



## **FORM ADV PART 2A- APPENDIX 1 401(k) SELECT WRAP BROCHURE**



**First Allied Advisory Services, Inc.  
15455 Conway Road, 2<sup>nd</sup> Floor  
Chesterfield, MO 63017  
800-925-3371  
<http://www.firstallied.com>**

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

Additional information about and 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

The following items explain material changes that you should be aware of as a current or prospective client of First Allied Advisory Services, Inc. advisory programs or services. Each year you will receive either a summary of material changes that were made to the brochure over the previous year or an updated brochure. You can always request a full copy of any of our current disclosure brochures by calling 800-223-0989.

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

- ***Legend Group Acquisition***

In January 2013, First Allied Holdings Inc. closed its acquisition of Legend Group Holdings, LLC, a holding company that owns Legend Advisory Corporation, a registered investment adviser, Legend Equities Corporation, a registered broker-dealer, LEC Insurance Agency, Inc., an insurance general agency, and Advisory Services Corporation, an administrative agent for a trust company. This acquisition does not currently affect any of the services First Allied Advisory Services provides to its clients.

- ***Management Change***

In December 2012, Robin Rodermund became President and Chief Executive Officer of First Allied Advisory Services. Ms. Rodermund previously served as the Chief Operating Officer of First Allied Advisory Services and has been with the company since its inception.

- ***Consolidation Completed***

First Allied Securities, Inc., a registered investment adviser and broker-dealer, has transferred its investment advisory business to its affiliate, First Allied Advisory Services, Inc., as of June 30, 2012. Both firms are wholly owned subsidiaries under the ultimate ownership of First Allied Holdings. Clients that were affected by this consolidation received notice of this transfer on or around April 30, 2012, sixty (60) days prior to the consolidation date. This notice provided information regarding how clients were impacted and what their options were. First Allied Securities continues its business as a registered broker-dealer and remains a wholly-owned subsidiary of First Allied Holdings and affiliated with First Allied Advisory Services. While First Allied Securities will remain registered as an investment adviser, we anticipate conducting limited retail business through this entity.

- ***Miscellaneous Changes***

As a result of the aforementioned consolidation, First Allied Advisory Services now offers several new advisory programs that it did not offer before. However, these programs are generally not available to IARs that did not previously have access to them. In addition, certain FAAS IARs may pay account fees charged by the custodian of their client's account. Other operational processes have changed due to this consolidation, but the servicing of client accounts should not be affected.

- ***Management Change***

In March 2012, Craig Junkins, a senior member of the management team at First Allied Advisory Services, Inc. and affiliate First Allied Securities, Inc., announced his resignation from the management team. Mr. Junkins will continue to be associated with us as a consultant providing advice on our recruiting efforts, investment banking, and project-based initiatives.

- ***Ownership Change***

On November 1, 2011, First Allied Securities, Inc. and First Allied Advisory Services, Inc. were acquired by First Allied Holdings, Inc. ("Holdings"). Holdings is controlled by Lovell Minnick Partners, LLC, an independent private equity firm providing equity capital for leveraged buyouts and private company recapitalizations and growth capital for developing companies. In the same transaction, Holdings also acquired affiliates First Allied Asset Management, Inc. and First Allied Wealth Management, which itself owns First Allied Retirement Services, Inc. and FASI Insurance Services, Inc. While the ultimate ownership has changed for each of these firms, the management structure for each of these firms remains the same.

- ***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. We have several wrap fee brochures. This brochure details only some of our wrap programs. If you would like to receive additional wrap brochures, or any of our non-wrap program brochures, please speak to your financial advisor.

## Item 3- Table of Contents

Item 1- Cover Page .....	1
Item 2- Summary of Material Changes.....	2
Item 3- Table of Contents .....	3
Introduction .....	4
Item 4- Services, Fees and Compensation .....	6
Item 5- Account Requirements and Types of Clients.....	8
Item 6- Portfolio Manager Selection and Evaluation .....	8
Item 7- Client Information Provided to Portfolio Managers.....	8
Item 8- Client Contact with Portfolio Managers .....	9
Item 9- Additional Information .....	9

## Introduction

The 401(k) Select advisory program is sponsored by First Allied Advisory Services, Inc., a registered investment adviser. Clients of the 401k Select program are 401(k) retirement plans. This wrap brochure details only the 401(k) Select program. FAAS offers other wrap and non-wrap programs that are described in separate brochures. Your financial advisor will provide you with the appropriate brochures describing these programs upon your request. Throughout the remainder of this text, “we,” “us,” and “our” refers to FAAS.

