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## **Form ADV Part 2A**

### **Client Brochure**

June 30, 2014

**This brochure (“Brochure”) provides information about the qualifications and business practices of Wealthfront Inc. (“Wealthfront”), a registered investment adviser. Registration does not imply a certain level of skill or training but only indicates that Wealthfront has registered its business with state and federal regulatory authorities, including the United States Securities and Exchange Commission (our SEC number is 801-69766). 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.**

**If you have any questions about the contents of this Brochure, please contact us at (650) 249-4258 or [support@wealthfront.com](mailto:support@wealthfront.com). Additional information about Wealthfront is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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### **Item 2 Material Changes**

Adam Nash replaced Andy Rachleff as Chief Executive Officer in January 2014. Mr. Rachleff moved to serve as the Executive Chairman of Wealthfront. No other material changes have been made since our last annual update dated July 31, 2013.

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## **Form ADV Part 2 Client Brochure**

### **Item 4 Advisory Business**

#### **A. General Description of the Firm**

Wealthfront is a software based advisory firm that manages investment accounts of clients (“Clients”) through the website [www.wealthfront.com](http://www.wealthfront.com) (the “Site”). We have been in business since 2008, and until 2010 operated under the name kaChing Group Inc. Wealthfront is a privately held company without a 25% shareholder or “principal owner,” which means a person who owns and controls 25% or more of the firm. Additional information about Wealthfront’s ownership structure and directors is provided in Schedule A of Part 1A of Wealthfront’s Form ADV.

#### **B. Summary of Wealthfront’s Advisory Services**

Wealthfront offers a unique software based financial advisor service based on modern portfolio theory that makes it possible for anyone to access state-of-the-art portfolio management. We create an investment plan and manage a Client’s portfolio by seeking to identify: 1) the optimal asset classes in which to invest, 2) the most efficient ETFs or other investments to represent each of those asset classes, 3) the ideal mix of asset classes based on the Client’s specific risk tolerance, 4) the most appropriate time to rebalance the Client’s portfolio to maintain intended risk tolerance and optimal return for the Client’s risk level, 5) for taxable non-retirement accounts, the use of tax efficient management at the appropriate times in a way that maintains the optimal risk and return profile, and 6) for clients who opt in and meet the required minimums, Wealthfront offers Tax-Loss Harvesting strategies for taxable accounts.

#### **C. Tailored Services and Investment Restrictions**

Wealthfront tailors its software based financial advisor service to the individual needs of each of its Clients, and subject to certain product features and account limitations that prospective investors should consider, as described further below in Item 7. Accounts for Clients (“Client Accounts” or “Accounts”) are opened and maintained according to a Client Account Agreement (“Account Agreement”) which describes the discretionary authority that a Client grants to Wealthfront.

To tailor its software based financial advisor services to each Client, Wealthfront uses its advanced algorithms, which are based on academic behavioral economics research, to pinpoint an investor’s risk tolerance. Wealthfront asks each prospective Client a series of questions to evaluate both the individual’s objective ability to take risk and subjective willingness to take risk. We ask subjective risk questions to determine both the level of risk an individual is willing to take and the consistency among the answers. For example, if an individual is willing to take a lot of risk in one case and very little in another, then the individual is deemed inconsistent and is

therefore assigned a lower risk tolerance score than the simple weighted average of her answers. We ask objective questions to estimate with as few questions as possible whether the individual is likely to have enough money saved at retirement to afford her likely spending needs. The greater the excess income, the more risk the Client is able to take. As noted in Item 7.3 a Client may not specify investments in which that Client Account may not invest.

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

Wealthfront does not sponsor or participate in any wrap fee programs.

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

As disclosed in Wealthfront's Form ADV Part 1, Wealthfront manages over \$1,168,214,742 in client assets through our software based financial advisor service on a discretionary basis. This total is calculated using the closing U.S. market prices from June 30, 2014. Wealthfront does not manage assets on a nondiscretionary basis.

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

#### **A. Advisory Fees**

Wealthfront is compensated for its advisory services by charging a fee based on the net market value of a Client's Account. Wealthfront reserves the right, in its sole discretion, to negotiate, reduce or waive the advisory fee for certain Client Accounts for any period of time determined by Wealthfront. In addition, Wealthfront may reduce or waive its fees for the Accounts of some Clients without notice to, or fee adjustment for, other Clients.

