

## Item 1: Cover Page

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

March 30, 2018

#### **LFS Asset Management**

CRD No. 154223

577 Airport Boulevard, Suite 150  
Burlingame, CA 94010

phone: 650-344-1700  
email: [jlau@lfsfinance.com](mailto:jlau@lfsfinance.com)  
website: [www.lfsfinance.com](http://www.lfsfinance.com)

This brochure provides information about the qualifications and business practices of LFS Asset Management. If you have any questions about the contents of this brochure, please contact us at 650-344-1700 or via email to [jlau@lfsfinance.com](mailto:jlau@lfsfinance.com). 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. Registration with the SEC or State Regulatory Authority does not imply a certain level of skill or expertise.

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

## **Item 2: Material Changes**

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

## Item 3: Table of Contents

Item 1: Cover Page.....	1
Item 2: Material Changes .....	2
Item 3: Table of Contents.....	3
Item 4: Advisory Business.....	5
A. Description of Your Advisory Firm.....	5
B. Description of Advisory Services Offered.....	5
C. Client-Tailored Services and Client-Imposed Restrictions.....	8
D. Wrap Fee Programs.....	8
E. Client Assets Under Management .....	8
Item 5: Fees and Compensation.....	9
A. Methods of Compensation and Fee Schedule .....	9
B. Client Payment of Fees.....	12
C. Additional Client Fees Charged .....	12
D. Prepayment of Client Fees .....	12
E. External Compensation for the Sale of Securities to Clients.....	13
Item 6: Performance-Based Fees and Side-by-Side Management.....	14
Item 7: Types of Clients.....	15
Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss .....	16
A. Methods of Analysis and Investment Strategies .....	16
B. Investment Strategy and Method of Analysis Material Risks .....	22
C. Security-Specific Material Risks .....	24
Item 9: Disciplinary Information .....	25
A. Criminal or Civil Actions.....	25
B. Administrative Enforcement Proceedings.....	25
C. Self-Regulatory Organization Enforcement Proceedings .....	25
Item 10: Other Financial Industry Activities and Affiliations.....	26
A. Broker-Dealer or Representative Registration .....	26
B. Futures or Commodity Registration.....	26
C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest.....	26

D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest.....	27
Item 11: Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading....	28
A. Code of Ethics Description.....	28
B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest .....	28
C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest .....	28
D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest.....	29
Item 12: Brokerage Practices .....	30
A. Factors Used to Select Broker-Dealers for Client Transactions.....	30
B. Aggregating Securities Transactions for Client Accounts.....	34
Item 13: Review of Accounts .....	37
A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved.....	37
B. Review of Client Accounts on Non-Periodic Basis.....	37
C. Content of Client-Provided Reports and Frequency.....	37
Item 14: Client Referrals and Other Compensation.....	38
A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest.....	38
B. Advisory Firm Payments for Client Referrals.....	38
Item 15: Custody .....	39
Item 16: Investment Discretion.....	40
Item 17: Voting Client Securities.....	41
Item 18: Financial Information .....	42
A. Balance Sheet.....	42
B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients .....	42
C. Bankruptcy Petitions During the Past Ten Years .....	42

## Item 4: Advisory Business

### A. Description of Your Advisory Firm

LFS Asset Management ("LFS" and/or the "firm") is an independent asset management and financial planning firm offering a variety of financial services. John Lau is the principal shareholder and controlling person of LFS.

### B. Description of Advisory Services Offered

LFS is an independent asset management and financial planning firm offering a variety of financial services to individuals and high-net-worth individuals, trusts, charitable organizations, corporations, partnerships, and other legal entities.

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

For its discretionary asset management services, LFS receives a limited power of attorney to effect securities transactions on behalf of its clients that include securities and strategies as described in Item 8 of this Brochure.

LFS's discretionary asset management services are predicated on creating diversified portfolios consisting of individual securities, mutual funds, and exchange-traded funds. The portfolio allocation chosen seeks a projected return potential consistent with the client's investment objectives, goals, tolerance for risk, and other personal and financial circumstances. In preparing the asset allocation, LFS will analyze each client's current investments, investment objectives, goals, age, time horizon, financial circumstances, investment experience, investment restrictions and limitations, and risk tolerance in order to make appropriate portfolio implementation decisions. LFS may engage third-party service providers to assist with the tax and estate planning portion of the services provided to clients. In addition, LFS may utilize third-party software to analyze individual security holdings and separate account managers utilized within the client's portfolio.

