

## **Item 1 – Cover Page**

### **Pacific Wealth Strategies Group, Inc.**

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This brochure provides information about the qualifications and business practices of Pacific Wealth Strategies Group, Inc. (hereafter “PWSG”). If you have any questions about the contents of this brochure, please contact Jeff Brookshire at 805-966-7775 or at [jbrookshire@pwsg.net](mailto:jbrookshire@pwsg.net). 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.

Additional information about PWSG is also available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can view our firm’s information on this website by searching for our firm name Pacific Wealth Strategies Group, Inc. or by our firm CRD number **144789**.

\*Registration as an investment advisor does not imply a certain level of skill or training.

## Item 2 – Material Changes

Since our last annual update was filed in February 2017, the following material changes have occurred:

- Our firm no longer offers a performance-based fee structure. Please refer to *Item 6 – Performance-Based Fees and Side-By-Side Management*.
- *Item 10 – Other Financial Industry Activities and Affiliations* has been updated regarding representatives' outside business activities.
- An adjustment in the amount of client assets our firm manages. For this annual update filing, we are reporting assets under management in the amount of \$173,098,967 as of the fiscal year-end of December 31, 2017. Please refer to *Item 4 – Advisory Business* for more details.

We will ensure that you receive a summary of material changes, if any, to this and subsequent disclosure brochures within 120 days after our fiscal year ends. Our fiscal year ends on December 31 so you will receive the summary of material changes, if any, no later than April 30 each year. At that time, we will also offer a copy of the most current disclosure brochure. We may also provide other ongoing disclosure information about material changes as necessary.

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#### **Item 4 – Advisory Business**

Pacific Wealth Strategies Group, Inc. is an investment advisor registered with the United States Securities and Exchange Commission (“SEC”) and is a corporation formed under the laws of the State of California

- Jeffery Brookshire is the President and Chief Compliance Officer and Erin Neil is the Vice President, Corporate Secretary, and Treasurer of Pacific Wealth Strategies, Inc.
- Pacific Wealth Strategies Group, Inc. has been registered as an investment advisor with the SEC since September 2007.
- Pacific Wealth Strategies Group, Inc.’s main office location is at 4213 State Street, Suite 206, Santa Barbara, CA 93110. Pacific Wealth Strategies Group, Inc. also maintains an office at 23 East Putnam, Porterville, CA 93257.

#### **General Description of Primary Advisory Services**

Pacific Wealth Strategies Group, Inc. (“PWSG”) may provide its clients with a broad range of investment management services, comprehensive estate and financial planning, and consulting services (including non-investment related matters). The following are brief descriptions of PWSG’s primary advisory services. A more detailed description of PWSG’s services is provided in *Item 5 – Fees and Compensation* so that clients and prospective clients can review the description of services and description of fees in a side-by-side manner.

**Financial Planning Services** - PWSG provides advisory services in the form of financial planning/financial consulting services. Financial planning or consulting services do not involve the active management of client accounts, but instead focuses on a client’s overall financial situation. However, some financial planning clients also choose to have their accounts actively managed (see Investment Management Services). Financial planning and consulting can be described as helping individuals determine and set their long-term financial goals, through investments, tax planning, asset allocation, risk management, retirement planning, and other areas. The role of a financial planner is to find ways to help the client understand the client’s overall financial situation and help the client set financial objectives.

**Investment Management Services** - PWSG provides advisory services in the form of investment management services, which are also commonly referred to as asset management services. Investment management services involve providing clients with continuous and on-going supervision over their accounts. This means that PWSG will continuously monitor a client’s account and make trades in client accounts when necessary.

**Outside Money Managers** - PWSG provides advisory services by referring clients to outside, or unaffiliated, money managers that are registered or exempt from registration as investment advisors. Third-party money managers are responsible for continuously monitoring client accounts and making trades in client accounts when necessary.

#### **Specialization**

Our objective is to provide proactive wealth management strategies to our clients, with a focus on risk mitigation, tax efficiency, investment management and family legacy planning. Each client’s situation is different, and therefore requires a customized planning process designed for each client’s unique set of

circumstances. Integral to this process are in-depth, face-to-face meetings and concise written analyses. This process allows us to gain an intimate knowledge of each client's current situation, future time horizon, thoughts about the markets, family dynamics and deploy the appropriate strategies to address these issues. Our planning protocol addresses the following 11 Pillars of Wealth Management relevant to our clients -- (1) Investment Management, (2), Cash Management, (3) Risk Mitigation, (4) Integration of Tax Efficient Strategies, (5) Retirement Planning, (6) Liabilities, (7) Stock Options/Restricted Stock, (8) Business Succession Planning, (9) Document Review, (10) Wealth Distribution Planning, and (11) Charitable Gifting Strategies.