### *FAAS’ Background*

FAAS, a Delaware corporation, is an investment adviser registered with the 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 for investment advisers 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. Representatives of FAAS may also be registered as independent contractor registered representatives with First Allied Securities, Inc., an affiliated broker-dealer, to allow them to offer brokerage products to clients. Compensation for brokerage products is a commission based on each transaction executed. Representatives of First Allied are registered to conduct brokerage business in each state where clients reside.

FAAS is not a custodian of any accounts. Accounts for the 401(k) Select program are custodied at MG Trust. Accounts for other wrap and non-wrap programs that FAAS offers are custodied at Pershing, LLC (“Pershing”), J.P. Morgan Clearing Corp (“JP Morgan”), 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 and may only be approved for certain subsets of our representatives. The majority of FAAS’ advisory accounts are introduced to custodians through First Allied.

### *Our Corporate Structure*

FAAS has approximately 750 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. We provide services to you and your IAR through these advisory programs.

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 vary from one advisory program to another. This presents a conflict of interest for our IARs because they may have an incentive to recommend advisory programs that may be more profitable to them. Additional information about this conflict of interest is included in Item 9-Additional Information, starting on page 9.

Our back office operations are split between San Diego, CA and Chesterfield, MO. 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 often IARs and representatives themselves. DSPs are our employees and are generally located in our San Diego office.

### *Our Principal Officers*

Adam Antoniadis is the Chief Executive Officer of First Allied. He was formerly employed with First Allied as President, CEO and Corporate Secretary from 1994 until 2004. Mr. Antoniadis also served as President of Advanced Equities Financial Corp. 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 and has served in an executive leadership position with First Allied since 2005. Mr. Marks is primarily responsible for First Allied’s industry relationships, strategic partnerships, business development, and strategic planning efforts. Mr. Marks previously served as Vice Chairman and Chief Operating Officer of AEFC and was a co-founder of JWGenesis Financial Corp. where he served as its Vice Chairman and Chief Operating Officer until it was acquired by First Union (and is now known as Wells Fargo Securities Financial Network) in January 2001. Following the acquisition, Mr. Marks served as Senior Managing Director of Wachovia Securities (which subsequently changed its name to Wachovia Securities) through May 2002.

Gregg Glaser currently serves as the Chief Financial Officer of Holdings. Mr. Glaser previously served as the Chief Financial Officer of Advanced Equities Financial Corp. from 2004 until 2011. Mr. Glaser also formerly served as the Chief Financial Officer of Wachovia Securities Financial Network.

Robert J. Moses is Senior Managing Director and General Counsel for First Allied. Mr. Moses has been with First Allied since 1994. Mr. Moses previously served as Associate General Counsel of Josephthal & Co. Incorporated, which he joined in 1991.

Robin H. Rodermund currently serves as the President and Chief Executive Officer of FAAS. Previously, Ms. Rodermund served as Chief Operating Officer of FAAS. Ms. Rodermund began working for FFP Securities, Inc. and FFP Advisory Services, Inc. in 1990.

Luanne Borowski, Managing Director of Investment Advisory Compliance, has been the Chief Compliance Officer of First Allied’s investment adviser since February 2007 and Chief Compliance Officer of FAAS since July 2010. Since February 2007, Ms. Borowski has also served as Chief Compliance Officer of First Allied Asset Management, Inc. Ms. Borowski joined First Allied as an

investment advisory compliance analyst in February 2002. Ms. Borowski served as Chief Compliance Officer of Asset Planning Solutions, a broker-dealer, and Ken Stern & Associates, a registered investment adviser, from August 2000 until January 2002.

Janice Doza is the Chief Financial Officer of FAAS and has served in that position since June 2008. Ms. Doza also became the Chief Financial Officer of First Allied in March 2011. 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.