LFS will prepare an investment policy statement based on the client's investment objectives, goals, tolerance for risk, and such other factors unique to the client and provide appropriate recommendations. On a quarterly basis, LFS, in connection with a third-party service provider, will provide such clients with reports regarding the performance of their portfolios. In addition, LFS will monitor those portfolios and make additional recommendations from time to time to rebalance and/or reallocate each client's investments as necessary.

LFS's investment advisory services to clients, as noted above, take into account a client's personal financial circumstances, investment objectives, and tolerance for risk (e.g., cash-flow, tax, and estate). LFS's engagement with a client will include, as appropriate, the following:

- Providing assistance in reviewing the client's current investment portfolio against the client's personal and financial circumstances as disclosed to LFS in response to a questionnaire and/or in discussions with the client and reviewed in meetings with LFS.

- Analyzing the client's financial circumstances, investment holdings and strategy, and goals.
- Providing assistance in identifying a targeted asset allocation and portfolio design.
- Implementing and/or recommending securities as described in Item 8 of this Brochure.
- Reporting to the client on a quarterly basis or at some other interval agreed to with the client information on contributions and withdrawals in the client's investment portfolio and the performance of the client's portfolio measured against appropriate benchmarks (including benchmarks selected by the client).
- Proposing changes in the client's investment policy statement and/or targeted asset allocation in consideration of changes in the client's personal circumstances, investment objectives and tolerance for risk, the performance record of any of the client's investments, and/or the performance of any fund or manager retained by the client.
- If the client's portfolio and personal circumstances, investment objectives, and tolerance for risk make such advice appropriate, providing recommendations to hedge a client's portfolio through the use of derivative strategies, to generate additional income through the use of covered call option writing strategies involving exchange listed or OTC options, and/or to monetize or hedge concentrated stock positions.

In addition to providing LFS with information regarding their personal financial circumstances, investment objectives, and tolerance for risk, clients are required to provide any reasonable investment restrictions that should be imposed on the management of their portfolio, and to promptly notify LFS of any changes in such restrictions or in their personal financial circumstances, investment objectives, goals, and tolerance for risk. On a quarterly basis, LFS's reports to clients will remind clients of their obligation to inform LFS of any such changes or any restrictions that should be imposed on the management of their account. LFS will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives, and tolerance for risk.

When appropriate to the needs of and suitability for a client, LFS will assist the client in developing a strategy for monetizing/hedging a portfolio or a concentrated stock position held by the client. Monetizing a concentrated stock position allows a client to receive funds to diversify the portfolio and limit its downside exposure while allowing for the continued potential to participate, to a lesser extent, in any increase in the price of the concentrated stock. Hedging a concentrated stock position allows a client to protect against losses below a certain stock price while allowing for the potential to participate in any increase in the price of the stock.

#### **B.1.a. Institutional Intelligent Portfolios™**

We offer an automated investment program (the "Program") through which clients are invested in a range of investment strategies we have constructed and manage, each consisting of a portfolio of exchange-traded funds ("ETFs") and a cash allocation. The client may instruct us to exclude up to three ETFs from their portfolio. The client's portfolio is held in a brokerage account opened by the client at Charles Schwab & Co., Inc. ("CS&Co"). We use the Institutional Intelligent Portfolios® platform ("Platform"), offered by Schwab Performance Technologies ("SPT"), a software provider to independent investment advisors and an affiliate of CS&Co., to

operate the Program. We are independent of and not owned by, affiliated with, or sponsored or supervised by SPT, CS&Co., or their affiliates (together, "Schwab"). We, and not Schwab, are the client's investment advisor and primary point of contact with respect to the Program. We are solely responsible, and Schwab is not responsible, for determining the appropriateness of the Program for the client, choosing a suitable investment strategy and portfolio for the client's investment needs and goals, and managing that portfolio on an ongoing basis. We have contracted with SPT to provide us with the Platform, which consists of technology and related trading and account management services for the Program. The Platform enables us to make the Program available to clients online and includes a system that automates certain key parts of our investment process (the "System"). The System includes an online questionnaire that helps us determine the client's investment objectives and risk tolerance and select an appropriate investment strategy and portfolio. Clients should note that we will recommend a portfolio via the System in response to the client's answers to the online questionnaire. The client may then indicate an interest in a portfolio that is one level less or more conservative or aggressive than the recommended portfolio, but we then make the final decision and select a portfolio based on all the information we have about the client. The System also includes an automated investment engine through which we manage the client's portfolio on an ongoing basis through automatic rebalancing and tax-loss harvesting (if the client is eligible and elects).