Wealthfront's software based financial advisor service charges an annualized fee of 0.25% on a Client's assets under management. In many cases Clients have the opportunity to have a portion of their assets managed for free. Annual fees are charged on a monthly basis as explained below.

Wealthfront's fees are not charged in advance, and are calculated on a continuous basis and deducted from Client Accounts each month as follows: Wealthfront calculates a daily advisory fee, which is equal to the fee rate multiplied by the net market value of the Client's Account as of the close of trading on the New York Stock Exchange ("NYSE") (herein, "close of markets") on such day, or as of the close of markets on the immediately preceding trading day for any day when the NYSE is closed, and then divided by 365 (or 366 in any leap year). The advisory fee for a calendar month is equal to the total of the daily fees calculated during that month (less any deductions or fee waivers, e.g., for the fee waiver on the first \$10,000 of assets) and is deducted from Client Accounts no later than the tenth business day of the following month.

#### **B. Other Account Fees**

Wealthfront is a "fee only" investment advisor, and other than its advisory fee described above, neither the firm nor its employees receive or accept any direct or indirect compensation related to investments that are purchased or sold for Client Accounts. This means that Clients will not be sold products or services that create additional fees or compensation to benefit Wealthfront or its employees or its affiliates other than those described in this Brochure and on the Site. However, in addition to advisory fees, Clients may also pay other fees or expenses to third-parties. The issuer of some of the securities or products we purchase for Clients, such as ETFs or other similar financial products, may charge product fees that affect Clients. Wealthfront does not charge these fees to Clients, and does not benefit directly or indirectly from any such fees. An ETF typically includes embedded expenses that may reduce the fund's net asset value, and therefore directly affect the fund's performance and indirectly affect a Client's portfolio performance or an index benchmark comparison. Expenses of an ETF may include management fees, custodian fees, brokerage commissions, and legal and accounting fees. ETF expenses may change from time to time at the sole discretion of the ETF issuer. Wealthfront discloses each ETF's current information, including expenses, on the Site.

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### **Item 6 Performance-Based Fees and Side-by-Side Management**

Wealthfront does not charge performance-based fees. Our advisory fees are only charged as disclosed above in Item 5.

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### **Item 7 Types Of Clients**

The minimum amount required to open and maintain a Wealthfront Account is \$5,000. As a result of the automation associated with offering its services online, Wealthfront makes it possible for retail investors, as well as retirement accounts and trusts, to access its service with much lower account minimums than normally available in the industry. Clients have real-time access to their Accounts through the Site. Additional requirements for opening an Account with Wealthfront are described in Item 4, above.

At any time, a Client may terminate an Account, or withdraw all or part of an Account, or update her investment profile, which may initiate an adjustment in the Accounts' holdings. In that case, unless otherwise directed by the Client, Wealthfront will sell the securities in the Client Account (or portion of the Account, in the case of a partial withdrawal or update) at market prices at the time of the termination, withdrawal or update.

Investors evaluating Wealthfront's software based financial advisor service should be aware that Wealthfront's relationship with Clients is likely to be different from the "traditional" investment advisor relationship in several aspects:

1. Wealthfront is a software based financial advisor which means each Client must acknowledge her ability and willingness to conduct her relationship with Wealthfront on an electronic basis. Under the terms of the Account Agreement, each Client agrees to receive all Account information and Account documents (including this Brochure), and any updates or changes to same, through her access to the Site and Wealthfront's electronic communications. Unless noted otherwise on the Site or within this Brochure, Wealthfront's advisory service, the signature for the Account Agreement, and all documentation related to the advisory services are managed electronically. Wealthfront does make individual representatives available to discuss servicing matters with Clients.
2. To provide its advisory services and tailor its investment decisions to each Client's specific needs, Wealthfront collects information from each Client, including specific information about her investing profile such as financial situation, investment experience, and investment objectives. Wealthfront maintains this information in strict confidence subject to its Privacy Policy, which is provided on the Site. When customizing its investment solutions, Wealthfront relies upon the information received from a Client. Although Wealthfront contacts its Clients periodically as described further in Item 13 below, a Client must promptly notify Wealthfront of any change in her financial situation or investment objectives that might require a review or revision of her portfolio.
3. The software based financial advisor service includes preselected ETFs for each asset class within the plan recommended to a Client. Wealthfront does not allow Clients to select their own ETFs because each ETF and asset class is considered to be part of the overall investment plan. Investors with specific restrictions are not permitted to become Clients.



