

## Item 1. Cover Page

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

March 20, 2018

#### **Cornerstone Select Advisors, LLC**

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This brochure provides information about the qualifications and business practices of Cornerstone Select Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at [info@csastl.com](mailto:info@csastl.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any State Securities Commission. Registration with the SEC or State Regulatory Authority does not imply a certain level of skill or expertise.

Additional information about Cornerstone Select Advisors, LLC, is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2. Material Changes

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

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## Item 4. Advisory Business

### A. Description of Your Advisory Firm

Cornerstone Select Advisors, LLC ("CSA"), is a Missouri limited liability company and an investment adviser registered with the State of Missouri that provides discretionary asset management services to its clients. CSA is principally owned by Doyle Gustus, CSA's Managing Member. CSA has been offering investment advisory services since June 2007.

### B. Description of Advisory Services Offered

#### B.1. Discretionary Asset Management Services

CSA employs a top-down investment strategy using value-based metrics with a technical trading overlay. Current and future economic conditions are evaluated to determine the markets and sectors' ability to produce positive returns. CSA invests in companies that, in its view, have a high probability of outperforming companies in their peer group. Individual security selection is made through the analysis of cash flow, invested capital, and a "peer group-derived capital charge" to arrive at an "economic value" for each position.

In addition, CSA reviews a variety of quantitative criteria and various company-specific factors, such as market capitalization, earnings, price/earnings ratios, price-to-book ratios, trend analysis, and other related criteria. Once individual positions are identified, an array of technical indicators is used to establish the optimum entry points for each of those positions. Up-front target prices are set for each position, which may be modified depending on how new data affects the economic value. Portfolios are monitored in real time, with positions being reexamined on a regular basis to ensure the accuracy of the selection and to safeguard the portfolio.

CSA offers the following investment strategies utilizing the aforementioned value investment methodology with a technical trading overlay:

- *Cornerstone Total Return Portfolio ("TRP")* – This strategy is an all-cap portfolio which invests primarily in U.S. equities, although we may hold different asset classes based on economic and market conditions. The objective is to provide consistent market outperformance while taking the least amount of risk necessary to achieve superior results.
- *Cornerstone U.S. Equity and Foreign Stock Blend Portfolio* – This strategy invests in large-cap U.S. equities and ADRs (American Depositary Receipts). The target allocation for this portfolio is 50/50.
- *Customized Portfolio* – CSA has the ability to customize a specific portfolio for a client and will work with the client to develop an asset allocation that meets the client's precise objectives and risk tolerance.
- *Qualified Dividend Portfolio* – This strategy invests in equity securities that provide qualified dividends as well as dividend growth to clients.

CSA's discretionary asset management services are predicated on the client's investment objectives, goals, tolerance for risk, and other personal and financial circumstances. In addition to providing CSA with this information, clients are required to provide CSA with any reasonable investment restrictions that should be imposed on the management of their portfolio, and to promptly notify CSA of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals, and tolerance for risk. On a quarterly basis, CSA's reports to clients will remind clients of their obligation to inform CSA

of any such changes or any restrictions that should be imposed on the management of the client's account. CSA will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives, and tolerance for risk.

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

Each client's account will be managed on the basis of the client's financial situation and investment objectives and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be purchased in the portfolio.

### **D. Wrap Fee Programs**

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

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

As of December 31, 2017, CSA has \$118,822,480 million in discretionary client assets under management and \$0 in non-discretionary client assets under management.

## Item 5. Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### A.1. Asset Management Fees

The annual fee for services provided by CSA will be charged as a percentage of assets under supervision by CSA. The fees will be computed in the following manner:

Basis point charge X market value of assets X actual number of days/365 days

CSA's asset-based fee schedule for accounts is detailed below, although such fee schedule is negotiable.

<u>Portfolio Value</u>	<u>Annual Fee</u>
\$150,000.00–\$249,999.00	1.60%
\$250,000.00–\$499,999.00	1.50%
\$500,000.00–\$749,999.00	1.40%
\$750,000.00–\$999,999.00	1.30%
\$1,000,000.00–\$1,499,999.00	1.20%
\$1,500,000.00–\$1,999,999.00	1.10%
\$2,000,000.00–up	Negotiated

CSA generally requires a minimum account value of \$250,000 for accounts it manages on a discretionary basis. CSA, in its sole discretion, may waive the required minimum. In the event that the client's account value falls below \$250,000 and the firm does not waive the required minimum amount, then, in such case, the firm reserves the right to charge the client the fee chargeable to an account containing the required minimum amount.

