency Trader.

Joel Marks is Chairman of First Allied Securities and has served in an executive leadership position since 2005. In addition to his responsibility as First Allied's Chairman, Mr. Marks has served as Vice Chairman and Chief Operating Officer of AEFC since July 2004. Mr. Marks previously was a co-founder of JWGenesis Financial Corp. where he served as its Vice Chairman and Chief Operating Officer until it was acquired by Wachovia Securities in January 2001. Following the Wachovia acquisition, Mr. Marks served as Senior Vice President and Managing Director of Wachovia Securities through May 2002.

Janice Doza is the Chief Financial Officer and has served in that position since June 2008. Ms. Doza previously served as Chief Financial Officer and Controller for FFP Securities, Inc. until 2008. From April 2003 through March 2006 Ms. Doza served as Controller for First Financial Planners, Inc.

Luanne Borowski, Managing Director of Investment Advisory Compliance, has been the Chief Compliance Officer of First Allied Advisory Services, Inc. since July 2010. Ms. Borowski has also served as Chief Compliance Officer of First Allied Securities, Inc.'s investment adviser and First Allied Asset Management, Inc. since February 2007. Ms. Borowski first joined First Allied as an investment advisory compliance analyst in February 2002. Ms. Borowski previously served as Chief Compliance Officer of Asset Planning Associates, a broker/dealer, and Ken Stern & Associates, a registered investment adviser, from August 2000 until January 2002.

#### *Devotion of Resources*

Our employees working from the Chesterfield, MO office and certain First Allied employees in the San Diego, CA office devote a portion of their time to broker/dealer activities as well as the advisory activities of FAAS. Your IAR may also divide his time between broker/dealer activities and advisory activities and have responsibilities to both FAAS and First Allied. Depending on your IAR's individual business mix and client base, he may spend more or less time devoted to broker/dealer activities than other IARs.

In addition to broker/dealer activities and responsibilities, your IAR may also be engaged in one or more outside business activities. These outside activities may or may not be related to the financial services industry.

#### *Our Advisory Activities*

Through our IARs, we offer a variety of investment advisory programs and services for a fee. The following list includes some of our more common offerings:

- Assistance in selecting a portfolio manager
- Ongoing evaluation and review of portfolio managers
- Evaluation and review of portfolio composition
- Management of accounts
- Financial planning
- Consultation on client assets
- Active portfolio management

Portfolio management includes designing a portfolio through buying and selling stocks, bonds, mutual funds, options, managed futures, insurance products, private placements, and other securities. Our employees, including your IAR may personally buy and sell the same securities that you buy and sell. This conflict of interest is discussed fully in the Code of Ethics, Participation or Interest in Client Transactions and Personal Trading section in Item 9- Additional Information on page 13.

Our IARs are permitted to offer you advisory programs that are managed by themselves or by a third-party asset manager ("TPAM"). The TPAM may be a related party or an unrelated party.

We take into account your investment goals and needs when recommending any advisory program or service. Our intention is to provide you with programs and services that will help you to meet your goals and needs. We will gather personal information when helping you choose a program or service. This information may include:

- Your investing experience
- How soon you need the money
- Your retirement goals
- Your current financial situation and future needs
- Your annual income
- Your ability to lose money
- Your ability to withstand market fluctuation
- Your personal instructions on how to invest

Please contact your IAR any time this information changes so that your IAR can review your existing accounts to see if any changes need to be made.

We offer both wrap and non-wrap programs. A wrap program is one in which you pay a single "wrapped" fee. This wrap fee is not based on the number of transactions made in your account. It is based on the size of the account(s) we manage for you. If you invest in a non-wrap program, you are may be subject to charges for each transaction in addition to the advisory fee. Wrap fees are generally higher for similar services than non-wrap fees.

Certain wrap programs that we offer are described in Item 4- Services, Fees and Compensation, starting on the next page. We offer additional wrap programs that are not detailed in this brochure and we also offer several non-wrap programs that are detailed in our Form ADV Part 2A disclosure brochure. Your IAR can provide you with these other brochures upon request. Some non-wrap programs that we offer are similar to the wrap programs that we offer. Your IAR will work with you to decide which program will best serve your needs.

#### *Information on All Advisory Programs*

Regardless of which advisory program or service you choose, your IAR will work with you to collect suitability information that will aid in the creation of recommendations. This suitability information is maintained on internal systems and documents. Your IAR is required to submit the completed suitability information to his supervisor for review and approval.

Custody of all accounts will be at Pershing. The custodian will provide you with confirmations of all transactions and monthly or quarterly account statements. You may have the option of directing Pershing to not send you confirmations. This suppression will not impact the delivery of account statements. For our Elite program, Pershing will provide you with quarterly performance reports. These performance reports will contain statistical information about your account.

Regardless of the program chosen, your IAR is responsible for ongoing review of your account(s), regular communication with you, and determining that the portfolio selected is appropriate for you based on your investment objective(s). Account activity is required to be reviewed quarterly.

The programs listed in the next section can be provided to you by your IAR. None of these programs are non-wrap programs. Wrap programs provide a single “wrapped” fee for both investment advisory and brokerage execution services. Wrap programs fees are not based on the transactions in an account. Non-wrap programs may have additional charges levied based on the transactions in the account. Our non-wrap programs are described in detail in another disclosure document. When your IAR offers you one of our non-wrap programs, he will provide you with the appropriate disclosure document.

## **Item 4- Services, Fees and Compensation**

#### *Fee Overview*

The fees that you pay for advisory programs or services that we offer will depend on several different factors.