#### **Limits Advice to Certain Types of Investments**

PWSG provides investment advice on the following types of investments:

- No-Load (i.e. no trading fee) and Load-Waived (i.e. trading fee waived) Mutual Fund Shares
- Exchange-listed securities (i.e. stocks)
- Securities traded over-the-counter (i.e. stocks)
- Fixed income securities (i.e. bonds)
- Closed-End Funds and Exchange Traded Funds (ETFs)
- Foreign Issues
- Warrants
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Variable life insurance
- Variable annuities
- United States government securities
- Options contracts on securities and commodities
- Futures contracts on tangibles and intangibles
- Interests in partnerships investing in real estate, oil and gas interests

PWSG does not sell hedge funds and other types of private (i.e. non-registered) securities. However, PWSG will provide advice or information on these types of investments.

When providing Investment Management Services, PWSG typically constructs each client's account holdings using equities, fixed income products, ETF's, open and closed-end funds, and cash instruments to build diversified portfolios. It is not PWSG's typical investment strategy to attempt to time the market but we may increase cash holdings modestly as deemed appropriate, based on the client's risk tolerance and our expectations of market behavior. We may modify our investment strategy to accommodate special situations such as low basis stock, stock options, legacy holdings, inheritances, closely held businesses, collectibles, or special tax situations. *(Please refer to Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss for additional information.)*

#### **Tailor Advisory Services to Individual Needs of Clients**

PWSG's services are always provided based on the individual needs of each client. This means, for example, that you are given the ability to impose restrictions on the accounts we manage for you, including specific investment selections and sectors. We work with each client on a one-on-one basis

through interviews and questionnaires to determine the client's investment objectives and suitability information.

### **Client Assets Managed by PWSG**

The amount of clients' assets managed by PWSG totaled approximately \$173,098,967 as of December 31, 2017. \$170,512,625 of these assets are managed on a discretionary basis and \$2,586,342 of these assets are managed on a non-discretionary basis.

### **Item 5 – Fees and Compensation**

In addition to the information provide in *Item 4 – Advisory Business*, this section provides additional details regarding our firm's advisory services along with descriptions of each service's fees and compensation arrangements.

Prior to engaging PWSG to provide investment advisory services, the client will be required to enter into an Investment Advisory Agreement with PWSG setting forth the terms and conditions of the engagement, describing the scope of the services to be provided. Financial planning fees are charged in advance. The exact fee will be specified in your client agreement.

### **Investment Management Services**

The client may engage PWSG to design an investment portfolio and provide ongoing corresponding investment management services on a fee-only basis through a broker-dealer or custodial firm of the client's choice. When recommending broker-dealer firms/custodians to clients, PWSG considers factors including their respective financial strength, reputation, execution, pricing, reporting, research, and service. Prior to PWSG providing investment management services, the client will be required to enter into a formal Investment Advisory Agreement with PWSG setting forth the terms and conditions under which PWSG will manage the client's assets, and a separate custodial/clearing agreement with the account custodian. PWSG's Investment Advisory Agreement and the custodial/clearing agreement may authorize the account custodian to debit the client account for the amount of PWSG's investment advisory management fee and to directly remit that management fee to PWSG in accordance with required state procedures.

In performing its services, PWSG will not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. The client is free to accept or reject any recommendation made by PWSG. Moreover, each client is advised that it remains the client's responsibility to promptly notify PWSG if there is ever any change in the client's financial situation or investment objectives for the purpose of reviewing/evaluating/ revising PWSG's previous recommendations and/or services. PWSG's clients are advised to promptly notify PWSG if there are ever any changes in their financial situation or investment objectives, or if they wish to impose any reasonable restrictions upon PWSG's management services.