Asset-based fees are always subject to the investment advisory agreement between the client and CSA. Such fees may be payable monthly or quarterly in advance. Clients will be invoiced at the beginning of each calendar month or quarter, based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of the previous month or quarter, as mutually agreed upon by the client and CSA. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar month or quarter. Adjustments for significant contributions to and distributions from a client's portfolio are prorated for the quarter in which the change occurs. (CSA defines significant as a contribution or withdrawal equal to or greater than \$20,000.)

The client authorizes the custodian to automatically deduct the fee and all other charges payable hereunder from the assets in the account when due, with such payments to be reflected on the next account statement sent to the client. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance. CSA may modify the fee at any time upon 30 days' written notice to the client.

A client investment advisory agreement may be canceled at any time, by either party, for any reason upon receipt of written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

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

CSA generally requires clients to authorize the direct debit of fees from their accounts. Exceptions may be granted subject to the firm's consent for clients to be billed directly for our fees. For directly debited fees, the custodian's periodic statements will show each fee deduction from the account. Clients may withdraw this authorization for direct billing of these fees at any time by notifying us or their custodian in writing.

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

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

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

The fees charged by CSA do not include fees charged by any exchange-traded fund, mutual fund, separate account manager, pooled investment vehicle, or any broker-dealer or custodian selected by the client. The management fees for pooled investment vehicles are disclosed in their confidential offering memoranda and applicable subscription documents or, in the case of an exchange-traded fund or mutual fund, in the respective fund's prospectus. The fees charged by a separate account manager are disclosed in such manager's Part 2A Brochure disclosure document. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, the client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using CSA may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

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

CSA requires the prepayment of its fees. Clients will be invoiced at the beginning of each calendar month or quarter based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of the previous month or quarter as the case may be. CSA's fees will either be paid directly by the client or disbursed to CSA by the qualified custodian of the client's investment accounts, subject to prior written consent by the client. The qualified custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

A client investment advisory agreement may be canceled at any time, by either party, for any reason upon receipt of written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

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

CSA's financial advisors are compensated primarily through a salary and bonus structure. CSA may be paid sales, service, or administrative fees for the sale of mutual funds or other investment products. CSA's

advisory professionals may receive commission-based compensation for the sale of insurance products. Please see Item 10.C. for detailed information and conflicts and interest.

## **Item 6. Performance-Based Fees**

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

## Item 7. Types of Clients

CSA offers personalized investment management services to individuals and high-net-worth individuals and their related trusts, pension and profit sharing plans, banking or thrift institutions, corporations and other business entities, and other investment advisers. Although CSA provides investment services to the various types of clients mentioned, the services are conditioned upon meeting the following certain minimum criteria established by CSA.

CSA generally requires a minimum account value of \$250,000 for accounts it manages on a discretionary basis. CSA, in its sole discretion, may waive the required minimum.

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

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

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

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

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

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

#### **A.1 Mutual Funds, Exchange-Traded Funds, Independent Investment Managers, Pooled Investment Vehicles, Individual Equity and Fixed Income Securities**

CSA may recommend (i) independent investment managers to manage client assets; (ii) no-load and load-waived mutual funds and individual securities (including fixed income instruments); and (iii) pooled investment vehicles. Such management styles may include, among others, large-cap, mid-cap, and small-cap value, growth and core; international and emerging markets; and alternative investments. CSA may also assist the client in selecting one or more appropriate manager(s) for all or a portion of the client's portfolio. Such managers typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that CSA will take into account when recommending managers to clients.

A description of the criteria to be used in formulating an investment recommendation for mutual funds, exchange-traded funds, individual securities (including fixed-income securities), managers, and pooled investment vehicles is set forth below.