The fees for advisory programs are generally based on the “Assets Under Management.” This means that the account is charged a fee based on the account balance as of a certain date. These fees are negotiable between you and the IAR offering the service.

Most programs charge a quarterly advisory fee based on the account’s balance on the last day of each calendar quarter (March 31, June 30, September 30, and December 31). If the last day of the calendar quarter falls on a day that the New York Stock Exchange is closed, we use the account balance on the last business day of the calendar quarter to calculate the advisory fee. This fee is generally charged in advance (or pre-paid) for the management to be provided over the next calendar quarter. We will only charge you an advisory fee for the portion of a quarter that the account is under management. For new accounts, we will bill the account when it is opened for the remaining days in the quarter. For accounts that are closing, we will automatically credit you back any pre-paid fees for the portion of the quarter remaining after the account is closed.

Advisory fees are generally deducted from the account. The account statements you receive from the custodian will reflect the deduction of these fees. Fees are deducted from the client account in the month following quarter end. For some programs, fees may be paid to us by check, as outlined in the advisory agreement. In this case, we will send an invoice to the client for the fees owed.

In the event a deposit of \$10,000 or more on a single day or withdrawal of \$10,000 or more on a single day occurs, we will calculate the fee owed or refund due and adjust the normal fee charged at the end of the calendar quarter.

Some assets in your managed account may not be included in the calculation of your advisory fee. Assets that you recently paid a commission on may be exempt from this advisory fee. With approval from our management, we allow you to “hold” the asset in your advisory account, but this asset would not be charged an advisory fee.

If your account is billed on assets under management, the advisory fee is generally split between a program (or platform) fee and a management fee.

#### *Program Fees*

The program fee will vary depending on which program or service you select. The program fee is an annual percentage of assets under management, billed quarterly. The program fee is paid to either us entirely, or is split between us and a TPAM. This program fee is not negotiable. However, the program fee may be different based upon your IAR’s relationship with FAAS. If your IAR has a different program fee, this will not change the total maximum advisory fee you pay, but it may present a conflict of interest (we address this conflict of interest in Item 9- Additional Information, starting on page 11).

#### *Management Fee*

The management fee is paid to the IAR servicing the account. This fee is negotiable and may be different than management fees that are agreed upon for different programs. It may also be different for each client.

#### *Total Advisory Fee*

You and your IAR will agree on your total advisory fee for each account prior to establishing the account. At any time, you and your IAR may agree to amend the original fee and submit a new advisory agreement with a different fee schedule. There are maximum allowable advisory fees for each program and will not allow you to be charged more than this amount. The maximum allowable

advisory fee will differ between programs, but is consistent for each IAR. This maximum advisory fee is noted on the investment advisory agreement.

#### *Fee Schedules*

Each advisory program has its own fee schedule. The fee schedule will outline the program fee and the management fee. Generally, the management fee is negotiable with your IAR. The program fee is paid to us and is non-negotiable. The amount of your advisory fee, as a percentage, may remain the same regardless of the size of your account, or the percentage may decrease as your account balance increases. Your advisory fee will not increase, as a percentage, as your account balance increases. Fee schedules and other information about account charges for each wrap program we offer is listed here.

#### *Elite Asset Management ("Elite") Program*

The Elite program is a multi-manager platform offering mutual funds, exchange-traded funds ("ETFs"), and separately managed stock portfolios. The Elite program consists of three distinct types of strategies, one employing mutual funds and exchange-traded funds (Mutual Fund & ETF strategy), another using individual equities (Individual Equity strategy), and a third using only mutual funds (FundMAP strategy). The three types of strategies have different fee schedules (detailed later in this section).

Should you select either the Mutual Fund & ETF strategy or the Individual Equity strategy, you will choose who will be the portfolio manager. As discussed below, you will choose between a National Manager and a Prime Manager. You will select your strategy and your portfolio manager on the investment advisory agreement. The Elite program allows the Prime Manager or National Manager to provide FAAS with trading recommendations, manage your assets with limited or full trading authorization. IARs who wish to become Prime Managers must be approved by an internal review committee.

The FundMAP strategy is a mutual fund strategy that you and your IAR will manage. Your IAR does not have any trading authorization in the FundMap strategy and must receive instructions from you in order to place trades in the account.

The minimum account size for the Elite program is \$50,000. Under certain circumstances, this minimum can be waived by acceptance of both us and the portfolio manager.

#### *Elite Program Management*

The Mutual Fund & ETF and Individual Equity strategies are managed by either a Prime Manager or a National Manager. Prime Managers are individuals who are registered as IARs with us. National Managers are third-parties. Certain National Managers are affiliated or related to us or our IARs.

#### *Prime Managers*

If your account is managed by a Prime Manager, their specific management style is not discussed in this document. Generally, Prime Managers use various securities to allocate your portfolio according to your investment objective. These securities may include stocks, bonds, mutual funds, unit investment trusts, certificates of deposit, Treasury securities, insurance products and alternative investments.

Each Prime Manager is permitted to use his own method(s) of analysis. Many of them use asset allocation software to help them determine objectives and risk tolerance. This software seeks to optimize your portfolio and diversify risk across asset classes appropriately. Some asset allocation software is used to aid in selecting specific securities. Some Prime Managers analyze securities individually to determine if those securities should be included in your account.

The methods of analysis and investment methodologies of our Prime Managers are detailed in their investment advisory agreements. If your account is managed by a Prime Manager, you will have been provided with information relating to your manager's investment strategy.