A copy of the written disclosure statement for PWSG, as set forth on Form ADV Part 2, will be provided to each client prior to, or contemporaneously with, the execution of the Investment Advisory Agreement. Any client who has not received a copy of PWSG's written disclosure statement at least forty-eight (48) hours prior to executing the initial applicable Investment Advisory Agreement will have five (5) business days subsequent to executing the Agreement to terminate PWSG's services and receive a full refund. If the

Agreement is terminated after the five business days following execution of the Agreement, the client will receive a pro-rata refund of any pre-paid unearned management fees.

Neither PWSG nor the client may assign the Investment Advisory Agreement without the prior written consent of the other party. Transactions that do not result in a change of actual control or management of PWSG shall not be considered an assignment.

PWSG's standard annual advisory fees are up to 2.0% of investable assets for investment management services. Our fees are subject to negotiation based upon factors including [the amount of assets under management (we will consider all accounts under management for the client's household), and the complexity of the services that will be provided. The annual advisory fees are charged on a pro-rata quarterly basis in advance or in arrears, per the specific client contract, and calculated based on the closing market value of the account on the last day of the calendar quarter. Transaction and other account fees would be assessed as incurred and are the separate responsibility of the client.

In addition to PWSG's investment advisory fee, the client shall also incur, relative to mutual fund purchases, charges imposed directly at the mutual fund level (i.e. fund advisory fees and expenses). The Investment Advisory Agreement between PWSG and the client will continue in effect unless terminated by either party by written notice in accordance with the terms and conditions of the applicable agreement. PWSG's investment advisory fee will be prorated through the date of termination. If the investment advisory fee was paid in advance, a pro-rata refund will be sent to the client and if the investment advisory fee is charged in arrears, the pro-rata fee due may be charged directly to the client's account or invoiced to the client.

#### ***Recommendation of Outside Money Managers***

In addition, as part of our Investment Management Services, PWSG may refer part or all of a client's assets to non-affiliated portfolio managers (Outside Money Managers), who are also Registered Investment Advisors. When PWSG recommends client assets for management by an Outside Money Manager, clients will pay an advisory fee to the Outside Money Manager, PWSG or its investment advisor representatives are compensated from the outside money manager. This arrangement is set forth under the Outside Money Manager's advisory agreement. PWSG reviews and monitors the performance of the Outside Money Managers to integrate the assets managed by the Outside Money Manager(s) with the assets of the overall client portfolio.

#### **Financial Planning/Financial Consulting Services**

An anticipated fixed fee between \$1,750 and \$10,000 or hourly fees at a rate of \$350 per hour may be charged for Financial Planning/Financial Consulting Services. Financial Planning/Financial Consulting Services are offered to assist the client in defining personal financial consulting goals and objectives to be pursued with regards to some or all of the following areas: investments, business consulting, children's education, retirement consulting, estate consulting, tax consulting, and disability protection. As part of this service PWSG will supply analyses and recommendations as to the actions and investment strategies necessary for the client to attain the above financial consulting objectives. The fee for Financial Planning/Financial Consulting Services is negotiable based upon the estimated amount of time anticipated to complete the requested services, and the complexity of the services to be provided.

PWSG will provide the client with the estimated cost to complete the requested Financial Planning/Financial Consulting Services before commencing such services. One-half of the estimated cost is generally due and payable at the time the client's agreement is executed, and the remainder of the

fee is due upon presentation of a financial plan or the rendering of consulting services. A fee payment schedule may be negotiated dependent on the scope of Financial Planning/Financial Consultation Services.

Financial plans or consultations will be completed within 6 months of the contract date.

## **GENERAL INFORMATION CONCERNING FEES**

Pursuant to CCR Section 260.238(j), PWSG hereby discloses that clients may receive the same or comparable services from other Financial Advisors at a lower fee.

All fees paid to PWSG for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds, insurance companies, broker-dealers, clearing firms and other financial institutions.

These fees and expenses are described in each fund's prospectus or other disclosure documentation. Such fees will generally include a management fee, other fund or product expenses and a possible distribution fee.

A client could invest in securities directly, without the services of PWSG. In some cases, this may also be the case with certain insurance products. In that case, the client would not receive the services provided by PWSG which are designed, among other things, to assist the client in determining which securities and/or insurance product is/are most appropriate to the client's financial condition and objectives. Accordingly, the clients should review both the fees charged by financial services companies and the fees charged by PWSG to fully understand the total amount of fees to be paid by the clients. This will help in the evaluation of the advisory services being provided.