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

For its software based financial advisor service, Wealthfront provides Clients with financial advice that is based on Modern Portfolio Theory (MPT). MPT attempts to maximize a portfolio's expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by selecting the proportions of various asset classes rather than selecting individual securities. Historically, rigorous MPT-based financial advice has only been available through high-end financial advisors who typically require minimum account sizes of at least \$1 million and charge annual fees of at least 1% of assets under management. Wealthfront's goal is to enable anyone with at least \$5,000 to access the benefits of MPT.

Prior to the launch of the Wealthfront software based financial advisor service, it was not practical to offer rigorous and complete MPT to everyone because delivering a complete solution was too complex. Specifically, the number of calculations required to identify an optimized asset allocation, the ideal securities to represent each asset class, and an individual's true risk tolerance are beyond the scope of free, web-based tools. The job becomes even more difficult when considering the importance of periodically rebalancing a portfolio to maintain a desired risk level.

To employ MPT properly, one must start with an accurate determination of an individual's objective and subjective tolerance for risk. Achieving accuracy requires sophisticated algorithms applied to more detailed questions than are typically asked by advisors. Based on this risk analysis, Wealthfront seeks to create an individualized investment plan using the optimal asset classes in which to invest, the most efficient and inexpensive ETFs to represent each of those asset classes, and the ideal mix of asset classes based on the Client's specific risk tolerance. Wealthfront uses Mean Variance Optimization to rigorously evaluate every possible combination of the following eleven asset classes: US equities, foreign developed markets equities, emerging markets equities, dividend growth equities, real estate, natural resources, treasury inflation protected securities (TIPS), municipal bonds, corporate bonds, emerging markets bonds and US government bonds. Mean Variance Optimization uses the expected return and volatility for each asset class and the covariance among asset classes to find the combination that delivers the highest possible return for any given standard deviation of a portfolio's returns.

Wealthfront periodically reviews the entire population of more than 1,000 ETFs to identify the most appropriate ETFs to represent each asset class. We look for ETFs that minimize cost and tracking error and offer market liquidity. Many investors do not realize that ETFs do not exactly track the indexes they were created to mimic. Choosing an ETF with a low expense ratio that does not track the asset class recommended by our service runs the risk of sub-optimizing a Client's portfolio's performance. We choose ETFs that are expected to have sufficient liquidity to allow Client withdrawals at any time. Finally, we select ETFs that have conservative and shareholder-friendly securities lending policies.

In addition to choosing what we believe to be the best ETFs at the time, we explain why we chose each one. We provide a detailed analysis of how the selected ETF stacked up against the second and third best choice for each asset class on the dimensions described in the paragraph above.

Wealthfront continuously monitors our Clients' portfolios and periodically rebalances them back to the Clients' target mix in an effort to optimize returns for the intended level of risk. We consider tax implications and the volatility associated with each of our chosen asset classes when deciding when and how to rebalance.

### **Tax-Loss Harvesting**

Tax-loss harvesting is a technique used to lower your taxes while maintaining the expected risk and return profile of your portfolio. It harvests previously unrecognized investment losses to offset taxes due on your other gains and income. You can reinvest these tax savings to significantly grow the value of your portfolio.

In tax-loss harvesting, an investor sells a security at loss to accelerate capital loss realization. The realized capital loss can then be used to offset realized capital gains and ordinary income from other sources, lower tax liabilities at year-end, and therefore increase the after-tax return of the overall portfolio.

## **RISK CONSIDERATIONS**

Wealthfront cannot guarantee any level of performance or that any Client will avoid a loss of Account assets. **Any investment in securities involves the possibility of financial loss that Clients should be prepared to bear.**

When evaluating risk, financial loss may be viewed differently by each Client and may depend on many different risk items, each of which may affect the probability of adverse consequences and the magnitude of any potential losses. The following risks may not be all-inclusive, but should be considered carefully by a prospective Client before retaining Wealthfront's services. These risks should be considered as possibilities, with additional regard to their actual probability of occurring and the effect on a Client if there is in fact an occurrence.

**Market Risk** – The price of any security or the value of an entire asset class can decline for a variety of reasons outside of Wealthfront's control, including, but not limited to, changes in the macroeconomic environment, unpredictable market sentiment, forecasted or unforeseen economic developments, interest rates, regulatory changes, and domestic or foreign political, demographic, or social events. If a Client has a high allocation in a particular asset class it may negatively affect overall performance to the extent that the asset class underperforms relative to other market assets. Conversely, a low allocation to a particular asset class that outperforms other asset classes in a particular period will cause that Client Account to underperform relative to the overall market.