#### *Devotion of Resources*

Most FAAS IARs are independent contractor registered representatives with First Allied. If your IAR is a registered representative, he may 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 industry. Your IAR will provide you with a copy of his Form ADV Part 2B brochure supplement, which describes his business background and outside business activities.

#### *Our Advisory Activities*

Through our IARs, we offer a variety of investment advisory products 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 representatives, 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 section of Item 9-Additional Information, starting on page 9.

Our IARs are permitted to offer you advisory programs that are managed by themselves or by a third-party manager. The third-party manager may be a related party or an unrelated party. The fund selection and account management in the 401(k) Select program is done by an affiliated third-party manager, First Allied Asset Management ("FAAM").

We consider your investment goals and needs when recommending any advisory program or service. Your IAR will collect information from you regarding your risk tolerance, investment objective(s), and investment time horizon and other factors that will assist us in determining your investment objective for each account. You may have multiple accounts with us, with differing investment objectives, particularly if you intend to use certain accounts for specific purposes (such as transferring assets to a young child, many years in the future). If you would like multiple accounts to be managed under one investment objective, please ask your IAR to discuss the advisory programs we offer on the Guided Portfolio Solutions platform, which are described in other brochures.

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.** You may impose reasonable investment restrictions in any of our advisory programs by written notification to and acceptance of both us and the third-party manager (if applicable).

We offer both wrap and non-wrap programs. A wrap program is one in which you pay a single "wrapped" fee for both investment advisory and brokerage execution services. 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 may be subject to charges for each transaction in addition to the advisory fee. Because wrap programs do not have fees or charges associated with each transaction, wrap fees may be higher for similar services than non-wrap fees.

The 401k Select program is a wrap program. 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 brochures. 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. It is your responsibility to notify your IAR if your financial circumstances change so that your IAR may work with you to determine if a change in your investment(s) may benefit you. Your IAR is also responsible for the ongoing review of your account(s) and regular communication with you.

### *Managed Assets*

Every year we calculate the amount of assets that we manage. As of December 31, 2011, we managed:

- \$2,573,483,848 in discretionary assets
- \$636,991,210 in non-discretionary assets

Discretionary assets are the assets with which we have the authority to determine whether to buy or sell securities. This authority is called a trading authorization and is described in more detail in the Investment Discretion section of Item 9- Additional Information, starting on page 9. Non-discretionary assets are assets in accounts that we provide recommendations on, as to the purchase or sale of specific securities. We do not place orders to buy or sell non-discretionary assets without first receiving your authorization.

## Item 4- Services, Fees and Compensation

### *Fee Overview*

The fees that we charge for advisory programs or services 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.

401(k) Select program accounts are charged a quarterly advisory fee based on the account's average balance for each calendar quarter (ending March 31, June 30, September 30, and December 31). The average balance is calculated by taking the account's average balance as of the first and last business day of each calendar month for the quarter and multiplying this number by one quarter of the annual fee. If the last day of the calendar quarter falls on a day that the New York Stock Exchange is closed, the account balance on the last business day of the calendar quarter is used in the calculation of the advisory fee. This fee is charged in arrears for the services provided over calendar quarter. Plan participants will only be charged an advisory fee for the portion of a quarter that the account receives advisory services. For new accounts, the account will be billed for the remaining days in the quarter. For accounts that are closing, participants will only pay fees for the portion of the quarter that the account was receiving advisory services. Fees for deposits and contributions to the 401(k) Select program account are prorated.

Advisory fees are deducted directly from the account. The account statements plan participants receive from MG Trust will reflect the deduction of these fees. Fees are deducted from the accounts in the month following quarter end.

### *Program Fees*

For the 401(k) Select program, the program fee is split between us and FAAM. A portion of the program fee is also paid to service providers that we hire to help us administer the 401(k) Select program. This program fee is not negotiable. However, the program fee may be different based upon your IAR's relationship with FAAS and/or its affiliates. For example, we may allow your IAR to have a lower program fee because his clients' combined accounts exceed a certain amount of assets under management. If your IAR has a reduced program fee, this will not change the total 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 9). Program fees are subject to change without notice, but these changes do not affect the fee that you pay to us.