In certain situations, as described above, PWSG may enter into a different type of fee agreement with certain of its clients under which those clients' portfolios will be managed differently from the majority of PWSG's clients and the fees paid by these certain clients may differ from the fees paid by the majority of clients. The specific services to be provided and corresponding fees for services will be specifically disclosed in the agreement between PWSG and the client. These clients may have different objectives, require more or less planning, and have more complexity in their planning. These clients may request asset management or planning only services, which would differentiate from the typical arrangement outlined in the standard Advisory Agreement.

### **Item 6 – Performance-Based Fees and Side-By-Side Management**

PWSG does not charge performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

### **Item 7 – Types of Clients**

PWSG generally provides investment advice to the following types of clients:

- Individuals
- High-Net Worth Individuals
- Pension and profit sharing plans
- Trusts, estates, or charitable organizations



- Corporations or business entities other than those listed above

All clients are required to execute an agreement for services in order to establish a client arrangement with PWSG, with any recommended third-party money manager, and/or the sponsor of third-party money manager platforms.

### **Minimum Investment Amounts Required**

There are no minimum investment amounts or conditions required for establishing an account managed by PWSG.

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

### **Methods of Analysis**

PWSG uses the following methods of analysis in formulating investment advice:

**Charting** – Charting is a set of techniques used in technical analysis in which charts are used to plot price movements, volume, settlement prices, open interest, and other indicators, in order to anticipate future price movements. Users of these techniques, called chartists, believe that past trends in these indicators can be used to extrapolate future trends.

**Cyclical** – This is a method of analyzing the investments sensitive to business cycles and whose performance is strongly tied to the overall economy. For example, cyclical companies tend to make products or provide services that are in lower demand during downturns in the economy and higher demand during upswings. Examples include the automobile, steel, and housing industries. The stock price of a cyclical company will often rise just before an economic upturn begins, and fall just before a downturn begins. Investors in cyclical stocks try to make the largest gains by buying the stock at the bottom of a business cycle, just before a turnaround begins.

**Fundamental** – This is a method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individually specific factors (like the financial condition and management of companies). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis. Fundamental analysis is about using real data to evaluate a security's value. Although most analysts use fundamental analysis to value stocks, this method of valuation can be used for just about any type of security.

**Technical** – This is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity. Technical analysts believe that the historical performance of stocks and markets are indications of future performance.

## **Investment Strategies**

PWSG uses the following investment strategies when managing client assets and/or providing investment advice:

Long term purchases. Investments held at least a year.

Short term purchases. Investments sold within a year.

Trading. Investments sold within 30 days.

Short sales. A short sale is generally the sale of a stock not owned by the investor. Investors who sell short believe the price of the stock will fall. If the price drops, the investor can buy the stock at the lower price and make a profit. If the price of the stock rises and the investor buys it back later at the higher price, the investor will incur a loss. Short sales require a margin account.

Margin transactions. When an investor buys a stock on margin, the investor pays for part of the purchase and borrows the rest from a brokerage firm. For example, an investor may buy \$5,000 worth of stock in a margin account by paying for \$2,500 and borrowing \$2,500 from a brokerage firm. Clients cannot borrow stock from PWSG.

Option writing including covered options, uncovered options, or spreading strategies. Options are contracts giving the purchaser the right to buy or sell a security, such as stocks, at a fixed price within a specific period of time.

## **Use of Primary Method of Analysis or Strategy**

PWSG's primary method of analysis or strategy is fundamental analysis. Some of the risks involved with using this method include reliance on data provided by individual companies, geopolitical events, and changing macro and micro economic data. PWSG uses fundamental analysis of an underlying investment to make decisions such as the amount of time to hold the investment, whether or not to use an options strategy to increase the yield or manage downside risk of an investment. Also, the long or short-term holding period of an investment can be affected if one of the components of fundamental analysis changes.

PWSG's secondary method of analysis or strategy is technical analysis. PWSG uses technical analysis to determine when to buy or sell certain investments. The primary risk to trading based upon technical analysis is that technical indicators can change quickly in volatile markets. Consequently, clients may experience higher volumes of trading in their accounts during volatile market periods.

## **Risk of Loss**

Past performance is not indicative of future results. You should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities (including stocks, mutual funds, and bonds) involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk. You should be prepared to bear investment loss including loss of original principal.