**Advisory Risk** – There is no guarantee that Wealthfront's judgment or investment decisions about particular securities or asset classes will necessarily produce the intended results. Wealthfront's judgment may prove to be incorrect, and a Client might not achieve her

investment objectives. Wealthfront may also make future changes to the investing algorithms and advisory services that it provides. In addition, it is possible that Clients or Wealthfront itself may experience computer equipment failure, loss of internet access, viruses, or other events that may impair access to Wealthfront's software based financial advisory service. Wealthfront and its representatives are not responsible to any Client for losses unless caused by Wealthfront breaching its fiduciary duty.

**Volatility and Correlation Risk** – Clients should be aware that Wealthfront's asset selection process is based in part on a careful evaluation of past price performance and volatility in order to evaluate future probabilities. However, it is possible that different or unrelated asset classes may exhibit similar price changes in similar directions which may adversely affect a Client, and may become more acute in times of market upheaval or high volatility. **Past performance is no guarantee of future results, and any historical returns, expected returns, or probability projections may not reflect actual future performance.**

**Liquidity and Valuation Risk** – High volatility and/or the lack of deep and active liquid markets for a security may prevent a Client from selling her securities at all, or at an advantageous time or price because Wealthfront and the Client's Broker may have difficulty finding a buyer and may be forced to sell at a significant discount to market value. Some securities (including ETFs) that hold or trade financial instruments may be adversely affected by liquidity issues as they manage their portfolios. While Wealthfront values the securities held in Client Accounts based on reasonably available exchange-traded security data, Wealthfront may from time to time receive or use inaccurate data, which could adversely affect security valuations, transaction size for purchases or sales, and/or the resulting advisory fees paid by a Client to Wealthfront.

**Credit Risk** – Wealthfront cannot control and Clients are exposed to the risk that financial intermediaries or security issuers may experience adverse economic consequences that may include impaired credit ratings, default, bankruptcy or insolvency, any of which may affect portfolio values or management. This risk applies to assets on deposit with any Broker utilized by Client, notwithstanding asset segregation and insurance requirements that are beneficial to Broker clients generally. In addition, exchange trading venues or trade settlement and clearing intermediaries could experience adverse events that may temporarily or permanently limit trading or adversely affect the value of Client securities. Finally, any issuer of securities may experience a credit event that could impair or erase the value of the issuer's securities held by a Client. Wealthfront seeks to limit credit risk by generally adhering to the purchase of ETFs, which are subject to regulatory limits on asset segregation and leverage such that fund shareholders are given liquidation priority versus the fund issuer; however, certain funds and products may involve higher issuer credit risk because they are not structured as a registered fund.

**Legislative and Tax Risk** - Performance may directly or indirectly be affected by government legislation or regulation, which may include, but is not limited to: changes in investment advisor or securities trading regulation; change in the U.S. government's guarantee of ultimate payment of principal and interest on certain government securities; and changes in the tax code that could affect interest income, income characterization and/or tax reporting obligations (particularly for ETF securities dealing in natural resources). Wealthfront does not engage in financial or tax planning, and in certain circumstances a Client may incur taxable income on her investments without a cash distribution to pay the tax due.

Clients who activate our tax-loss harvesting service are alerted to the following risks:

1. **Be aware that if you and/or your spouse have other taxable or non-taxable accounts, and you hold in those accounts any of the securities (including options contracts) held in your Wealthfront account, you cannot trade any of those securities 30 days before or after Wealthfront trades those same securities as part of the tax-loss harvesting strategy to avoid possible wash sales and, as a result, a nullification of any tax benefits of the strategy.** For more information on the wash sale rule, please read [IRS Publication 550](#).
2. **You should confer with your personal tax advisor regarding the tax consequences of investing with Wealthfront and engaging in the tax-loss harvesting strategy, based on your particular circumstances.** You and your personal tax advisors are responsible for how the transactions in your account are reported to the IRS or any other taxing authority. Wealthfront assumes no responsibility to you for the tax consequences of any transaction.
3. Wealthfront's tax-loss harvesting strategy is not intended as tax advice, and Wealthfront does not represent in any manner that the tax consequences described will be obtained or that Wealthfront's investment strategy will result in any particular tax consequence. The tax consequences of this strategy and other Wealthfront strategies are complex and may be subject to challenge by the IRS. This strategy was not developed to be used by, and it cannot be used by, any investor to avoid penalties or interest.
4. When Wealthfront replaces investments with "similar" investments as part of the tax-loss harvesting strategy, it is a reference to investments that are expected, but are not guaranteed, to perform similarly and that might lower an investor's tax bill while maintaining a similar expected risk and return on investor's portfolio. **Expected returns and risk characteristics are no guarantee of actual performance.**
5. You must notify Wealthfront of specific Restricted Securities you are prohibit investing in. If you instruct Wealthfront not to purchase certain Restricted Securities, Wealthfront will select an alternate Security to purchase on your behalf. You shall notify Wealthfront immediately if you consider any investments recommended or made for the Account to violate such restrictions.

**Foreign Investing and Emerging Markets Risk** - Foreign investing involves risks not typically associated with U.S. investments, and the risks may be exacerbated further in emerging market countries. These risks may include, among others, adverse fluctuations in foreign currency values, as well as adverse political, social and economic developments affecting one or more foreign countries. In addition, foreign investing may involve less publicly available information and more volatile or less liquid securities markets, particularly in markets that trade a small number of securities, have unstable governments, or involve limited industry. Investments in foreign countries could be affected by factors not present in the U.S., such as restrictions on receiving the investment proceeds from a foreign country, foreign tax laws or tax withholding requirements, unique trade clearance or settlement procedures, and potential difficulties in enforcing contractual obligations or other legal rules that jeopardize shareholder protection. Foreign accounting may be less transparent than U.S. accounting practices and foreign regulation may be inadequate or irregular.

**ETF Risks, including Net Asset Valuations and Tracking Error** - ETF performance may not exactly match the performance of the index or market benchmark that the ETF is designed to track because 1) the ETF will incur expenses and transaction costs not incurred by any applicable index or market benchmark; 2) certain securities comprising the index or market benchmark tracked by the ETF may, from time to time, temporarily be unavailable; and 3) supply and demand in the market for either the ETF and/or for the securities held by the ETF may cause the ETF shares to trade at a premium or discount to the actual net asset value of the securities owned by the ETF. Certain ETF strategies may from time to time include the purchase of fixed income, commodities, foreign securities, American Depositary Receipts, or other securities for which expenses and commission rates could be higher than normally charged for exchange-traded equity securities, and for which market quotations or valuation may be limited or inaccurate.

Clients should be aware that to the extent they invest in ETF securities they will pay two levels of advisory compensation – advisory fees charged by Wealthfront plus any management fees charged by the issuer of the ETF. This scenario may cause a higher advisory cost (and potentially lower investment returns) than if a Client purchased the ETF directly.

An ETF typically includes embedded expenses that may reduce the fund's net asset value, and therefore directly affect the fund's performance and indirectly affect a Client's portfolio performance or an index benchmark comparison. Expenses of the fund may include investment advisor management fees, custodian fees, brokerage commissions, and legal and accounting fees. ETF expenses may change from time to time at the sole discretion of the ETF issuer. Wealthfront discloses each ETF's current information, including expenses, on the Site. ETF tracking error and expenses may vary.

**Inflation, Currency, and Interest Rate Risks** - Security prices and portfolio returns will likely vary in response to changes in inflation and interest rates. Inflation causes the value of future dollars to be worth less and may reduce the purchasing power of an investor's future interest payments and principal. Inflation also generally leads to higher interest rates, which in turn may cause the value of many types of fixed income investments to decline. In addition, the relative value of the U.S. dollar-denominated assets primarily managed by Wealthfront may be affected by the risk that currency devaluations affect Client purchasing power.

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### **Item 9 Disciplinary Information**

Like all registered investment advisors, Wealthfront is obligated to disclose any disciplinary event that might be material to any Client when evaluating our services.

We do not have any legal, financial, regulatory, or other “disciplinary” item to report to any Client. This statement applies to our firm and to every employee of our firm.