Not all Prime Managers offer both Mutual Fund & ETF strategies and Individual Equity strategies. The Prime Manager's investment advisory agreement will detail which strategies are offered. The Prime Managers available for the Elite program are:

- Advanced Capital Management (ACM) – advice provided by John Levee
- Advanced Capital Management Complete (ACMC) – advice provided by John Levee
- Bishop Financial Advisors Management - advice provided by Brian Bishop and Tom Breiter
- Compass Accumulation Trending Strategies (CATS) – advice provided by Donald Allenbrand
- Dean Investment Management – advice provided by Dean Investment Management on behalf of Dave Lobben
- Kohan Management – advice provided by Davood Kohan
- Logic Investment Advisors – advice provided by Marjorie Johnson
- New Ideas Equity Income Program – advice provided by Karl W. Steinbrecher
- Partners in Planning – advice provided by Patricia Goodman
- Partners Management – advice provided by Tom Brady
- Pincore Management – advice provided by Jeff Forehand
- RFI – advice provided by Craig Riley
- SIMPLe Management – advice provided by David Pelligrino



### *National Managers*

If your account is managed by a National Manager, the National Manager is responsible for its own methodology and investment strategy. Information about how your VIP program account is managed by a National Manager is available in the National Manager's disclosure brochure, which will be provided to you by your IAR. This disclosure brochure will also have other information about the National Manager, including information about their advisory business, disciplinary information, and custody information.

Each National Manager offers both Mutual Fund & ETF strategies and Individual Equity strategies. The National Managers available for the Elite program are:

- First Allied Asset Management ("FAAM")
- Breiter Capital Management
- Foy Financial Services, Inc.
- Howard Capital Management
- Sowell Management Services

The National Managers may offer other strategies that are not available to you through us. They also provide services to other firms than ours. You may be able to receive similar services from these National Managers for more or less cost by going through another company offering their services, or going to the National Manager directly.

FAAM is an affiliated registered investment adviser. One of our IARs, Michael Wegner, is part owner of the holding company that owns Howard Capital Management.

The fee schedules for Elite program accounts are listed below. As previously mentioned, each strategy in the Elite program has a different fee schedule. Your total advisory fee for your Elite program account is negotiable and may be less than the amounts listed in the Total Advisory Fee column.

The Mutual Fund & ETF strategy fee schedule:

Account Size	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Up to \$249,999	0.80%	1.60%	2.40%
\$250,000 to \$499,999	0.75%	1.15%	1.90%
\$500,000 to \$999,999	0.65%	0.85%	1.50%
\$1,000,000 and over	0.63%	0.62%	1.25%

The Individual Equity strategy fee schedule:

Account Size	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Up to \$249,999	0.95%	1.55%	2.50%
\$250,000 to \$499,999	0.91%	1.34%	2.25%
\$500,000 to \$999,999	0.87%	1.13%	2.00%
\$1,000,000 and over	0.75%	0.95%	1.70%

The FundMAP strategy fee schedule:

Account Size	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Up to \$249,999	0.50%	1.30%	1.80%
\$250,000 to \$499,999	0.35%	1.15%	1.50%
\$500,000 to \$749,999	0.25%	0.95%	1.20%
\$750,000 to 999,999	0.25%	0.85%	1.10%
\$1,000,000 and over	0.25%	0.75%	1.00%

### *Private Client Services ("PCS") Program*

We created the PCS Program to provide higher net worth clients the opportunity to have some, or all, of their assets managed in one place. PCS is open to clients that will have at least \$500,000 invested in the program. We have hired FAAM to manage these accounts. Our IAR will work with you and FAAM to determine the most efficient allocations of your current accounts. The strategies available include a combination of the ETF Select, US Large Cap Select and Yield Select portfolios described above used in combination with some customized options that FAAM can develop for you. These customized options may include:

- A laddered municipal bond portfolio designed to meet your specific investment time horizon. We will purchase multiple municipal bonds with staggered maturity dates in an attempt to diversify interest rate risk while providing regular cash flow.
- A structured products portfolio to provide limited downside protection and extra participation on the upside. Structured products come in many forms, but are typically short term investments (typically 18 to 36 months) that resemble bonds, but



are issued by a bank and track an index. They do not pay interest like bonds, but instead pay a return at maturity if the index it is tracking increases, or returns a discounted amount of principal if the index is down over the time period.

- A covered call, or options, portfolio consisting of a bucket of individual covered call positions. A covered call involves the simultaneous purchase of a stock and sell of a call option, which means that someone can buy your stock at a specific price (“strike price”). It provides some protection against loss in exchange for participation in gains, as limited by the call’s strike price. Positions are diversified by sector, strike price, and expiration date. We try to select stocks that have attractive covered call opportunities.
- An options portfolio based on your current holdings that may have a low cost-basis or consist of a large percent of your holdings, such as company stock. We use options strategies to help provide cash flow from these low-basis positions. We can also help create option strategies that provide a systematic exit plan from highly concentrated positions. We may employ more complicated option techniques for these strategies. These techniques may involve the simultaneous purchase and sale of options at different expiration months and strike prices.

FAAM will vote client proxies for PCS program accounts. You may revoke this authorization at any time by sending us written instructions naming another person who will vote proxies in the account(s). Please see FAAM’s disclosure brochure for information about its policies and procedures for voting client proxies.