Because of the inherent risk of loss associated with investing, our firm is unable to represent, guarantee, or even imply that our services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines. There

are certain additional risks associated when investing in securities through our investment management program.

- Market Risk – Either the stock market as a whole, or the value of an individual company, goes down resulting in a decrease in the value of client investments. This is also referred to as systemic risk.
- Equity (stock) market risk – Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.
- Company Risk. When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives unfavorable media attention for its actions, the value of the company may be reduced.
- Fixed Income Risk. When investing in bonds, there is the risk that the issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.
- Options Risk. Options on securities may be subject to greater fluctuations in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks.
- ETF and Mutual Fund Risk – When you invest in an ETF or mutual fund, you will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. Clients will also incur brokerage costs when purchasing ETFs.
- Management Risk – Your investment with our firm varies with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our investment strategies do not produce the expected returns, the value of the investment will decrease.

## **Item 9 – Disciplinary Information**

Item 9 is not applicable to this Disclosure Brochure because there are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our business or integrity.

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

PWSG is **not** and does **not** have a related company that is a (1) broker/dealer, municipal securities dealer, government securities dealer or broker, (2) investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund), (3) other investment adviser or financial planner, (4) futures commission merchant, commodity pool operator, or commodity trading advisor, (5) banking or thrift institution, (6) accountant or accounting firm, (7) lawyer or law firm, (8) insurance company or agency, (9) pension consultant, (10) real estate broker or dealer, or (11) sponsor or syndicator of limited partnerships.

#### **Other Business Activities**

Jeff Brookshire, Graham Guess, and Mark Shoemaker are registered representatives and investment adviser representatives of First Allied Securities, Inc. ("First Allied"). First Allied is a registered broker-dealer and member of FINRA/SIPC and a registered investment adviser. The rules of FINRA require First Allied to supervise the outside securities activities, such as investment advisory services, of its representatives. To meet this obligation, First Allied will place a number of restrictions on the personal trading activities of Messrs. Brookshire, Guess and Shoemaker. Additionally, for their affiliation with First Allied, Brookshire, Guess and Shoemaker are restricted to only offering those products and services that have been reviewed and approved for offering to the public through First Allied.

Clients are under no obligation to purchase or sell securities through Brookshire, Guess, Shoemaker. However, if a client chooses to implement securities transactions through any of these individuals, the individual will earn commissions in their capacity as a registered representative with First Allied. Commissions may be higher or lower at First Allied than at other broker/dealers. There may be a conflict of interest in having clients purchase securities products through First Allied in that the higher the individual's production with First Allied, the greater potential for obtaining a higher pay-out on commissions earned.

In their dual capacity as investment adviser representatives of both Pacific Wealth Strategies Group and First Allied, the representatives Brookshire, Guess and Shoemaker may offer clients the advisory services of First Allied. If a client uses the advisory services of First Allied, then the client's investment adviser representative (Brookshire, Guess or Shoemaker) may receive a portion of the advisory fee charged to the client for the advisory services of First Allied. Clients using any advisory services through First Allied will receive the First Allied Disclosure Brochure (Form ADV Part 2A or equivalent).

Jeff Brookshire, Graham Guess and Mark Shoemaker may provide brokerage services for clients of PWSG after obtaining (where required) the prospective approval of their clients. Unless otherwise directed by a client with respect to such client's account, PWSG directs the securities transactions for its advisory clients through Schwab Institutional. PWSG believes that it provides best execution for those client transactions it effects through Schwab Institutional as well as other firms. Jeff Brookshire, Graham Guess and Mark Shoemaker will not earn any commissions from First Allied on investment advisory accounts managed through First Allied. Brookshire, Guess and Shoemaker may earn fees from investment advisory accounts managed through First Allied Securities, Inc. and/or its affiliates. In their capacity as registered representatives of First Allied, Brookshire, Guess and Shoemaker may earn

commissions for client securities transactions, including transactions that are placed in order to execute financial planning/consulting recommendations made in their capacity as investment adviser representatives.

Jeff Brookshire, Erin Neil, Graham Guessand Mark Shoemaker are insurance agents/brokers with various insurance agencies and may earn commissions from the sale of insurance products to PWSG clients.

### **Third-Party Money Managers**

As described in *Item 4 – Advisory Business* and *Item 5 – Fees and Compensation*, PWSG has formed relationships with independent, third-party money managers.