### *Management Fee*

The management fee is paid to the IAR servicing the account. You and your IAR will negotiate this fee for each program account and it may not be the same for each account. It may also be different than the fees your IAR has negotiated with other clients. We retain a portion of the management fee as compensation for various services that we provide to your IAR and to you.

### *Total Advisory Fee*

You and your IAR will agree on your total advisory fee for each account prior to establishing the account. The total advisory fee is the sum of the program fee and the management fee. At any time, you and your IAR may agree to amend the original fee and submit a new statement of investment selection with a different total advisory fee listed. There are maximum allowable advisory fees for each program and we will not allow you to be charged more than this amount. The maximum allowable advisory fee may differ among programs, but is consistent for each IAR. This maximum advisory fee is noted on the investment advisory agreement and in the fee schedules listed in this section.

### *Fee Schedules*

Each advisory program that requires an investment account 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. In the 401(k) Select program, the amount of your advisory fee, as a percentage, will remain the same regardless of the size of your account. Your advisory fee will not increase, as a percentage, as your account balance increases. Fee schedules and other information about account charges for the 401(k) Select program are listed below.

#### **401(k) Select Program**

By choosing the 401k Select program, your plan receives two distinct types of services: Single Asset Class Fund (“SACF”) selection and portfolio management of a company-sponsored 401(k) plan account (Professionally Managed Portfolio (“PMP”)). As trustee, you work with us and FAAM to establish the SACF selection for your company’s retirement plan. By working with us to establish a list of mutual funds available to your plan’s participants, you are allowing plan participants to create their own portfolios.

Your plan’s participants also have the option of choosing PMP. By choosing PMP, participants are opting to have their company-sponsored retirement plan account managed by FAAM. PMP allows plan participants to choose from five different asset allocation models (portfolios): Conservative, Conservative Growth, Moderate Growth, Growth, and Aggressive Growth. Each of these models is actively managed by FAAM. FAAM’s management style for each asset allocation model provides broad diversification across most major asset classes through the purchase of a basket of selected mutual funds. The portfolios include a consistent allocation to stocks, bonds, and alternative assets. A description of each of the asset allocation models follows.

#### *Conservative Portfolio*

The Conservative portfolio represents the most conservative asset allocation model offered in the 401(k) Select program. The Conservative portfolio is allocated to approximately 20% equity/80% fixed income, prioritizing capital preservation over appreciation. The Conservative portfolio is most appropriate for clients with below average risk tolerance and/or approaching retirement.

#### *Conservative Growth Portfolio*

The Conservative Growth portfolio is allocated to approximately 40% equity/60% fixed income, seeking both capital preservation and appreciation. The Conservative Growth portfolio is most appropriate for clients with slightly below average risk tolerance and/or that are starting to near retirement.

#### *Moderate Growth Portfolio*

The Moderate Growth portfolio is allocated to approximately 60% equity/40% fixed income, seeking both capital appreciation and preservation. The Moderate Growth portfolio is most appropriate for clients with slightly above average risk tolerance and/or many years until retirement.

#### *Growth Portfolio*

The Growth portfolio is allocated to approximately 80% equity/20% fixed income, prioritizing capital appreciation over preservation. The Growth portfolio is most appropriate for clients with above average risk tolerance and/ or that are far from retirement.

#### *Aggressive Growth Portfolio*

The Aggressive Growth portfolio represents the most aggressive asset allocation model offered in the 401(k) Select program. The Aggressive Growth portfolio is allocated to approximately 97.5% equity/2.5% fixed income, prioritizing capital appreciation over preservation. The Aggressive Growth portfolio is most appropriate for clients with above average risk tolerance and/or that are far from retirement.

#### *Information on All Portfolios*

Although each of the portfolio descriptions listed above detailed an optimal allocation of equity and fixed income holdings, each portfolio’s allocation will vary over time. This variance is generally due to either market movement or FAAM’s outlook on the market or economy. There is no account minimum for 401(k) Select program accounts.