The fee schedule for the PCS program is:

Account Size	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Up to \$1,000,000	0.65%	1.35%	2.00%
\$1,000,000 - \$2,500,000	0.65%	1.10%	1.75%
\$2,500,000 - \$5,000,000	0.60%	1.00%	1.60%
\$5,000,000 - \$7,500,000	0.50%	0.75%	1.25%
\$7,500,000 - \$10,000,000	0.45%	0.65%	1.10%
Over \$10,000,000	0.40%	0.60%	1.00%

#### *SEI Investment Management Corp. (“SEI”) Program*

We have entered into an agreement that allows your IAR to offer portfolio management services in an SEI account. SEI is a company that creates mutual funds and mutual fund portfolios. SEI is an unaffiliated registered investment adviser. In the SEI program, your IAR selects the mutual fund allocation for your SEI program account. SEI program accounts are custodied at SEI Private Trust Company, a related firm to SEI Investment Management Corp.

The fee schedule for SEI program accounts is below. Your advisory fee for your SEI program account(s) is negotiable and may be less than the amounts listed in the following table.

Account Size	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Up to \$250,000	0.00%	1.50%	1.50%
\$250,000 to \$499,999	0.00%	1.25%	1.25%
\$500,000 to \$999,999	0.00%	1.00%	1.00%
\$1,000,000 to \$2,499,999	0.00%	0.85%	0.85%
\$2,500,000 and over	0.00%	0.75%	0.75%

In addition to the advisory fee above, you may pay other fees associated with the SEI program, including an annual custodial fee. SEI is not compensated via a program fee. Instead, SEI receives compensation through the underlying fund charges for SEI mutual funds that are included in your portfolio. You may pay less overall if you were to invest in SEI funds in a different program or directly with SEI. SEI program accounts are billed according to SEI’s procedures.

#### *Other Fees*

Based on the activity in your account, you may pay more or less for a managed account than if you had a brokerage account or an account directly with a mutual fund company. Your IAR should be able to discuss with you the benefits of opening a managed account versus a brokerage or mutual fund account.

In your advisory account, you may be charged various fees by the custodian of the account. Our affiliate, First Allied, retains a portion of these custodian fees. Electronic funds and wire transfer fees, transfer taxes, transaction charges, exchange fees, and odd lot differentials are examples of fees that may be charged by the custodian. An account service schedule detailing all these fees will be provided to you upon account opening.

## Item 5- Account Requirements and Types of Clients

Most programs we offer have account minimums (if the program requires an account). We offer wrap programs with a minimum as low as \$15,000. The programs described in this brochure have a minimum investment of \$50,000. If you have questions about the accounts offering a lower minimum, or other wrap fee programs not listed in this brochure, please ask your IAR to provide you with our other wrap fee brochures.

We generally will not allow accounts into a wrap fee program that do not meet the minimum, however we can make exceptions. If the account will have a hired manager, or subadviser, the manager must be willing to take the account below the minimum.

Our IARs open accounts for individuals, high net worth individuals, banking institutions, pension plans, profit sharing plans, charitable organizations, and other corporations and businesses. The majority of these accounts are opened for individuals not considered high net worth individuals.

Our clients may have both advisory accounts and brokerage accounts. Our representatives may offer you advisory services, brokerage services, or both, depending on your needs.

## Item 6- Portfolio Manager Selection and Evaluation

We review each of the managers or platforms that provide the management services that we offer before we allow the manager to be selected in one of our programs. We also conduct an annual review to ensure that the manager is still suitable for our programs. We call these processes “due diligence.”

Our due diligence process for new programs or managers starts with an initial screening process of a registered investment adviser. This consists of a review of data including the amount of assets under management, the ownership structure, and any regulatory or legal issues. We review an adviser against our guidelines, and as appropriate we start a more thorough review of the adviser. A comprehensive questionnaire is completed by the adviser.

Along with reviewing the questionnaire, a more detailed review of the initial data is conducted, including

- The ownership structure,
- Employees, including investment professionals, marketing and client service staff,
- Regulatory, legal and compliance issues of the adviser,
- The manager’s performance, both current and historical, and
- In some cases, the investment adviser’s financial statements.

The program or manager is then presented to our internal review committee for approval.

Our annual review process for existing programs or managers follows along the same guidelines as the initial process. However, unless material information is discovered during this annual review, additional approval is not required to continue the relationship with the investment adviser.

By choosing to invest in one of our programs, you and your IAR are deciding which manager will make investment decisions for your account. Some of our programs only have one choice for portfolio manager. Others give you the ability to choose from a suite of managers. When deciding among managers for these accounts, your IAR will work with you to evaluate which manager(s) will best suit your financial needs and investment objectives.

## Item 7- Client Information Provided to Portfolio Managers

The information that we provide to the managers varies depending on the amount of information the manager requests. Non-public information is information about you that is not available to the public. Your social security number, your net worth, and your annual income are examples of non-public information. Public information is information about you that is readily accessible to the public. Public information may include your name, phone number, and address.

Should you select a program in which FAAM, one of our affiliates, serves as the manager, we will provide FAAM with all identifying information about your account, including non-public information. For accounts in the Elite program, different managers request different information from us to set up the management of your account. We will furnish both public and non-public information to these managers as requested.

For all accounts, your IAR will have access to all of the non-public information you provided when opening the client account. This information is protected in accordance with our Privacy Policy. A copy of our Privacy Policy is available on our website (<http://www.firstallied.com/privacyPolicy.php>). A copy is provided to you after you open an account with us and annually thereafter.

## Item 8- Client Contact with Portfolio Managers

Your IAR serves as the contact point for any questions or changes you have related to your accounts. You may have a better chance of having direct communication with a Prime Manager than a TPAM. The TPAMs are not generally available for you to speak with. However, your IAR may be able to facilitate contact with a manager on your behalf.