CSA has formed relationships with third-party vendors that

- provide a technological platform for separate account management

- prepare performance reports
- perform due diligence monitoring of mutual funds, managers, and pooled investment vehicles
- perform billing and certain other administrative tasks

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

CSA reviews certain quantitative and qualitative criteria related to mutual funds and managers and to formulate investment recommendations to its clients. Quantitative criteria may include:

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

Qualitative criteria used in selecting/recommending mutual funds or managers include the investment objectives and/or management style and philosophy of a mutual fund or manager; a mutual fund or manager's consistency of investment style; and employee turnover and efficiency and capacity.

Quantitative and qualitative criteria related to mutual funds and managers are reviewed by CSA on a quarterly basis or such other interval as appropriate under the circumstances. In addition, mutual funds or managers are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the mutual fund or manager by CSA (both of which are negative factors in implementing an asset allocation structure).

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

CSA will regularly review the activities of mutual funds and managers utilized for the client. Clients that engage managers or invest in mutual funds should first review and understand the disclosure documents of those managers or mutual funds, which contain information relevant to such retention or investment, including information on the methodology used to analyze securities, investment strategies, fees, and conflicts of interest. Similarly, clients qualified to invest in pooled investment vehicles should review the private placement memoranda or other disclosure materials relating to such vehicles before making a decision to invest.

For individual equity and fixed income securities, the methods of analysis may include fundamental and technical analysis; quantitative methods for optimizing client portfolios; computer-based risk/return analysis; and statistical and/or computer models utilizing long-term economic criteria. In addition, CSA

reviews research material prepared by others, corporate filings, corporate rating services and a variety of financial publications.

CSA employs a top-down investment strategy using value-based metrics with a technical trading overlay. CSA offers the following investment strategies utilizing the aforementioned value investment methodology with a technical trading overlay:

- *Cornerstone Total Return Portfolio ("TRP")* – This strategy is an all-cap portfolio which invests primarily in U.S. equities, although we may hold different asset classes based on economic and market conditions. The objective is to provide consistent market outperformance while taking the least amount of risk necessary to achieve superior results.
- *Cornerstone U.S. Equity and Foreign Stock Blend Portfolio* – This strategy invests in large-cap U.S. equities and ADRs (American Depositary Receipts). The target allocation for this portfolio is 50/50.
- *Customized Portfolio* – CSA has the ability to customize a specific portfolio for a client and will work with the client to develop an asset allocation that meets the client's precise objectives and risk tolerance.

Current and future economic conditions are evaluated to determine the markets and sectors' ability to produce positive returns. CSA invests in companies that, in its view, have a high probability of outperforming companies in their peer group. Individual security selection is made through the analysis of cash flow, invested capital and a "peer group-derived capital charge" to arrive at an "economic value" for each position.

## **A.2. Material Risks of Investment Instruments**

CSA typically invests in equity securities, corporate debt instruments, municipal fixed income instruments, government securities including asset-backed securities, and options on securities as detailed below:

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

### **A.2.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the

company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

#### **A.2.b. Warrants and Rights**

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

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

#### **A.2.c. Mutual Fund Securities**

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

#### **A.2.d. Exchange-Traded Funds ("ETFs")**

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

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

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

#### **A.2.e. Corporate Debt, Commercial Paper, and Certificates of Deposit**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of 10 years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

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

#### **A.2.f. Municipal Securities**

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

#### **A.2.g. U.S. Government Securities**

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

#### **A.2.h. Private Placements**

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

#### **A.2.i. Options on Securities**

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

price to the market price, the historical price volatility of the underlying security, the option period and interest rates.

#### **A.2.j. Pooled Investment Vehicles**

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

#### **A.2.k. Structured Products**

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

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

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

#### **A.2.l. Government and Agency Mortgage-Backed Securities**

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

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHLMC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities. Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. government.