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

Wealthfront utilizes its wholly-owned subsidiary, Wealthfront Brokerage Corporation to effect transactions on behalf of our Clients. Wealthfront Brokerage Corporation is an introducing broker registered with the Financial Industry Regulatory Authority and the U.S. Securities & Exchange Commission, whose sole purpose is to service Wealthfront's Clients. Wealthfront Brokerage Corporation, as a broker-dealer, has entered into a fully disclosed introducing clearing agreement with Apex Clearing Corporation ("Apex", "Clearing Firm" or "Broker"). Wealthfront Brokerage Corporation instructs the Clearing Firm on behalf of Wealthfront, where applicable, to provide execution services for Clients' Account transactions pursuant to the authority the Client has given under the applicable Account Agreement.



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

Wealthfront's paramount ethical, professional, and legal duty is to act at all times as a fiduciary to its Clients. This means that Wealthfront puts the interests of its Clients *ahead of its own*, and carefully manages for any perceived or actual conflict of interest that may arise in relation to its advisory services. Wealthfront has adopted a Code of Ethics, which is designed to ensure that we meet our fiduciary obligation to Clients, enhance our culture of compliance within the firm, and detect and prevent any violations of securities laws.

Wealthfront's Code of Ethics is detailed in a Statement of Policies and Procedures ("Statement"), which establishes standards of conduct for Wealthfront's officers and employees ("Supervised Persons" as defined in the Statement) and is consistent with the Code of Ethics requirements of Rule 204A-1 under the Investment Advisers Act of 1940, as amended. The Statement includes general requirements that all Supervised Persons comply with their fiduciary obligations to Clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest, and confidentiality of client information.

Each new Wealthfront employee receives a copy of the Statement when hired by Wealthfront. Wealthfront sends copies of any amendments to the Statement to all Supervised Persons, who must acknowledge in writing having received the Statement and the amendments. Annually or as otherwise required, each Supervised Person must confirm to Wealthfront that he or she has complied with the Statement during such preceding period.

Under the Statement, Wealthfront's directors and Supervised Persons may personally invest in securities recommended on the Site, specifically the ETFs recommended for each asset class. Transactions in ETFs have been pre-approved for trading by Wealthfront's Chief Compliance Officer based on the security's liquidity profile and structural characteristics. Supervised Persons may also buy or sell specific securities for their own accounts that are not purchased or sold for Clients. Wealthfront monitors the securities transactions of all Supervised Persons and investigates any unusual patterns that it detects. It also requires all Supervised Persons to report any violations of the Statement promptly to Wealthfront's Chief Compliance Officer.



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### Item 12 Brokerage Practices

Wealthfront Brokerage Corporation acts as an introducing broker-dealer in effecting securities transactions for Clients' Accounts in which Apex provides trade execution and clearing services (see Item 10).

Wealthfront seeks the best overall execution of transactions for Client Accounts consistent with its judgment as to the business qualifications of the various Brokers through which Wealthfront Accounts are available. Wealthfront obtains information as to the general level of commission rates being charged by the brokerage community from time to time, and will periodically evaluate the overall reasonableness of brokerage commissions paid on Client transactions by reference to such data to ensure competitive commission rates. "Best execution" means the best overall qualitative execution, not necessarily the lowest possible commission cost. Accordingly, the factors that Wealthfront considers when selecting or recommending Brokers are matters that directly benefit Client Accounts, and consistent with obtaining the best execution of their transactions. These factors include: execution capability and available liquidity; timing and size of particular orders; commission rates; responsiveness; trading experience; reputation, integrity and fairness in resolving disputes; quality of their application programming interfaces and technology; and other factors.

Unlike many investment advisors, Wealthfront does *not* engage in any "soft dollar" practices involving the receipt of research or other brokerage service in relation to client commission money, nor do we receive any research or other products in connection with Client transactions. Wealthfront also does not use Client commission money to compensate or otherwise reward any brokers for client referrals.

In the interest of better trade execution, Wealthfront may, but is not required to, aggregate orders for a Client's Account with orders of other Clients. Wealthfront may aggregate securities sale and purchase orders for a Client with similar orders being made contemporaneously for other Client Accounts. In such event, the average price of the securities purchased or sold in such a transaction may be determined and a Client may be charged or credited, as the case may be, the average transaction price. As a result, however, the price may be less favorable to the Client than it would be if similar transactions were not being executed concurrently for other Accounts.

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

Wealthfront provides all Clients with continuous access via the Site to real-time reporting information about Account status, securities positions and balances. Clients may also receive periodic e-mail communications describing portfolio performance, Account information, and product features.