## Item 9- Additional Information

### **Conflicts of Interest**

Neither FAAS nor our IARs accept mutual fund trailers in accounts subject to the Employee Retirement Income Security Act (ERISA) or similar rules. This includes IRA, 401k, or other employer-sponsored retirement accounts. These trailers are credited back to the client when received or credited to the balance due for the next advisory fee. However, as a broker/dealer, our affiliate, First Allied, and our IARs who are registered representatives of First Allied's broker/dealer may accept trailers from mutual fund companies in non-ERISA accounts. This presents a conflict of interest in that the receipt of these mutual fund trailers may give your IAR an incentive to recommend mutual funds based on compensation to be received. We encourage our IARs to utilize advisory-share class mutual funds, when appropriate, to avoid these fees.

Your IAR may receive a higher percentage of management fees for certain programs. This presents a conflict of interest in that your IAR may benefit from recommending certain programs based on the difference in compensation he receives. To mitigate this conflict of interest, we require that any program you invest in must be suitable for your investment goals and financial needs. In addition, the increased percentage that your IAR may receive for certain programs will not increase the total advisory fee that you pay for those programs.

The program fee we charge your IAR for a particular program may vary among our IARs. If your IAR is charged a lower program fee, he may receive higher overall compensation even though you would not pay a higher total advisory fee. This presents a conflict of interest to your IAR because he could recommend a program for which he receives a larger portion of the total fee. One way that we address this conflict is by ensuring that the fees you pay for any program are suitable, regardless of your IAR's fee arrangements.

An IAR of ours, Michael Wegner, is part owner of the holding company that owns Howard Capital Management, one of the National Managers in our VIP program. Michael Wegner and possibly the IARs associated with him may have a conflict of interest in recommending the management programs of Howard Capital Management.

You have the option to purchase investment products that our IARs recommend through other brokers or agents that are not affiliated with us.

### **Performance-Based Fees**

Your IAR is not permitted to charge fees based solely on your account's performance.

### **Methods of Analysis, Investment Strategies and Risk of Loss**

#### *Types of Risk*

Various types of risk are involved when investing in securities. Economic risk, market risk, currency risk, inflation risk, liquidity risk, and credit risk are examples of the types of risks your account may be subject to.

#### *Assessing Risk*

While some types of risk can be mitigated by investment strategies, many of these risks cannot be eliminated completely. Your IAR will work with you to make sure that you are comfortable with the risks associated with the type of investments that are in your account.

#### *Risk of Loss*

You should know that all types of securities investing involve risk. Your account value can both increase and decrease over time. You should not invest in any product if you are not prepared to bear a potential loss.

Past performance does not guarantee future results.

#### *Prime Managers*

If your account is managed by one of our Prime Managers, their specific management style is not discussed in this document. You can find information about your IAR's management style and method(s) of analysis in his Form ADV Part 2B disclosure document, which he will provide to you with this brochure. Generally, our Prime Managers use various securities to allocate your portfolio according to a strategy's investment objective. These securities could include stocks, bonds, mutual funds, unit investment trusts, certificates of deposit, Treasury securities, insurance products and alternative investments.

#### *National Managers*

Certain National Managers may be affiliated or related to us or our IARs. If your account is managed by a National Manager, the National Manager is responsible for its own methodology and investment strategy. Information about how your Elite program account

is managed by a National Manager is available in the National Manager's disclosure brochure, which will be provided to you by your IAR.

### **Disciplinary Information**

FAAS and its affiliates have been the subject of various regulatory and disciplinary findings by various states and regulatory bodies. The information in this section may impact your decision to do business with us.

In late 2009, the Securities Division of the state of Indiana found FFP Advisory Services, Inc., and certain principal officers who are now principal officers of FAAS, to be in violation of code 23-2-1 of the Indiana Securities Act. The specific violations involved inadequate and incorrect disclosures for investments in various insurance products. These violations occurred when the principal officers were employed by FFP Advisory Services, Inc., a registered investment adviser. FFP Advisory Services, Inc. was never affiliated with First Allied, FAAS, or AEFC.

After considering the circumstances, FFP Advisory Services, Inc. decided that it was in its best interests to settle the matter with the state of Indiana. As part of the settlement, FAAS agreed to pay a penalty of \$187,500 to the state of Indiana.

In addition to the incident above, certain FAAS IARs have been censured or censured and suspended by non-SEC regulators for violations related to suitability deficiencies, delinquency of payment of state taxes, insurance deficiencies, sales of unregistered securities. In one case, a FAAS IAR's insurance application was denied by a state.

Our affiliate, First Allied has also been the subject of various regulatory and disciplinary findings by various states and regulatory bodies. Although the findings are against our affiliate, First Allied, the following information may be pertinent to your decision to do business with us.

In late 2009, the SEC filed an enforcement action against a former First Allied representative. The SEC alleged that the representative engaged in unauthorized and fraudulent trading in two customer accounts. The SEC also alleged that we violated certain SEC rules and that we failed to reasonably supervise this registered representative.

After considering the surrounding circumstances, we determined that it was in our best interests to settle the matter. The alleged rule violations were in connection with our supervision of the representative and deficiencies in our e-mail system.

As part of the settlement, we agreed to accept a censure and pay disgorgement and interest (approximately \$1.46 million) and a fine (\$500,000). In addition, the SEC's order requires us to cease and desist from committing or causing any future violations of certain books and records provisions. We also agreed to hire an independent consultant to review our policies and procedures and our system for implementing its policies and procedures.