PWSG may recommend clients work directly with third-party money managers. When PWSG refers clients to a third party money manager, PWSG will receive a portion of the fee charged by the third party money manager. Therefore, PWSG has a conflict of interest in that we will only recommend third party money managers that will agree to compensate our firm by paying us a portion of the fees billed to your account managed by the third party money manager.

## **Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading**

### **Code of Ethics Summary**

PWSG may buy or sell securities identical to those recommended to its customers for its personal accounts. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to clients.

It is the expressed policy of PWSG that it may not purchase or sell any individual stock or bond prior to a transaction(s) being implemented for an advisory account, and therefore, preventing it from benefiting as a result of transactions placed on behalf of advisory accounts.

As these situations represent a conflict of interest, PWSG has established the following restrictions in order to ensure its fiduciary responsibilities to clients are met:

PWSG shall not buy or sell securities for its personal portfolio(s) where its decision is substantially derived, in whole or in part, by its role as an investment advisor unless the information is also available to the investing public on reasonable inquiry. In no case, shall PWSG prefer its own interest to that of its advisory clients. PWSG recognizes it must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.

### **Footnotes for Code of Ethics Summary**

(1) *This investment policy has been established recognizing that some securities being considered for purchase and sale on behalf of PWSGs' client's trade in sufficiently broad markets to permit transactions by clients to be completed without an appreciable impact on the markets of the securities. Under certain circumstances, exceptions may be made to the policies stated above. Records of these*

*trades, including the reasons for the exceptions, will be maintained with PWSG's records in the manner set forth above.*

*(2) Open-end mutual funds and/or the investment sub-accounts which may comprise a variable insurance product are purchased or redeemed at a fixed net asset value price per share specific to the date of purchase or redemption. As such, transactions in mutual funds and/or variable insurance products by PWSG are not likely to have an impact on the prices of the fund shares in which clients invest, and are therefore not prohibited by PWSG's Investment policies and procedures.*

PWSG's associated persons must have written clearance for all personal securities transactions before placing the transactions. PWSG reserves the right to disapprove any proposed transaction that may have the appearance of improper conduct. Associated persons will request in writing electronically for pre-clearance on any non-exempt securities transaction. All pre-clearance requests must be submitted for approval to Jeffery Brookshire. Once pre-clearance is granted to an associated person, such associated person may only transact in that security alongside PWSG clients as a bunched or block trade. If they choose not to trade as a bunched or block trade alongside clients they must wait until a trading session where there are no trades for clients being placed. The exception to this requirement is for associated persons whose accounts are being traded in pre-determined models available for client accounts. If the associated persons account is traded as part of a model they will automatically be traded as a bunched or block trade alongside clients without the necessity of pre-clearance. If an associated person of PWSG wishes to purchase or sell a security that is not part of an overall strategy used for any of PWSG's other clients, then the reason must be documented as part of the written pre-approval request. This includes, but is not limited to, trading of a speculative nature, trades to meet personal objectives of the associated person/representative, and/or sales of securities for unanticipated needs.

## **Item 12 – Brokerage Practices**

Clients are under no obligation to act on the financial planning recommendations of PWSG. If the firm assists in the implementation of any recommendations, we are responsible to ensure that the client receives the best execution possible.

### **INVESTMENT OR BROKERAGE DISCRETION AND SUGGESTION OF BROKERS**

In return for effecting securities transactions through a designated broker-dealer/custodian, PWSG may receive certain investment research products and/or services which assist PWSG in its investment decision-making process for the client, all of which transactions shall be in compliance with Section 28(e) of the Securities Exchange Act of 1934. Although the commissions and/or transaction fees paid by PWSG's clients shall comply with PWSG's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where PWSG determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker/dealer's services, including the financial strength, reputation, value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although PWSG will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. Although the investment research products and/or services that may be obtained by PWSG will generally be used to service all of PWSG's clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account. The brokerage commissions and/or transaction fees charged by designated broker-dealer /custodian are exclusive of, and in addition to, PWSG's investment advisory fee.