We charge clients a fee for our services as described below under Item 5: Fees and Compensation. Our fees are not set or supervised by Schwab. Clients do not pay brokerage commissions or any other fees to CS&Co. as part of the Program. Schwab does receive other revenues in connection with the Program.

We do not pay SPT fees for the Platform so long as we maintain \$100 million in client assets in accounts at CS&Co. that are not enrolled in the Program. If we do not meet this condition, then we pay SPT an annual licensing fee of 0.10% (10 basis points) on the value of our clients' assets in the Program. This fee arrangement gives us an incentive to recommend or require that our clients with accounts not enrolled in the Program be maintained with CS&Co.

## **B.2. Financial Planning Services**

Clients will receive a written or oral report (depending on the client's preference) providing a basic financial plan designed to help achieve the client's stated financial goals and objectives. Based on the client's needs, financial planning services may include (but are not limited to) the following:

- Preparation of a recommended asset allocation that serves to diversify the client's portfolio among different categories of investments, such as domestic and international small, medium, and large capitalization securities; corporate and government fixed income (short-, intermediate-, and long-term maturities); emerging market securities (i.e., foreign issuers); real estate investment trusts; and such other alternative asset categories that are suitable in light of the client's investment goals, objectives, and risk tolerance.
- Preparation of an investment policy statement setting forth the investment plan of the client with specific direction in terms of diversification requirements, tax issues, estate

planning issues, risk tolerance, retirement, and other identified objectives of the client, including a targeted rate-of-return objective.

- Preparation of a retirement plan that serves to identify whether the client is saving enough and investing in a way that meets retirement objectives in light of the client's financial circumstances and risk tolerance.
- Preparation of cash flow projections to ensure that the client can meet daily living expenses and obligations.
- Insurance planning to meet the needs of the client, taking into account family, business, and other financial objectives of the client.

LFS gathers required information through in-depth personal interviews and questionnaires. Information gathered includes a client's current financial status, investment objectives, future goals, and attitudes towards risk. Related documents supplied by the client are carefully reviewed, and a report is prepared covering one or more of the above-mentioned topics as directed by the client. The client is under no obligation to act on the investment adviser's or associated person's recommendation. Moreover, if the client elects to act on any of the recommendations, the client is under no obligation to effect the transaction through the investment adviser or the associated person when such person is employed as an agent with a licensed broker-dealer or is licensed as a broker-dealer or through any associate or affiliate of such person.

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

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

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

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

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

As of December 31, 2017, LFS has \$115,600,000 in discretionary assets under management and \$0 in non-discretionary assets under management.



## Item 5: Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### A.1. Asset Management Fees

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

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

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

<u>Portion of Assets Under Management</u>	<u>Annual Fee</u>
\$0–\$499,999	1.50%
\$500,000–\$1,999,999	1.00%
\$2,000,000–\$2,999,999	0.75%
\$3,000,000–\$3,999,999	0.50%
\$4,000,000–\$4,999,999	0.25%
\$5,000,000 and above	0.15%

For clients enrolled in the Schwab Institutional Intelligent Portfolios™ program, LFS charges the following:

<u>Portion of Assets Under Management</u>	<u>Annual Fee</u>
All accounts	0.60%

LFS generally requires a minimum account value of \$500,000 for accounts it manages on a discretionary basis. LFS, in its sole discretion, may waive the required minimum. LFS may combine related accounts to ensure the client receives the most favorable fee rate. For example, if a client has \$250,000 to invest and the client's spouse has \$250,000 to invest, their account values would be combined to reach the \$500,000 level so that a 1.00% fee rate would apply. As a result, the total annual fee would be \$5,000.

Asset-based fees are always subject to the investment advisory agreement between the client and LFS. Generally, fees will be charged quarterly in advance. The client and the client's custodian or broker-dealer will be invoiced at the beginning of each calendar quarter, based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of the previous quarter, as mutually agreed upon by the client and LFS. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter. Adjustments for significant contributions to a client's portfolio are prorated for the quarter in which the change occurs; no adjustments will be made for withdrawals.