We consented to the issuance of the order without admitting or denying the SEC's findings. A copy of the SEC order is available online at <http://www.sec.gov/litigation/admin/2010/34-61655.pdf>.

In addition to the incident above, First Allied has been censured by multiple state insurance authorities for failing to renew its state insurance licenses. In addition, First Allied has been found to have failed to supervise adequately in certain instances, by non-SEC regulatory bodies. Some of the firms that First Allied has purchased have also been censured by regulatory bodies.

More information on all of these items, and other items not summarized above, can be found on FINRA's BrokerCheck® (<http://brokercheck.finra.org>). Your IAR's disciplinary history can also be viewed on BrokerCheck®.

### **Other Financial Industry Activities and Affiliations**

#### *Broker/Dealer Affiliation*

As mentioned previously, our affiliate, First Allied is broker/dealer. Some of our officers and principals are engaged in business both with our investment adviser and with First Allied's broker/dealer. Some of our officers spend up to 90% of their time on First Allied's broker/dealer activities, and the remaining 10% on our investment advisory activities. Other officers devote 100% of their time to our investment advisory activities. In addition, most of our IARs are affiliated with both our registered investment adviser and the affiliated broker/dealer.

As a broker/dealer, First Allied places trades for clients for the purchase and sale of stocks, bonds, options, mutual funds, variable insurance products, and private placements. First Allied sometimes participates in initial public offerings, and offers our clients the opportunity to participate in private funding through an affiliate. Since the majority of our IARs are registered with First Allied, these services may be available to you if your IAR is also registered with First Allied.

Because we use an affiliated broker/dealer to process some of our business, a conflict of interest exists. The conflict involves the determination of whether advisory business (fee-based) or brokerage business (commission-based) is more suitable for the client. Because we can offer both services to you, we could be conflicted about which business to recommend. We attempt to mitigate this risk by keeping the investment advisory activities totally separate from the broker/dealer activities. Ultimately, our IARs will discuss with you which type of business will best help you meet your goals.

### *Related Financial Industry Entities*

We are also affiliated with other registered investment advisers. Our parent company, AEFC, owns three other investment advisers (besides us):

- Advanced Equities, Inc. ("AEI")
- First Allied Asset Management, Inc. ("FAAM")
- First Allied Securities, Inc. ("First Allied")

We work closely with both FAAM and First Allied. We co-sponsor programs with First Allied and we use FAAM as a third-party asset manager in many of our programs. AEI is both a registered investment adviser and a broker/dealer. Representatives of AEI may act as solicitors to some of the programs that we offer.

A conflict of interest exists due to these affiliations. We attempt to mitigate this risk by ensuring that policies and procedures are in place requiring our IARs to exercise their fiduciary responsibilities when recommending investments to clients. Our IARs' recommendations must only take into account what programs or services are best for clients.

In addition to the firms listed above, AEFC also owns First Allied Retirement Services, Inc. ("FARS"). FARS is a pension administration firm that provides pension services to pension plan sponsors. Neither First Allied nor our IARs receive any compensation for referring clients to FARS. Greenbook Pension Services, Advanced Equities Pension Services, and Associates in Excellence are other names under which FARS operates.

AEFC also owns FASI Insurance Services, Inc. ("FAIS"). FAIS is an insurance general agency that offers insurance products through licensed agents. Most agents offering insurance through FAIS are also First Allied registered representatives.

Our principals, employees and representatives may have responsibilities to any of these listed affiliates. Certain administrative and payroll expenses for employees of any affiliate may be allocated among all of the affiliates. Allocation of these expenses is not determined by assets referred to any affiliate.

Certain affiliates may make markets in securities, and may buy and sell for their own accounts. These affiliates and their personnel may own an interest in or buy or sell for their own accounts, the same securities which may be purchased or sold for the account of advisory clients.

### *Other Financial Industry Activities*

In addition to the related entities noted above, we also conduct business with other investment advisers that are owned or operated by registered representatives of our affiliated broker/dealer. These investment advisers may enter into a selling agreement with us to offer our programs. We are not responsible for supervising or managing these investment advisers.

Some of our IARs may work in a bank or credit union locations. We do not supervise any IAR's bank or credit union responsibilities. If the bank or credit union will receive any fees that you pay, our IARs are required to disclose this to you.

In addition to being investment adviser representatives, some of our IARs are also accountants. We do not supervise their accounting activities. Any tax advice you receive from your IAR is part of an outside business activity and is totally separate from the IAR's affiliation with us.

Some of our IARs may be real estate agents. Activities related to real estate are not undertaken as part of the IAR's representation of our registered investment adviser.

Some of our IARs may be involved in other outside businesses. Activities related to these outside businesses are not undertaken as part of the IAR's representation of our investment adviser. The amount of time that IARs devote to outside business activities varies. Your IAR's outside business activities are reported on the Form ADV Part 2B Brochure Supplement that your IAR will deliver to you when he starts discussing advisory programs and services with you.

We are involved in several industry advocacy groups. These groups generally provide a forum for industry professionals to gather and discuss current and proposed regulations. Our membership in these groups helps us to better educate and supervise our IARs.