When plan participants enroll in your company’s plan, they will choose to either invest in the mutual funds selected as part of the SACF selection or participate in our PMP option. The SACF and PMP options have different fee schedules. Both the SACF and PMP advisory fees are “flat” fees, meaning that the account is billed the same percentage regardless of the account balance.

Single Asset Class Fund fee schedule:

Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
0.05%	1.10%	1.15%

Professionally Managed Portfolio fee schedule:

Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
0.25%	1.15%	1.40 %

### *Other Fees*

Mutual funds often charge investors additional advisory or management fees for the services provided by the fund manager. FAAS, First Allied, and our IARs do not accept mutual fund trailers in 401(k) Select program accounts. In some of our other wrap and non-wrap programs, First Allied does accept mutual fund trailers in non-ERISA accounts.

Your account may be subject to other fees charged by the custodian of your account. Electronic funds and wire transfer fees, transfer taxes, account maintenance fees, margin fees, transaction charges, exchange fees, and odd lot differentials are examples of fees that may be charged by the custodian. These fees are charged by the custodian and are not included in the advisory fee that you pay to us for management of your account. In some cases, certain of these custodian fees may be paid by your IAR, on an account by account basis. Your IAR is not required to pay these fees on your behalf and your IAR may elect to not pay for any or all fees for each of his clients' accounts.

### *Verification of Fees*

You are always responsible for verifying that the fee you are charged is accurate. The custodian will not determine whether the fee is properly calculated. Should you find an error, please contact your IAR immediately. If you are not satisfied with the action your IAR takes, you may contact us at the number on the cover page of this document.

## Item 5- Account Requirements and Types of Clients

Most programs we offer have account minimums (if the program requires an account). 401(k) Select program accounts do not have a minimum account size requirement. If you have questions about wrap programs not described in this brochure, please ask your IAR to provide you with our other wrap fee brochures.

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.

401(k) Select program accounts are only available to participants of company-sponsored retirement plans whose plan sponsor or trustee have contracted with us to provide advisory services through the 401(k) Select program.

## Item 6- Portfolio Manager Selection and Evaluation

A review is conducted of each third-party manager or platform that provides management services to our clients. We call this process "due diligence." Our due diligence process starts with the third-party manager completing a comprehensive questionnaire designed to provide us with information about the third-party manager and its investment process. We review each third-party manager based on guidelines we have developed to allow us to offer you reputable management, based largely on its answers to the questionnaire.

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

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

We have an internal review committee that reviews this information and decides if the third-party manager will be approved to manage our program accounts. We also conduct interim reviews of the third-party managers we have previously approved. Our review process follows the same general guidelines as the initial process, including the third-party manager completing a questionnaire. Unless material information is discovered during this review, additional approval is not required to continue the relationship with the third-party manager.

FAAM is the only choice for portfolio manager for the 401(k) Select program. By choosing our 401(k) Select program, you are allowing your plan's participants to select FAAM as their portfolio manager. In addition, you are electing to have FAAM create a suite of funds from which your plan's participants can create their own portfolio. Other programs that we offer give you the ability to choose from a selection of managers. These other programs are detailed in separate disclosure brochures that your IAR can provide to you upon request.

## Item 7- Client Information Provided to Portfolio Managers

For most of our programs, 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.

If you select the 401(k) Select program, we may provide FAAM with identifying information about your account, including non-public information. For all accounts, including those in the 401(k) Select program, 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. FAAM is not generally available for you to speak with. However, your IAR may be able to facilitate contact with the manager on your behalf.

## Item 9- Additional Information

### Conflicts of Interest

Your IAR will receive compensation as a result of your participation in the programs described in this brochure. The amount of this compensation may be more or less than the amount of compensation your IAR would receive if you were to pay separately for investment advice, brokerage, and other services. However, we attempt to design all of our advisory programs with pricing competitive with what a client might pay for investment advice, brokerage, and other services separately.

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. If your IAR qualifies for reductions in the program fee paid to us, which results in additional compensation to your IAR, your total advisory fee will not exceed the stated minimum for the programs.