A client investment advisory agreement may be canceled by either party with five days' prior written notice. Upon termination, any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

**A.1.a. Important Disclosure – Custodian Investment Programs**

Please be advised that the firm utilizes certain custodians/broker-dealers. Under these arrangements we can access certain investment programs offered by our custodian that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. Please note the following:

**Limitation on Mutual Fund Universe for Custodian Investment Programs:** Please note that as a matter of policy we prohibit the receipt of revenue share fees from any mutual funds utilized for our advisory clients' portfolios. Nonetheless, if the firm decides to take these 12b-1 fees in the future, please note the following: There are certain programs offered by our custodian in which the firm participates that limit the types of mutual funds and mutual fund share classes to those in which our custodian has negotiated the receipt of 12b-1 and/or other revenue sharing fee payments from the mutual fund issuer or sponsor. As such, a client's investment options may be limited in certain of these programs to those mutual funds and/or mutual fund share classes that pay 12b-1 fees and other revenue sharing fee payments, and the client should be aware that the firm is not selecting from among all mutual funds available in the marketplace when recommending mutual funds to the client. Such fees are deducted from the net asset value of the mutual fund and generally, all things being equal, cause the fund to earn lower rates of return than those mutual funds that do not pay revenue sharing fees. The client is under no obligation to utilize such programs or mutual funds. Although many factors will influence the type of fund to be used, the client should discuss with their investment adviser representative whether a share class from a comparable mutual fund with a more favorable return to investors is available that does not include the payment of any 12b-1 or revenue sharing fees given the client's individual needs and priorities and anticipated transaction costs. In addition, the receipt of such fees can create conflicts of interest in instances (i) where our adviser representative is also licensed as a registered representative of a broker-dealer and receives a portion of 12b-1 and or revenue sharing fees as compensation – such compensation creates an incentive for the investment adviser representative to use programs which utilize funds that pay such additional compensation; and (ii) where the broker-dealer receives the entirety of the 12b-1 and/or revenue sharing fees and takes the receipt of such fees into consideration in terms of benefits it may elect to provide to the firm, even though such benefits may or may not benefit some or all of the firm clients.

**Additional Disclosure Concerning Wrap Programs:** In addition, our custodian offers certain wrap fee programs that (i) allow our investment adviser representatives to select mutual fund classes that either have no transaction fee costs associated with them but include embedded 12b-1 fees that lower the investor's return ("sometimes referred to as "A-Shares," depending on the mutual fund issuer), or (ii) allow the use of mutual fund classes that have transaction fees associated with them but do not carry embedded 12b-1 fees (sometimes referred to as "I-Shares," depending on the mutual fund sponsor). Our wrap fee programs offer investment

services and related transaction services for one all-inclusive fee (except as may be described elsewhere in this Brochure). The trading costs are typically absorbed by the firm and/or the investment representative. If a client's account holds A-Shares within a wrap fee program, the firm and/or its investment adviser representative avoids paying the transaction fees charged by other mutual fund classes, which in effect decreases the firm's costs and increases its revenues from the account. Effectively the cost is transferred to the client from the firm in the form of a lower rate of return on the specific mutual fund. This creates an incentive for the firm or investment adviser to utilize such funds as opposed to those funds that may be equally appropriate for a client but do not carry the additional cost of 12b-1 fees borne by the client. As a policy matter, the firm does not allow funds that impose 12b-1 or revenue sharing fees on the client's investment within its wrap fee programs. Should a client prefer an A-Share class or mutual fund share class that has embedded 12b-1 and/or revenue sharing fees, then the utilization of such funds within the wrap fee program requires specific written client consent acknowledging the conflict. Clients should understand and discuss with their investment adviser representative the types of mutual fund share classes available in the wrap fee program and the basis for using one share class over another in accordance with their individual circumstances and priorities.

## **A.2. Financial Planning Fees**

LFS offers either hourly or fixed-fee arrangements to all financial planning clients. Generally, the more complex the financial planning engagement, the higher the likelihood that fixed fees will be negotiated, as it is difficult with respect to complex cases to discern the exact number of hours required to provide services. In such cases, a fixed fee would be negotiated and then reevaluated at a later point to determine whether the fixed-fee compensation requires adjustment. Fixed fees are computed based upon a good faith estimate of hours required to perform services. Where the time spent can be accurately estimated, then an hourly charge would apply. LFS attempts to maintain parity with hourly and fixed charges while allowing some flexibility in estimation, taking into account case complexity and client-specific circumstances.