#### **A.2.m. Corporate Debt Obligations**

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

#### **A.2.n. Mortgage-Backed Securities**

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

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

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

#### **A.2.o. Collateralized Obligations**

Collateralized mortgage obligations ("CMOs") are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-class debt obligations. Payments of

principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as "tranches") of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all tranches on a monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CSA as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading
- Short call option strategy
- Short put option strategy
- Equity collars
- Long straddles

#### **B.4.a. Covered Call Writing**

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

#### **B.4.b. Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.4.c. Long Put Option Purchases**

Long put option purchases allow the option holder to sell or “put” the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.4.d. Option Spreading**

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder “locks in” a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; please contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

#### **B.4.e. Short Call Option Strategy**

Short call option strategy is highly speculative and has theoretical potential for unlimited loss. The seller (writer) of the call option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain below the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security increase above the contract strike price, then the option writer can either purchase the call option at a loss, or through a process of exercise and assignment be forced to sell the stock at the contract strike price. If this happens, the option writer will have to go in the open market and buy an equivalent amount of stock to cover the sale at prices that can be materially higher than the amount received from the sale.

#### **B.4.f. Short Put Option Strategy**

Short put option strategy is highly speculative and has theoretical potential for significant loss. The seller (writer) of the put option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain above the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security decrease below the contract strike price, the option writer can either purchase the put option at a loss, or through a process of exercise and assignment be forced to buy the stock at the contract strike price. If this happens, the option writer will be purchasing the underlying security at a price potentially well above its then-current market value, exposing the investor to potential loss.

#### **B.4.g. Equity Collar**

A collar combines both a cap and a floor. A cap gives the purchaser of the cap the right (for a premium payment), but not the obligation, to receive the difference in the cost on some amount when a specified index rises above the specified “cap rate.” A floor is the opposite of a cap—it gives the purchaser of the floor the right (for a premium payment), but not the obligation, to receive the difference in interest payable on an amount when a specified index falls below the specified “floor rate.” A collar involving stock is called an “equity collar.” In a collar transaction, the buyer of the collar purchases a cap while

selling a floor indexed to the same rate or asset. A zero-cost collar results when the premium earned by selling a floor exactly offsets the cap premium.

#### **B.4.h. Long Straddle**

A long straddle is the purchase of a long call and a long put with the same underlying security, expiration date and strike price. This is a speculative trade that may be profitable when volatility is high and will result in a loss when prices of the underlying security are relatively stable.

#### **B.5. Technical Trading**

Technical trading models are mathematically driven based upon historical data and trends of domestic and foreign market trading activity, including various industry and sector trading statistics within such markets. Technical trading models, through mathematical algorithms attempt to identify when markets are likely to increase or decrease and identify appropriate entry and exit points. The primary risk of technical trading models is that historical trends and past performance cannot predict future trends and there is no assurance that the mathematical algorithms employed are designed properly, updated with new data, and can accurately predict future market, industry, and sector performance.

### **C. Security-Specific Material Risks**

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

## **Item 9: Disciplinary Information**

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

There is nothing to report on this item.

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

There is nothing to report on this item.

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

There is nothing to report on this item.

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

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

CSA neither has an affiliate broker-dealer nor is in process of registering an affiliate as a broker-dealer. In addition, Mr. Doyle Gustus does not maintain a broker-dealer affiliation. He is licensed solely as an investment adviser representative with Cornerstone Select Advisors, LLC.

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

Neither CSA nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator, or commodity trading adviser and do not have an application to register pending.

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

#### **C.1. Insurance Activities**

Certain managers, members, and registered employees of CSA are licensed as insurance agents for certain insurance carriers. CSA professionals may recommend insurance products offered by such carriers for whom they function as agents. Please be advised there is a potential conflict of interest in that there is an economic incentive to recommend insurance and other investment products of such carriers. Also be advised that CSA professionals strive to put their clients' interests first and foremost. Clients may utilize any insurance carrier or insurance agency they desire.

#### **C.2. Cutter & Company ("Cutter")**

CSA acts a sub-adviser to Cutter for certain of its customers and receives a portion of Cutter's investment advisory fee for such sub-advisory services. All recommended trades are communicated to Cutter, which either approves or rejects such recommendations and then executes the applicable trades through its proprietary trading department.

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

CSA does not receive any remuneration from advisors, investment managers, or other service providers that it recommends to clients.

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

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

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

CSA has policies and procedures in place to ensure the interests of its clients are given preference to those of CSA, its affiliates, and its employees. For example, there are (i) policies in place to prevent the misappropriation of material non-public information, and (ii) such other policies and procedures reasonably designed to comply with federal and state securities laws.