Your IAR may also be registered as an independent contractor registered representative with First Allied. This may create a conflict in that your IAR may be able to choose between offering you advisory programs or services and brokerage products. The amount and manner of compensation that your IAR receives in either of these capacities presents a conflict of interest. To mitigate this conflict of interest, we require that any advisory program or advisory service that you are offered is suitable for your investment goals and financial needs. First Allied conducts suitability reviews for product solicitations.

Your IAR may have a material financial interest in certain securities. 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. Your IAR may purchase or sell the same security he solicits for or uses discretionary trading authority for his client accounts as long as he does not have a material financial interest in the security. This presents a conflict of interest. Our Code of Ethics mitigates this conflict by detailing policies designed to ensure that clients are not disadvantaged by an IAR's trading activity.

Neither First Allied nor our IARs accept mutual fund trailers in the BSAN program. However, in certain other advisory programs that we offer, our IARs and First Allied do accept mutual fund trailers in accounts not subject to the Employee Retirement Income Security Act (ERISA) or similar rules. ERISA accounts include IRA, 401k, or other employer-sponsored retirement accounts. In all our programs, trailers from ERISA accounts are credited back to the client when received or credited to the balance due for the next advisory fee. However, we and our IARs will accept trailers from mutual fund companies in non-ERISA accounts. Receipt of these trailers in other advisory programs 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 help mitigate this conflict of interest by ensuring that the mutual fund sponsor companies that we have agreements with each have versions of advisory-share class mutual funds that are available for use, when appropriate, to avoid these fees. Your IAR is not required to use advisory share class mutual funds in your account.

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

Certain of our IARs and employees have an ownership interest in Holdings, which presents a conflict of interest with respect to their selection of advisory programs and services in that certain programs and services are more profitable to Holdings and its subsidiaries than other programs and services. As owners of Holdings, these individuals have an interest in its highest profitability. We help mitigate this conflict by requiring that all IARs and employees abide by our Code of Ethics, which is described more fully in the Code of Ethics section of this Item, starting on page 12.

### Performance-Based Fees

Performance-based fees are fees that are based on a share of capital gains on or capital appreciation of the assets in an account. Your IAR is not permitted to charge performance-based fees.

## **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 to which your account may be subject.

### *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.

### *Management Philosophy*

401(k) Select program accounts are managed by FAAM. You can find information on FAAM's methods of analysis and investment strategy by reviewing FAAM's Form ADV Part 2A disclosure brochure, which your IAR will provide to you when this brochure is given to you.

## **Disciplinary Information**

FAAS and its IARs 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 or FAAS. 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, FFP Advisory Services, Inc. agreed to pay a penalty of \$187,500 to the state of Indiana.

In 2011, FAAS entered into a Consent Agreement with the Securities Division of the State of Indiana, whereby FAAS resolved allegations regarding violations the Indiana Uniform Securities Act, Ind. Code 23-19-1, concerning the registration of certain investment adviser representatives in the State of Indiana. Without admission or finding of a violation, FAAS paid a fine in the amount \$9,000, and a reimbursement payment of the cost of the investigation in the amount of \$1,000.

In addition to the incidents above, certain FAAS IARs have been censured or censured and suspended by non-SEC regulators for violations related to suitability deficiencies, supervision deficiencies, marketing approval deficiencies, improper disclosure of outside business activities, continuing education 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. At least one of our IARs has been charged with, but not convicted of, a non-investment related felony in the last ten years; at least one of our IARs has been charged with and convicted of a non-investment-related misdemeanor charge.

### *Affiliated Broker-Dealer*

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

After considering the surrounding circumstances, First Allied Securities determined that it was in its best interests to settle the matter. The alleged rule violations were in connection with First Allied Securities' supervision of the representative and deficiencies in its e-mail system. As part of the settlement, First Allied Securities 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 First Allied Securities to cease and desist from committing or causing any future violations of certain books and records provisions. First Allied Securities also agreed to hire an independent consultant to review its policies and procedures and its system for implementing policies and procedures.

First Allied Securities 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>.

### *Additional Information*

More information on all of these items, and other items not summarized above, can be found on FINRA's BrokerCheck® (<http://brokercheck.finra.org>). The Form ADV Part 2B brochure supplement that your IAR will provide to you along with this

document contains information regarding any disciplinary items that we deem material to your decision to select your IAR to provide you with advisory services. Additional information about your IAR's disciplinary history can also be viewed on BrokerCheck®.