## **Code of Ethics**

### *Overview*

Pursuant to SEC rule 204A-1, we have adopted a Code of Ethics ("COE") to establish rules of conduct for all supervised persons. Supervised persons are individuals that are associated with our firm who are involved with offering or providing advisory services. Supervised persons may also include our home office employees. Your IAR and all individuals in your IAR's branch office are supervised persons. The COE recognizes our IARs fiduciary responsibility to clients. The COE instructs our IARs to conduct their affairs in such a manner as to avoid:

- Serving their own interests ahead of clients' interests
- Taking inappropriate advantage of their position
- Engaging in unacceptable actual or potential conflicts of interest



A copy of our COE is available upon request by calling our Compliance department at 800-223-0989.

We do not permit our IARs to solicit for or use discretionary trading authority in any purchases or sales in a security in which that IAR has a material financial interest.

Our supervised persons may, however, invest in the same securities that the IAR or another supervised person recommends to clients. This presents a conflict of interest. This conflict is mitigated by our COE and Compliance Manual. Our IARs are not permitted to disadvantage clients while trading their own accounts. We also have surveillances in place that allow us to ensure that this conflict is avoided.

Our supervised persons are not permitted to recommend to or use discretionary trading authority on behalf of clients at or about the same time that the IAR or another supervised person in the IAR's branch office or responsible for supervising the IAR buys or sells the same securities for their own account(s). This presents a conflict of interest. We have established surveillance systems that check trading patterns between supervised persons and clients. These surveillances allow us to ensure that even if a supervised person unintentionally trades in the same security as a client, the client will not be disadvantaged.

## **Brokerage Practices**

### *Soft Dollar Benefits*

Some firms in the industry receive benefits in exchange for delivering business to a broker/dealer or other third-party. These benefits are known as "soft dollars." Soft dollar benefits are generally defined as benefits (besides normal fees) received from a firm in exchange for doing business with the firm. These benefits may include access to software, hardware, research, and/or office space. We do not receive any soft dollar benefits from choosing the broker/dealer through which we effect trades. However, because we are affiliated with our broker/dealer, we may receive favorable arrangements with certain vendors due to soft dollar benefits our affiliate may receive.

### *Directed Brokerage*

We do not permit clients to direct us to execute transactions through a specified broker/dealer other than First Allied. All client transactions are effected through our affiliated broker/dealer, First Allied. We believe that First Allied allows us to achieve best execution because of their business relationships with Pershing and Fidelity, our access to First Allied's trading department, our ability to rely on First Allied's financial stability, and First Allied's overall service to us and our IARs. Best execution factors include timeliness of execution, trader expertise, better pricing, and responsiveness. In addition, certain advisory programs are only available through us and our affiliates and these programs allow your IAR to offer you a program or service that you cannot obtain elsewhere.

### *Aggregation of Client Trades*

In an effort to both obtain best execution and deliver the best possible service to you, we will aggregate client trades when appropriate. Aggregating trades is generally defined as "bunching" or combining trade orders for the same securities. Aggregating trades will not affect the transaction charges on such transactions. We try to average price our trades, which means that all clients that purchased the same security at the same time receive the same price, regardless of the number of shares. It is not always possible to average price trades, and some clients may receive a better price than other clients based on execution.

When an aggregated trade order cannot be filled completely, we will generally attempt to distribute the shares received proportionately based on the number of shares that were meant for each account. In certain circumstances average pricing an order that has not been filled entirely may not be in the best interest of each client. In these instances we will allocate the shares among the clients in a manner we believe to be fair to each client. We are under no obligation to aggregate trade orders or to average price transactions.

## **Review of Accounts**

As mentioned previously, each of our IARs is supervised by another of our representatives. Advisory accounts are also reviewed by an IAR's supervisor. We have created several different electronic surveillances to aid in this supervision. The surveillances include checks for:

- registration status
- loss in equity of accounts
- inappropriate use of discretionary trading authority
- purchase of low-priced securities
- trading activity in personal accounts
- having an excessive margin balance
- holding a disproportionate amount of a security in an account

Many of these surveillances are run daily and others are run monthly or quarterly. The frequency of the surveillance is determined by the nature of the underlying event. All of the surveillances listed above may not be used on all advisory accounts. We take into account who is managing your advisory account. If one of our IARs is the manager, all of these surveillances will be used. If a TPAM is managing your account, some of these surveillances will **not** be used.



After the end of each calendar quarter, we create and send performance reports to each client that is invested in our PCS program. These reports have performance information about either one account or multiple accounts of the same investor. We only deliver performance reports for accounts that are invested in the PCS program. If you have an Elite program account, Pershing will create and send performance reports to you quarterly.

The reports we create will differ slightly based on which program you have purchased. Generally, we will list the beginning balance of the period, the ending balance of the period, the percentage change in asset level between the beginning and end of the period, and any deposits or withdrawals during the period. There is also information about your account's holdings as of the end of the period, a list of one or more comparable benchmarks, and important disclosure information.

Your IAR may also provide you with reports created by Albridge Wealth Reporting Solutions ("Albridge"). Albridge is a reporting vendor that we have contracted with to enable your IAR to create reports for your accounts. These reports may encompass different information than the quarterly performance reports we deliver to you.

The custodian of your account will also send you account statements on a monthly or quarterly basis. Although the information we provide in the performance reports we deliver to you has been retrieved from sources believed to be reliable, we urge you to compare the holdings listed on the custodian's statement to those listed on reports we deliver to you. Should you note any discrepancies, please contact us at 800-223-0989.

### **Client Referrals and Other Compensation**

Solicitors are individuals who refer clients to an entity with which the solicitor is not affiliated. Solicitor's arrangements allow individuals to receive compensation for referring a client to us. The compensation paid to a solicitor is a portion of the advisory fee that you pay. All solicitor's arrangements that our IARs are involved in must be approved by our Compliance department.