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

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

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

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

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

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

- require our advisory representatives and employees to act in the client's best interest
- prohibit fraudulent conduct in connection with the trading of securities in a client account
- prohibit employees from personally benefitting by causing a client to act, or fail to act in making investment decisions
- prohibit the firm or its employees from profiting or causing others to profit on knowledge of completed or contemplated client transactions
- allocate investment opportunities in a fair and equitable manner
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

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

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

CSA, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts which differ from those recommended or effected for other CSA clients. CSA will make a reasonable attempt to trade securities in client accounts prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. It is the policy of CSA to place its clients' interests above those of CSA and its employees.

## Item 12. Brokerage Practices

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

#### A.1. Custodian Recommendations

CSA may recommend that clients establish brokerage accounts with Charles Schwab and ScottTrade (collectively "custodian"), FINRA-registered broker-dealers, members SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although CSA may recommend that clients establish accounts at a custodian, it is the client's decision to custody assets with the custodian. CSA is independently owned and operated and not affiliated with any custodian. For CSA client accounts maintained in its custody, the custodian generally does not charge separately for custody services, but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through the custodian or that settle into the custodian's accounts.

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

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

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

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

**A.1.b. Client's Custody and Brokerage Costs**

For client accounts that the firm maintains, the custodian generally does not charge clients separately for custody services but is compensated by charging commissions or other fees on trades that it executes or that settle into the custodian's accounts. The custodian's commission rates applicable to the firm's client accounts were negotiated based on the firm's commitment to maintain a certain minimum amount of client assets at the custodian. This commitment benefits the client because the overall commission rates paid are lower than they would be if the firm had not made the commitment. In addition to commissions, the custodian charges a flat dollar amount as a "prime broker" or "trade away" fee for each trade that the firm has executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into the client's custodian account. These fees are in addition to the commissions or other compensation the client pays the executing broker-dealer. Because of this, in order to minimize the client's trading costs, the firm has the custodian execute most trades for the account.

**A.1.c. Soft Dollar Arrangements**

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

**A.1.d. Institutional Trading and Custody Services**

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

**A.1.e. Other Products and Services**

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

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

Custodian also offers other services intended to help CSA manage and further develop its business enterprise. These services may include:

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

Custodian may also provide other benefits such as educational events or occasional business entertainment of CSA personnel. In evaluating whether to recommend that clients custody their assets at the custodian, CSA may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely the nature, cost, or quality of custody and brokerage services provided by the custodian, which may create a potential conflict of interest.

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

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

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

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

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

The custodian may also pay for business consulting and professional services received by CSA's related persons, and may pay or reimburse expenses (including client transition expenses travel, lodging, meals and entertainment expenses for CSA's personnel to attend conferences). Some of the products and services made available by such custodian through its institutional customer programs may benefit CSA but may not benefit its client accounts. These products or services may assist CSA in managing and administering client accounts, including accounts not maintained at the custodian as applicable. Other services made available through the programs are intended to help CSA manage and further develop its business enterprise. The benefits received by CSA or its personnel through participation in these programs do not depend on the amount of brokerage transactions directed to the broker-dealer.

CSA also participates in similar institutional advisor programs offered by other independent broker-dealers or trust companies, and its continued participation may require CSA to maintain a predetermined level of assets at such firms. In connection with its participation in such programs, CSA will typically receive benefits similar to those listed above, including research, payments for business consulting and professional services received by CSA's related persons, and reimbursement of expenses

(including travel, lodging, meals and entertainment expenses for CSA's personnel to attend conferences sponsored by the broker-dealer or trust company).

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

#### **A.1.h. The Firm's Interest in Custodian's Services**

The availability of these services from the custodian benefits the firm because the firm does not have to produce or purchase them. The firm does not have to pay for the custodian's services so long as a certain minimum of client assets is kept in accounts at the custodian. This minimum of client assets may give the firm an incentive to recommend that clients maintain their accounts with the custodian based on the firm's interest in receiving the custodian's services that benefit the firm's business rather than based on the client's interest in receiving the best value in custody services and the most favorable execution of client transactions. This is a potential conflict of interest. The firm believes, however, that the selection of the custodian as custodian and broker is in the best interest of clients. It is primarily supported by the scope, quality, and price of the custodian's services and not the custodian's services that benefit only the firm.