PWSG discloses that it may utilize various firms for the execution of securities transactions and to custody assets. In certain cases, PWSG may recommend that clients execute transactions through Schwab Institutional or Pershing, LLC, as described below. It should be noted that Jeff Brookshire, Graham Guess and Mark Shoemaker are also Investment Advisor Representatives of First Allied Securities, Inc. and its affiliates and maintain advisory accounts with First Allied Securities, Inc. and its affiliates. It should be further noted that PWSG's associated persons, Jeffery Brookshire, Graham Guess and Mark Shoemaker are registered representatives with and may earn commissions from First Allied Securities, Inc. for the sale of commissionable securities products. These transactions only take place when they are acting in their separate roles as registered representatives of First Allied Securities, Inc., including in some cases when financial planning/consulting recommendations are executed. In any event, clients are under no obligation to act upon PWSG's recommendations. If a client elects to act on any of the PWSG financial planning/consulting recommendations, the client is under no obligation to effect any transaction through PWSG, or any particular broker-dealer. PWSG's associated persons may earn commissions for the sale of insurance products.

PWSG may recommend that clients establish brokerage accounts with Pershing LLC and/or the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab"), registered broker-dealers, Members SIPC, to maintain custody of clients' assets and to effect trades for their accounts. PWSG is independently owned and operated and not affiliated with Schwab or Pershing LLC.

Schwab may provide PWSG with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to the investment advisor so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Schwab Institutional, *and are not otherwise contingent upon the advisor committing to Schwab any specific amount of business (assets in custody or trading)*. Schwab's services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or require a significantly higher minimum initial investment. For PWSG's client accounts maintained in its custody, Schwab *generally* does not charge separately for custody but is compensated by account holders through commissions, transaction-related or asset based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab also makes available to PWSG other products and services that benefit PWSG but may not benefit the client accounts of PWSG. Some of these other products and services assist PWSG in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of PWSG's fees from its clients' accounts, and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of PWSG's accounts, including accounts not maintained at Schwab Institutional.

Pershing LLC may also provide PWSG with other products and services that benefit PWSG but may not benefit the client accounts of PWSG. Some of these other products and services assist PWSG in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of PWSG's fees from its clients' accounts,

and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of PWSG's accounts, including accounts not maintained at Pershing LLC.

### **Handling Trade Errors**

PWSG has implemented procedures designed to prevent trade errors; however, trade errors in client accounts cannot always be avoided. Consistent with its fiduciary duty, it is the policy of PWSG to correct trade errors in a manner that is in the best interest of the client. In cases where the client causes the trade error, the client will be responsible for any loss resulting from the correction. Depending on the specific circumstances of the trade error, the client may not be able to receive any gains generated as a result of the error correction. In all situations where the client does not cause the trade error, the client will be made whole and any loss resulting from the trade error will be absorbed by PWSG if the error was caused by the firm. If the error is caused by the broker-dealer, the broker-dealer will be responsible for handling the trade error costs. If an investment gain results from the correcting trade, the gain will remain in the client's account unless the same error involved other client account(s) that should also receive the gains and it is not permissible for all clients to retain the gain. PWSG may also confer with a client to determine if the client should forego the gain (e.g., due to tax reasons).

PWSG will never benefit or profit from trade errors.

### **Block Trading Policy**

Transactions implemented by PWSG for client accounts are generally effected independently, unless the firm decides to purchase or sell the same securities for several clients at approximately the same time. This process is referred to as aggregating orders, batch trading or block trading and is used by the firm when PWSG believes such action may prove advantageous to clients. When PWSG aggregates client orders, the allocation of securities among client accounts will be done on a fair and equitable basis. Typically, the process of aggregating client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among the firm's clients in proportion to the purchase and sale orders placed for each client account on any given day. When PWSG determines to aggregate client orders for the purchase or sale of securities, including securities in which PWSG may invest, the firm will do so in accordance with the parameters set forth in the SEC No-Action Letter, *SMC Capital, Inc.* It should be noted, PWSG does not receive any additional compensation or remuneration as a result of aggregation.

### **Additional Compensation**

Schwab Institutional also makes available to PWSG other services intended to help PWSG manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services rendered to PWSG by independent third parties. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to PWSG. While as a fiduciary, PWSG endeavors to act in its clients' best interests, PWSG's recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to PWSG of the availability of some of the foregoing products and services



and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

### **Item 13 – Review of Accounts**

#### **Account Reviews and Reviewers**

Jeffery D. Brookshire, President and Chief Compliance Officer; Erin Neil, Investment Advisor Representative; Graham Guess, Investment Advisor Representative; Mark Shoemaker, Investment Advisor Representative, review all accounts at least on a quarterly basis. More frequent reviews may be necessary due to the client's individual circumstances, economic conditions, general factors affecting the stock market, etc.