#### *Solicitors to First Allied*

We have solicitor's arrangements with persons who are not our IARs. If a solicitor is going to receive any portion of the advisory fee that you pay, the solicitor will provide you with disclosure when he refers you to an IAR. You will sign this disclosure, acknowledging this fact. We mitigate any conflicts of interest in relation to these arrangements by ensuring that you will not pay higher fees because of the solicitation agreement.

#### *FAAS Acting as a Solicitor*

Our IARs have the ability to refer, or "solicit," clients to other investment advisers. Our IARs can solicit advisory business for FAAS and our IARs can solicit advisory business for unaffiliated investment advisers. These unaffiliated investment advisers must be approved by us before any of our IARs are permitted to refer clients to them. If our IARs are soliciting advisory business for any investment adviser, this will be disclosed to you by issuance of a disclosure statement and a written acknowledgement. We mitigate any conflicts of interest in relation to these arrangements by ensuring that you will not pay higher fees because of the solicitor's arrangement. The investment advisers that we solicit to provide a variety of management services, as outlined in each investment adviser's disclosure brochure. In general, they provide management strategies and investment models to advisory clients. The investment adviser will pay a portion of the advisory fee, as disclosed to you in the written acknowledgement, to us for soliciting clients. We will share a portion of this fee with your IAR. In exchange for this fee, the IAR is providing services including investor profiling, selection of managers, and ongoing account monitoring.

#### *Other Compensation Payable to First Allied*

We offer a wide variety of approved products to our IARs to serve your needs. We have designated a subset of approved products as "Product Sponsors." Product Sponsors offer an assortment of approved products. They also train and educate our registered representatives on products and industry-related topics.

Product Sponsors pay extra compensation to us and our affiliates; however clients do not pay more to purchase these products through us than clients would pay to purchase them elsewhere. This extra compensation is based in part by the total amount of assets that our IARs refer to their products and services. There may be a financial incentive to promote certain products because of this extra compensation. We believe that these relationships do not compromise the advice provided by First Allied registered representatives.

Sometimes we receive payments from firms that are not Product Sponsors to recognize our sales efforts. All companies may pay us in connection with the sale of certain products. They may also pay for training, educational meetings or conferences, and entertainment for our registered representatives, as permitted by industry rules. Additional disclosure and a listing of companies who pay additional compensation to us may be obtained at [www.firstallied.com](http://www.firstallied.com) or by contacting us at 800-223-0989.

Some investments pay higher commissions than others. Commissions on equities are usually greater than those on bonds. Investments in limited partnerships generally pay higher commissions than investments in equities.

### **Custody**

As mentioned previously, we do not custody your account assets. Your account assets are custodied by Pershing. In addition to the reports that you will receive from us, Pershing will also send you account statements. These statements will be sent to you either

quarterly or more frequently. You should review the account statements carefully and compare these account statements with the reports we send to you. Should you note any discrepancies, please contact us at 800-223-0989.

Occasionally, IARs may accept stock certificates from clients and forward them to the broker/dealer for delivery to the client's account with the custodian. Because of this, we meet the regulatory definition of having custody of client securities and are required to hire an independent accounting firm to review our procedures with these certificates. This audit is conducted each year. More information about the results of the audit can be found through the SEC's Investment Adviser Public Disclosure website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), by selecting "Investment Adviser Firm" and typing our name into the "Firm Name" field.

We ask that any checks you write for deposit into your account be made payable to the custodian of your account.

## **Investment Discretion**

### *Overview*

We do not have discretion over your assets. However, when you invest in one of our advisory programs we may attain a trading authorization. Depending on which advisory program you choose, you will grant us one of three levels of trading authorization:

- Limited trading authorization
- Full trading authorization
- No trading authorization

### *Limited Trading Authorization*

Limited trading authorization is automatically granted to us when you invest in the Elite program's Mutual Fund and ETF strategy. Limited trading authorization allows us to make decisions on your behalf regarding purchases and sales of approved investment company securities. Investment company securities include mutual funds, unit investment trusts, and exchange-traded funds.

### *Full Trading Authorization*

Full trading authorization allows us to make decisions on your behalf regarding purchases and sales of equities, fixed income products including bonds and certificates of deposit, options, and any other security traded on a national exchange. We only have full trading authorization in the Individual Equity strategies of the Elite program.

### *No Trading Authorization*

For the PCS program, because your account is managed by FAAM, you do not grant us or your IAR any trading authority. The account agreement that you sign details your designation of discretionary trading authorization to FAAM who is managing your account. In these cases you are granting trading authorization, but not to us or your IAR.

For the FundMAP strategy in the Elite program, you do not grant us or your IAR any trading authority.

## **Voting Client Securities**

We do not accept authority to vote client proxies. However, your IAR is permitted to aid you in the filling out of the client proxies you receive. FAAM will vote proxies on your behalf if your account is managed by FAAM in either the Elite or PCS program. You may revoke this authorization at any time by sending us written instructions naming another person who will vote proxies in your account(s).

## **Financial Information**

### *Prepayment of Fees*

We do not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Generally, advisory fees for account management are paid quarterly in advance. For consulting or financial planning, fees are occasionally prepaid more than six months from delivery of services. In these instances, the amount of prepayment will not exceed \$1,200 per client.

### *FAAS' Financial Condition*

We are required to inform you of any financial conditions that are reasonably likely to impair our ability to meet contractual commitments to you. Currently, there are no financial conditions that would impair our ability to meet our contractual commitments to you. Should any arise, we will notify you according to SEC guidelines.