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

#### *Broker-Dealer Affiliation*

First Allied is an affiliated broker-dealer that we use to introduce accounts to custodians. Because First Allied is owned by Holdings, many of its officers and principals are engaged in business both with First Allied and us. Some of our officers spend up to 90% of their time on First Allied activities, and the remaining 10% on FAAS activities. Other officers devote 100% of their time to FAAS activities.

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. Since the majority of our IARs are registered with First Allied, these services may be available to you if your IAR is a registered representative. Because most of our IARs are registered to offer you both advisory programs and services and brokerage products, a conflict of interest exists. The conflict involves the determination of whether advisory business (fee-based) or brokerage business (commission) is more suitable for the client. Because most of our IARs can offer both, your IAR could be conflicted about which business to recommend to you. We attempt to mitigate this risk by reviewing the suitability of the advisory program selected by each client. Ultimately, our IARs will discuss with you which type of business will best help you meet your goals.

You may have brokerage accounts with First Allied. The main differences between an advisory account and a brokerage account are the form of payment, the use of discretionary authority, and our level of responsibility to ensure the transaction is appropriate for you. In an advisory account, you will pay an advisory fee based on the amount of assets in the account; in a brokerage account, you will pay a commission for each transaction. In an advisory account, you may grant us, your IAR, or a third-party discretionary trading authorization that allows us to place securities transactions on your behalf without notifying you prior to placing the transaction; in a brokerage account, we will discuss each transaction with you prior to placing the transaction. Having discretionary trading authorization allows us, your IAR, or the third-party to act quickly on your behalf should there be an opportunity that would benefit you. The non-discretionary benefits of a brokerage account are that you have to approve each trade before it is placed on your behalf.

As a broker-dealer, First Allied buys and sells securities in its own accounts in order to facilitate the trading activities of its clients. First Allied also buys and sells securities on behalf of other clients. First Allied's main activities include retail and institutional client services. First Allied uses its own execution services for advisory clients and brokerage clients, for accounts custodied at Pershing or JP Morgan, though, for certain advisory programs not described in this brochure, First Allied uses vendors' execution services. For more information about conflicts of interest arising from our affiliation with First Allied's broker-dealer, please see Item 9- Additional Information, starting on page 9.

First Allied is dually registered as an investment adviser. From time to time, advisory business is conducted through this investment adviser on a limited basis. Some of the advisory programs offered through this investment adviser may be similar to program offered through FAAS. For additional information, request a Form ADV Disclosure Document for First Allied.

#### *Other Related Financial Industry Entities*

In addition to us and First Allied, our parent company, Holdings, owns two other investment advisers: First Allied Asset Management, Inc. ("FAAM") and Legend Advisory Corporation. We use FAAM as a third-party manager in many of our programs. 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 each client.

In addition to FAAM and Legend Advisory Corporation, Holdings also owns First Allied Retirement Services, Inc. ("FARS"), FASI Insurance Services, Inc. ("FAIS"), Legend Equities Corporation, LEC Insurance Agency, Inc., and Advisory Services Corporation. FARS is a pension administration firm that provides pension services to pension plan sponsors. Our IARs do not receive any compensation for referring clients to FARS. Greenbook Pension Services is another name under which FARS operates. FARS owns Associates in Excellence, which is another pension administration firm that provides pension services to pension plan sponsors.

FAIS is an insurance general agency that offers insurance products through licensed agents. Many agents offering insurance through FAIS are also First Allied registered representatives. Legend Equities Corporation is a broker-dealer registered with FINRA. LEC Insurance Agency, Inc. is an insurance general agency. Advisory Services Corporation is an administrative agent for a trust company. Neither we, nor FAAM, nor First Allied offer any Legend Advisory Corporation, Legend Equities Corporation, and/or Advisory Services Corporation products or services.

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.

### *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 First Allied. These investment advisers may enter into an agreement with us to offer our programs. We are not responsible for supervising or managing these investment advisers beyond their representatives' activities with First Allied.

Some of our IARs may work in 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. 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 us.