Financial planning fees will be billed at the following rate:

- Junior staff – \$275/hr
- Senior staff – \$450/hr
- Principal (John Lau) – \$650/hr

Invoices will be mailed out on a periodic basis reflecting completed work performed.

A financial planning agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination, any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

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

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

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

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

All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by exchange-traded funds, mutual funds, separate account managers, private placement, pooled investment vehicles, broker-dealers, and custodians retained by clients. Such fees and expenses are described in each exchange-traded fund and mutual fund's prospectus, each separate account manager's Form ADV and Brochure and Brochure Supplement or similar disclosure statement, each private placement or pooled investment vehicle's confidential offering memoranda, and by any broker-dealer or custodian retained by the client. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, a client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using LFS may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

For Institutional Intelligent Portfolios™, as described in Item 4: Advisory Business, clients do not pay fees to SPT or brokerage commissions or other fees to CS&Co. as part of the Program. Schwab does receive other revenues in connection with the Program. Brokerage arrangements are further described below in Item 12: Brokerage Practices.

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

LFS requires prepayment of asset-based fees only. Financial planning fees will be billed in arrears. LFS's fees will either be paid directly by the client or disbursed to the firm by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

A client investment advisory agreement may be canceled by either party with five days' prior written notice. If the agreement terminates other than at the end of a calendar quarter, LFS will promptly refund all unearned, prepaid fees to the client. A financial planning agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination of any account, any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

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

LFS's advisory professionals are compensated primarily through a salary and bonus structure. LFS's advisory professionals may be paid sales, service or administrative fees for the sale of mutual funds or other investment products. LFS's advisory professionals may receive commission-based compensation for the sale of securities and insurance products. Investment adviser representatives, in their capacity as a Fortune Financial Services registered representative, are prohibited from earning an advisory fee on the securities value transferred from an advisory client's Fortune Financial Services brokerage account unless commissions earned on such securities transactions occurred at least a 12–18 months prior to the transfer. Please see Item 10.C. for detailed information and conflicts of interest.

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

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

## Item 7: Types of Clients

LFS offers its investment services to various types of clients, including high-net-worth individuals, corporate executive groups, trusts, charitable organizations, corporations, partnerships, and other legal entities. Although LFS provides investment services to the various types of clients mentioned, the services are conditioned upon meeting certain minimum criteria established by the firm for each of the investment programs it offers.

LFS generally requires a minimum account value of \$500,000 for accounts it manages on a discretionary basis. LFS, in its sole discretion, may waive the required minimum.

For Institutional Intelligent Portfolios<sup>TM</sup>, clients eligible to enroll in the Program include individuals, IRAs, and revocable living trusts. Clients that are organizations (such as corporations and partnerships) or government entities, and clients that are subject to the Employee Retirement Income Security Act of 1974, are not eligible for the Program. The minimum investment required to open an account in the Program is \$5,000; however, LFS reserves the right to waive this requirement. The minimum account balance to enroll in the tax-loss harvesting feature is \$50,000.

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

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

#### **A.1. Methods of Analysis**

The methods of analysis may include fundamental and technical analysis, quantitative methods for optimizing client portfolios, computer-based risk/return analysis, and statistical and/or computer models utilizing long-term economic criteria. LFS may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

#### **A.2. Important Disclosure – Custodian Investment Programs**

Please be advised that the firm utilizes certain custodians/broker-dealers. Under these arrangements we can access certain investment programs offered by our custodian that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. Please see Item 5.A. of this Brochure for detailed information.

#### **A.3. Separate Account Managers, Mutual Funds, Exchange-Traded Funds, Independent Investment Managers, Individual Equity, and Fixed Income Securities**

LFS may recommend (i) separate account managers to manage client assets, and (ii) mutual funds and individual securities (including fixed income instruments). Such investments may represent certain asset class styles, such as large-, mid-, and small-cap value, growth, and core; international and emerging markets; and alternative investments. LFS may also assist the client in selecting one or more appropriate manager(s) for all or a portion of the client's portfolio. Such managers typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that LFS will take into account when recommending managers to clients.