#### **Statements and Reports**

Clients will receive transaction confirmations and monthly or quarterly statements from their account custodians. Collectively, these reports will list client's account holdings, transactions and fees paid to Pacific Wealth Strategies Group, Inc. Clients will receive monthly consolidated statements that include reporting from their custodians, and in certain cases insurance companies, pension companies and/or alternative investment accounts.

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

PWSG does not directly or indirectly compensate any person for client referrals.

The only form of other compensation received from advisory services is the fees charged for providing investment advisory services as described in Item 5 of this brochure. PWSG receives no other forms of compensation in connection with providing investment advice.

### **Item 15 – Custody**

Custody, as it applies to investment advisors, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding client funds and securities. If an investment advisor has the ability to access or control client funds or securities, the investment advisor is deemed to have custody and must ensure proper procedures are implemented.

PWSG is deemed to have custody of client funds and securities whenever PWSG is given the authority to have fees deducted directly from client accounts. However, this is the only form of custody PWSG will ever maintain. It should be noted that authorization to trade in client accounts is not deemed by regulators to be custody.

For accounts in which PWSG is deemed to have custody, the firm has established procedures to ensure all client funds and securities are held at a qualified custodian in a separate account for each client under that client's name. Clients or an independent representative of the client will direct, in writing, the establishment of all accounts and therefore are aware of the qualified custodian's name, address and the manner in which the funds or securities are maintained. Finally, account statements are delivered directly from the qualified custodian to each client, or the client's independent representative, at least quarterly. Clients should carefully review those statements and are urged to compare the statements against reports received from PWSG. When clients have questions about their account statements, they should contact PWSG or the qualified custodian preparing the statement.

## Item 16 – Investment Discretion

Through its investment management services and upon receiving written authorization from a client, PWSG will maintain trading authorization over client accounts. Upon receiving written authorization from the client, PWSG may implement trades on a **discretionary** basis. When discretionary authority is granted, PWSG will have the authority to determine the type of securities and the amount of securities that can be bought or sold for the client's portfolio without obtaining the client's consent for each transaction. However, it is the policy of PWSG to consult with the client prior to making significant changes in the account even when discretionary trading authority is granted by the client.

If you decide to grant trading authorization on a **non-discretionary** basis, we will be required to contact you prior to implementing changes in your account. Therefore, you will be contacted and required to accept or reject our investment recommendations including:

- The security being recommended
- The number of shares or units
- Whether to buy or sell

Once the above factors are agreed upon, PWSG will be responsible for making decisions regarding the timing of buying or selling an investment and the price at which the investment is bought or sold. If your accounts are managed on a non-discretionary basis, you need to know that if you are not able to be reached or are slow to respond to our request, it can have an adverse impact on the timing of trade implementations and we may not achieve the optimal trading price.

All clients have the ability to place reasonable restrictions on the types of investments that may be purchased in an account. Clients may also place reasonable limitations on the discretionary power granted to our firm so long as the limitations are specifically set forth or included as an attachment to the client agreement.

## Item 17 – Voting Client Securities

PWSG will not vote proxies on behalf of your account. It is your responsibility to vote all proxies for securities held in your accounts that are managed by our firm. All clients will receive proxies directly from their custodian or transfer agent and such documents will not be delivered by PWSG.

## Item 18 – Financial Information

This Item 18 is not applicable to this Disclosure Brochure. PWSG does not require or solicit prepayment of more than \$1200 in fees per client, six months or more in advance. Therefore, we are not required to include a balance sheet for our most recent fiscal year. We are not subject to a financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Finally, PWSG has not been the subject of a bankruptcy petition at any time (*Please refer to Information Required by Part 2B of Form ADV: Brochure Supplement for more information*).

## Item 19 - Privacy Statement

PWSG is committed to safeguarding the confidential information of its clients and holds all personal information provided to it in the strictest confidence. These records include all personal information that

PWSG collects from its clients or receives from other firms in connection with any of the financial services PWSG provides. PWSG also requires other firms with whom it deals to restrict the use of client's information. PWSG's Privacy Policy is available upon client's engagement of PWSG's services or by prior request of the clients.

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