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 involved in other outside businesses. Activities related to these outside businesses are not undertaken as part of the IAR's representation of us. The amount of time that IARs devote to outside business activities varies. Your IAR's material 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 is a supervised person. 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.

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 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). 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.

### *Directed Brokerage*

We do not permit clients to direct us to execute transactions through a specified broker-dealer other than First Allied. We believe that First Allied allows us to achieve best execution because of their business relationships with Pershing and JP Morgan, 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*

We are under no obligation to aggregate trade orders or to average price transactions. ExpertPlan, Inc., an unaffiliated vendor, conducts all the trading for 401(k) Select program accounts and trades will be aggregated according to its policies and procedures.

## Review of Accounts

As mentioned previously, each of our IARs is supervised by another of our representatives or an employee. Advisory accounts are 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 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 third-party manager is managing your account, some of these surveillances will not be used.

Your IAR may 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 include information about brokerage accounts, variable annuities and alternative investments. There may be discrepancies in the pricing of securities between Albridge reports, the performance reports we prepare for you, and the statements you receive from your custodian. These discrepancies may be the result of different calculation and reporting methods between Albridge, our reporting vendors, and your custodian. If you have a question about a discrepancy or any other aspect about any of these reports, you should direct it to your IAR. If you are not satisfied with your IAR's explanation, please contact us at 800-223-0989.

The custodian of your account will also send you account statements on a monthly or quarterly basis. Although the information we provide in the Albridge 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 the Albridge reports your IAR may deliver to you. Should you note any discrepancies, please contact us at 800-223-0989. In addition, the reports that your IAR delivers to you should not be relied upon for tax calculations or any other legal representation.

## Client Referrals and Other Compensation

Solicitors are individuals who introduce clients to an investment adviser 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 solicitation arrangements that our IARs are involved in must be approved by our Compliance department. Your advisory fee will not increase if a solicitor refers you to us.

### *Solicitors to FAAS*

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 that you know a payment is being made for the introduction. We conduct a background check on solicitors to ensure they have not been disqualified from the securities industry. 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 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 both affiliated investment advisers and unaffiliated investment advisers. 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. The investment advisers that we solicit for 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 Us*

We and our affiliates 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 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 on 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. Because IARs do not receive direct financial benefit from recommending Product Sponsors to you, we believe that these relationships do not compromise the advice provided by our representatives.

Sometimes we and our affiliates receive payments from firms that are not Product Sponsors to recognize our sales efforts. All companies may pay us and our affiliates in connection with the sale of certain products. This compensation may include such items as gifts valued at less than \$100 annually, an occasional dinner or ticket to a sporting event, or reimbursement in connection with educational meetings or marketing or advertising initiatives. They may also pay for training, educational meetings or training events, conferences, and entertainment for our representatives and/or clients, 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 in the “Review of Accounts” section, we do not custody your account assets. Your account assets are custodied by MG Trust. MG Trust will send you account statements either quarterly or more frequently.

Occasionally, IARs may accept stock certificates from clients and forward them to First Allied for delivery to the client’s account with the custodian. In the course of business development, we may obtain custody in other forms that are not disclosed here but will be disclosed to our independent auditor. Because of these activities, we meet the regulatory definition of having custody of client securities and are required to hire an independent accounting firm to review our procedures. 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.”

### **Investment Discretion**

#### *Overview*

We do not have discretionary authority over your assets. However, when your plan’s participants invest in our 401(k) Select program’s PMP option, they are granting FAAM full trading authorization over their company-sponsored retirement plan account. Full trading authorization allows FAAM to make investment decisions regarding the asset allocation of participant accounts without prior consent. We (First Allied and FAAS) do not have any trading authority over your plan’s participants 401(k) Select program accounts.

### **Voting Client Securities**

We do not accept authority to vote client proxies. For 401(k) Select program accounts, the 401(k) retirement plan’s trustee will retain the authority to vote proxies. FAAM does vote client proxies in certain other programs in which it provides portfolio management services. Information about FAAM’s proxy voting policy is available in FAAM’s Form ADV Part 2A disclosure brochure that your IAR has provided to you.

### **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.

#### *Our 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.