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

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

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

##### **A.3.a. CSA Recommendations**

CSA typically recommends Schwab and ScottTrade as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

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

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

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

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

CSA, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, and the price of such securities to effect such transactions. CSA does not have discretionary authority to select executing brokers or the commission rates to be paid to effect securities transactions. CSA recognizes that the analysis of execution quality

involves a number of factors, both qualitative and quantitative. CSA will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement
- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, CSA seeks to ensure that clients receive best execution with respect to clients' transactions by blocking client trades to reduce commissions and transaction costs. To the best of CSA's knowledge, these custodians provide high-quality execution, and CSA's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, CSA believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

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

Since CSA may be managing accounts with similar investment objectives, CSA may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by CSA in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts. Such aggregate orders may include transactions for accounts for employee benefit plans and private investment vehicles, such as limited partnerships or limited liability companies, in which CSA, its affiliates, principals, or employees are among the investors.

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

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

**B.3. Order Aggregation**

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

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if CSA believes that a larger size block trade would lead to best overall price for the security being transacted.

**B.4. Allocation of Trades**

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

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

## **Item 13. Review of Accounts**

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

The review of accounts of high-net-worth and affluent clients, including corporations, partnerships and trusts, is conducted in the first instance by the professional servicing the client relationship. Such professionals are subject to the general authority of CSA's Managing Member. The Managing Member or his designee(s) must review and approve the opening of each new advisory relationship and oversee reviews of client accounts. The Managing Member or his designee(s) is also responsible for ensuring that any significant change in a client's investment strategy or in the concentration of a client's assets is appropriate for and has been reviewed with the client.

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

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

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

The client's independent custodian provides account statements directly to the client no less frequently than quarterly. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports created on behalf of the client by CSA.

## Item 14. Client Referrals and Other Compensation

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

Other than what is disclosed in Item 12 regarding benefits the firm receives from its custodian(s), CSA does not receive economic benefits for referring clients to third-party service providers.

### B. Advisory Firm Payments for Client Referrals

CSA does not pay for client referrals.

## Item 15. Custody

Under government regulations, CSA is deemed to have custody of a client's assets if the client authorizes us to instruct their custodian to deduct our advisory fees directly from the client's account. The custodian maintains actual custody of clients' assets. Clients will receive at least quarterly account statements directly from their qualified custodian containing a description of all activity, cash balances, and portfolio holdings in the client's account. CSA urges that clients compare the account balance(s) shown on their CSA account statements to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.

## **Item 16. Investment Discretion**

Clients may grant a limited power of attorney to CSA with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In those cases, CSA will exercise full discretion as to the nature and type of securities to be purchased and sold, and the amount of securities for such transactions. Investment limitations may be designated by the client as outlined in the investment advisory agreement.

## Item 17. Voting Client Securities

CSA, as a State of Missouri registered investment adviser, often has voting power with respect to securities in client accounts. When CSA has proxy voting power with respect to securities in a client's account, it owes certain fiduciary duties with respect to the voting of proxies. These fiduciary duties include (i) the duty of care, which requires to monitor corporate events and to vote the proxies; and (ii) the duty of loyalty, which requires to vote proxies in a manner consistent with the best interests of the client and to put the client's interests before CSA's own interests. In keeping with its fiduciary duties, CSA has adopted a Proxy Voting Policy, which sets forth CSA's policies and procedures designed to ensure that CSA votes each client's securities in the best interests of the client.

CSA will be authorized to take action and render any advice with respect to the voting of proxies for securities held in the client's account. CSA will make an independent valuation for each applicable company held in the client's account in accordance with its fiduciary obligations as detailed in this policy. Clients may contact CSA's managing member for information about how CSA voted with respect to any of the securities held in the client's account.

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

Except as required by applicable law, CSA will not be obligated to render advice or take any action on behalf of a client with respect to assets presently or formerly held in the client's account which become the subject of any legal proceedings, including bankruptcies.