Wealthfront's software based financial advisor service assumes that a portfolio created using MPT-based techniques will not stay optimized over time, and must be periodically rebalanced back to its original targets to maintain the intended risk level and asset allocations. Wealthfront reviews each Client's Account when it is opened, and continuously monitors and periodically rebalances each Client's portfolio to seek to maintain a Client's targeted risk tolerance and optimal return for the Client's risk level. Wealthfront also conducts reviews when material changes may have occurred to a Client's portfolio or investment objectives. We consider tax implications and the volatility associated with each of our chosen asset classes when deciding when and how to rebalance.

On a quarterly basis, Wealthfront contacts each Client to remind them to review and update the profile information they previously provided. Wealthfront also requests that Clients reconfirm the same information on an annual basis. These notifications and confirmations include a link to the Client's current information and contact information for the Wealthfront support team. Currently the Wealthfront team members whose tasks include supervising, arranging and responding to these notifications, confirmations and reviews are: the Chief Compliance Officer with help from Client Services.

Wealthfront conducts separate reviews related to the ETFs used for Client portfolios. These reviews are approved by Wealthfront's Investment Committee, which has the authority, if necessary, to take action up to and including the removal, addition or replacement of an ETF, from the portfolios advised by Wealthfront.

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

Wealthfront expects from time to time to run promotional campaigns to attract Clients to open Accounts on the Site. These promotions may include additional Account services or products offered on a limited basis to select Clients, more favorable fee arrangements, and/or reduced or waived advisory fees for Clients.

These arrangements may create an incentive for a third-party or other existing Client to refer prospective Clients to Wealthfront, even if the third-party would otherwise not make the referral. These arrangements may also create a conflict of interest for a Client to maintain a certain level of assets managed through Wealthfront if doing so would result in eligibility to receive an incentive, bonus or additional compensation.

Wealthfront may also pay pre-determined fees to third-parties for driving new users to Wealthfront, which may be in the form of so-called CPM, CPC or CPA arrangements (respectively, impressions, clicks or actions through other websites).

If Wealthfront determines in the future to pay or compensate a third-party for Client referrals, Wealthfront will disclose this practice in writing to the Client and comply with the requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended, to the extent required by applicable law.

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### **Item 15 Custody**

Wealthfront does not maintain custody of any Client funds or securities. Wealthfront provides instructions to Wealthfront Brokerage Corporation regarding the investment of the Client's assets (see Item 10).

Each Client will receive Account information, including trade confirmations and monthly account statements, directly from her Broker by logging into their Wealthfront account. Each Client should carefully review this information and compare it with information provided by Wealthfront when they are evaluating Account performance, securities holdings, and transactions. While Wealthfront reconciles trading information with Brokers on a regular basis and provides Account information to Clients on the Site, a Client may experience differences in the information due to pending transactions, dividends, corporate actions, cash movements or withdrawals, or other activity. Only the Broker's (or other third-party's) trading confirmations and statements represent the official records of a Client's Account.

## **Form ADV Part 2 Client Brochure**

### **Item 16 Investment Discretion**

Wealthfront requires that an Account Agreement be completed by a Client who decides to retain Wealthfront as her investment advisor. Under the terms of the Account Agreement, Wealthfront assumes full discretionary trading and investment authority over the Client's assets held with the Broker. This means that Wealthfront is given full authority under a power of attorney arrangement to select the timing, size, and identity of securities to buy and sell for the Client. Additional information about the Account Agreement can be found in Items 4 and 7, above.

## **Form ADV Part 2 Client Brochure**

### **Item 17 Voting Client Securities**

Wealthfront, as a matter of policy and as a fiduciary to our clients, has responsibility for voting proxies for portfolio securities consistent with the best economic interests of the clients. Our firm maintains written policies and procedures as to the handling, research, voting and reporting of proxy voting and makes appropriate disclosures about our firm's proxy policies and practices. Our policy and practice includes the responsibility to monitor corporate actions, receive and vote client proxies and disclose any potential conflicts of interest as well as making information available to clients about the voting of proxies for their portfolio securities and maintaining relevant and required records. Clients may request information regarding how Wealthfront voted a client's proxies, and clients may request a copy of the firm's proxy policies and procedures by emailing [support@wealthfront.com](mailto:support@wealthfront.com).

## **Form ADV Part 2 Client Brochure**

### **Item 18 Financial Information**

This Item is not applicable because Wealthfront does not require or solicit the prepayment of any advisory fees, and does not have any adverse financial condition that is reasonably likely to impair our ability to continuously meet our contractual commitments to our Clients.