As a general rule, CSA will vote all proxies relating to a particular proposal the same way for all client accounts holding the security in accordance with CSA's Proxy Voting Policy, unless a client specifically instructs CSA in writing to vote such client's securities otherwise. When making proxy voting decisions, CSA may seek advice or assistance from third-party consultants, such as proxy voting services or legal counsel. Notwithstanding the foregoing, CSA will not vote proxy statements on behalf of any client that owns (or otherwise controls) less than 500 shares of the company distributing the proxy statements.

A copy of CSA's Proxy Voting Policy will be provided upon receipt of a written request.

## **Item 18. Financial Disclosures**

### **A. Balance Sheet**

CSA does not require the prepayment of fees of \$1200 or more, six months or more in advance, and as such is not required to file a balance sheet.

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

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

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

There is nothing to report on this item.

## Item 1: Cover Page

# Brochure Supplement

March 20, 2018

## Cornerstone Select Advisors, LLC

Firm CRD No. 144044

### Doyle Gustus

Individual CRD No. 232329

13171 Olive Blvd, Suite 302  
St. Louis, MO 63141

phone: 314-862-5155  
email: [dgustus@csastl.com](mailto:dgustus@csastl.com)  
website: [www.csastl.com](http://www.csastl.com)

This brochure supplement provides information about Doyle Gustus that supplements the Cornerstone Select Advisors, LLC, brochure. You should have received a copy of that brochure. If you did not receive a Cornerstone Select Advisors, LLC, brochure or if you have any questions about the contents of this supplement, please contact us at [dgustus@csastl.com](mailto:dgustus@csastl.com) or by phone at 314-862-5155.

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

## Item 2: Educational Background and Business Experience

Doyle Gustus (b. 1950) is the Managing Member of Cornerstone Select Advisors, LLC.

### A. Educational Background

BA in Economics, Central Methodist University Fayette, Missouri	1972
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### B. Business Background

Managing Member, Cornerstone Select Advisors, LLC	10/2009–Present
Registered Representative, Feltl & Company, Inc.	06/2010–10/2011
Portfolio Manager, Cornerstone Select Advisors, LLC	07/2007–10/2009
Registered Representative, Saxony Securities, Inc.	06/2007–06/2010
Registered Representative, Ridgeway & Conger, Inc.	08/2005–06/2007
Investment Adviser Representative, Ridgeway Conger Advisory Services	04/2006–06/2007
Investment Adviser Representative, TLG Advisors, Inc.	02/2006–09/2006
President, Wyoming Financial Securities, Inc.	10/1997–08/2005
President, WERCS Asset Management, Inc.	10/1997–08/2005

## Item 3: Disciplinary Information

On September 16, 2005, the Missouri Securities Division initiated a limited review of the books and records of Wyoming Financial Securities in its Clayton, MO, office on grounds that Doyle Gustus failed to supervise the activities of certain registered representatives. Pursuant to the Consent Order issued by the Missouri Securities Division, Mr. Gustus was ordered to pay \$10,000 and stipulate that he will not accept a position as a Missouri registered agent with any brokerage firm in which he will act in a supervisory capacity for a period of five (5) years from the date of the Consent Order (9/16/2005). Public information concerning Mr. Gustus's registration as an investment advisor representative may be found by accessing the SEC's public disclosure site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## Item 4: Other Business Activities

Mr. Gustus is licensed as an insurance agent for certain insurance carriers. Mr. Gustus may recommend insurance products offered by such carriers for whom he functions as an agent. Please be advised there is a potential conflict of interest in that there is an economic incentive for Mr. Gustus to recommend insurance and other investment products of such carriers. Also be advised that Mr. Gustus strives to put his clients' interests first and foremost. Clients may utilize any insurance carrier or insurance agency they desire.

## Item 5: Additional Compensation

Mr. Gustus receives additional compensation through his business activities described in Item 4 above.

## **Item 6: Supervision**

Supervision of Mr. Gustus is performed by Gery Sadzewicz, Chief Compliance Officer, through reviews of internal transaction and security holdings reports, electronic and physical correspondence, and other internal reports as mandated by the firm and its regulatory authorities. Mr. Sadzewicz can be reached at 815-782-1250.