203 Forest Avenue  
Palo Alto, CA 94301

[www.Wealthfront.com](http://www.Wealthfront.com)

**Form ADV Part 2B**  
**Client Brochure Supplement**

June 30, 2014

This Brochure Supplement provides information about certain Wealthfront employees listed below that supplements the Wealthfront Brochure you should have received above. Please contact Wealthfront at (650) 249-4258 or [support@wealthfront.com](mailto:support@wealthfront.com) if you did not receive Wealthfront's Brochure or if you have any questions about the contents of this Brochure Supplement. Additional information about Brian Dennen is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Wealthfront's discretionary investment advice is provided by a team comprised of more than four Supervised Persons, and Wealthfront has provided group supplementary information below for the four Supervised Persons with the most significant responsibility for the day-to-day advice provided to Clients.



**Andrew Rachleff, born 1958**

Education

BS, University of Pennsylvania, 1980

MBA, Stanford University Graduate School of Business, 1984

Business Background

1995 – 2010 General Partner, Benchmark Capital

2005 – present Lecturer, Stanford University Graduate School of Business

2007 – 2013 President & CEO, Wealthfront Inc.

2013 – present Executive Chairman, Wealthfront Inc.

Disciplinary Information

None

Other Business Activity

None

Additional Compensation

None

Supervision

Mr. Rachleff serves as the Executive Chairman of Wealthfront, and as such is not subject to additional supervision.

**Adam Nash, born 1975**

Education

BS/MS, Stanford University, 1997

MBA, Harvard University Graduate School of Business, 2001

Business Background

1996 – 1998 Software Engineer, Apple

1998 – 1999 Product Manager, Preview Systems, Inc.

2001 – 2002 Associate Partner, Atlas Venture

2003 – 2007 Director, eBay Express North America

2008 – 2011 Vice President, Product Management, LinkedIn

2011 – 2012 Executive in Residence, Greylock Partners

2013 – 2013 Chief Operations Officer, Wealthfront, Inc

2014 – present President and CEO, Wealthfront Inc.

Disciplinary Information

None

Other Business Activity

None

Additional Compensation

None

Supervision

Mr. Nash is the President & CEO of Wealthfront, and as such is not subject to additional supervision

**Avery Moon, 1976**

Education

BS, Applied and Industrial Mathematics, University of Arizona, 1998

BA, Economics, University of Arizona, 1998

BA, University of Arizona, Eller College of Management, 1998

Business Background

1995 – 1998 Principal Consultant and Controller, Tarizona Health Consultants

1998 – 2007 CTO & Vice President Product, Infotone Communications

2007 – 2008 Senior Architect, EMC /RSA

2008 – 2013 Senior Director of Engineering, LinkedIn

2013 – present VP Research & Engineering, Wealthfront Inc.

Disciplinary Information

None

Other Business Activity

None

Additional Compensation

None

Supervision

Mr. Moon is supervised by Mr. Nash pursuant to Wealthfront's policies and procedures.

**Qian Liu, born 1981**

Education

CFA, CFA Institute, 2012

PhD, University of Pennsylvania, 2009

MS, University of Pennsylvania, 2005

BS, Tsinghua University, 2003

Business Background

2008 – 2009 Associate, Credit Suisse

2009 – present Investment Strategist, Wealthfront Inc.

Disciplinary Information

None

Other Business Activity

None

Additional Compensation

None

Supervision

Ms. Liu is supervised by Mr. Moon pursuant to Wealthfront's policies and procedures.

**Brian Dennen, born 1975**

Education

BS, University of California, San Diego, 1998

Business Background

1999 – 2002 Compliance Manager, Mr. Stock, Inc.

2002 – 2004 CCO, Redwood Trading LLC

2005 – 2007 Director and CCO, Urchin Capital Partners

2008 – 2009 Managing Director and CCO, Iron Capital Securities

2010 – 2011 Managing Director and CCO, Livevol Securities, Inc.

2012 – present Chief Compliance Officer, Wealthfront Inc.

Disciplinary Information

None

Other Business Activity

CEO and Chief Compliance Officer of Wealthfront Brokerage Corporation.

Additional Compensation

None

Supervision

Mr. Dennen is supervised by Mr. Nash pursuant to Wealthfront's policies and procedures.