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

LFS has formed relationships with third-party vendors that

- provide a technological platform for separate account management
- prepare performance reports
- perform due diligence monitoring of mutual funds, and managers perform billing and certain other administrative tasks

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

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



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

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

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

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

LFS will regularly review the activities of mutual funds and managers utilized for the client. Clients that engage managers or invest in mutual funds should first review and understand the disclosure documents of those managers or mutual funds, which contain information relevant to such retention or investment, including information on the methodology used to analyze securities, investment strategies, fees, and conflicts of interest.

#### **A.4. Material Risks of Investment Instruments**

LFS may invest in equity securities, corporate debt instruments, municipal fixed income instruments, government securities including asset-backed securities, and options on securities as detailed below:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange-traded funds

- Corporate debt securities, commercial paper, and certificates of deposit
- Municipal securities
- U.S. government securities
- Option contracts on securities
- Government and agency mortgage-backed securities
- Corporate debt obligations
- Mortgage-backed securities
- Collateralized obligations

#### **A.4.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

#### **A.4.b. Warrants and Rights**

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

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

#### **A.4.c. Mutual Fund Securities**

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

#### **A.4.d. Exchange-Traded Funds ("ETFs")**

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

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

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

#### **A.4.e. Corporate Debt, Commercial Paper, and Certificates of Deposit**

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

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

#### **A.4.f. Municipal Securities**

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

#### **A.4.g. U.S. Government Securities**

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

#### **A.4.h. Options on Securities**

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

#### **A.4.i. Government and Agency Mortgage-Backed Securities**

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

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

#### **A.4.j. Corporate Debt Obligations**

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

and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

#### **A.4.k. Mortgage-Backed Securities**

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

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

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

#### **A.4.l. Collateralized Obligations**

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

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

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

LFS utilizes a long term investment strategy for clients through recommending a diversified portfolio of mutual funds, exchange-traded funds, and in certain instances individual equity securities (including fixed income securities). Although equity securities carry risk as described in Item 8.A. above, LFS tries to mitigate such risk through recommending to clients diversified portfolios of securities.

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

Although LFS, as a general business practice, does not utilize leverage, there may be instances in which ETF's and in very limited circumstances, LFS will utilize leverage. In this regard please review the following:

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

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

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

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

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

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

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

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

## **B.4. Technical Trading Models**

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

## **B.5. Option Strategies**

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

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

- Covered call writing
- Long put options purchases
- Short put option strategy



**B.5.a. Covered Call Writing**

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

**B.5.b. Long Put Option Purchases**

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

**B.5.c. Short Put Option Strategy**

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

**C. Security-Specific Material Risks**

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

For Institutional Intelligent Portfolios™, the Program Disclosure Brochure includes a discussion of various risks associated with the Program, including the risks of investing in ETFs, as well as risks related to the underlying securities in which ETFs invest. In addition, the Program Disclosure Brochure also discusses market/systemic risks, asset allocation/strategy/diversification risks, investment strategy risks, trading/liquidity risks, and large investment risks.



## **Item 9: Disciplinary Information**

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

There is nothing to report for this item.

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

There is nothing to report for this item.

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

There is nothing to report for this item.

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

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

LFS's Managing Member and registered employees are also licensed with Fortune Financial Services, Inc. ("FFS"), a registered broker-dealer, investment adviser, and member FINRA/SIPC, as registered representatives of FFS's broker-dealer affiliate and as investment advisor representatives of FFS's investment advisor affiliate. Services provided by LFS's Managing Member and registered employees are provided through FFS.

As a result of LFS's managers, members, and registered personnel's affiliation with FFS, such professionals, in their capacity as registered representatives of FFS, are subject to the oversight of FFS and the Financial Industry Regulatory Authority, Inc. ("FINRA"). As such, clients of LFS should understand that their personal and account information is available to FINRA and FFS personnel in the fulfillment of their oversight obligations and duties.

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

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

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

#### **C.1. Fortune Financial Services, Inc.**

LFS's Managing Member and registered employees are also licensed with Fortune Financial Services, Inc. ("FFS"). FFS may provide brokerage services to one or more of the third-party advisors to whom investment advisor representatives of LFS, in their capacity as LFS investment advisor representatives, refer potential clients. FFS may receive brokerage fees for transactions completed on behalf of customers. As a result, a conflict of interest may be deemed to exist in that referral of separate account managers offered by FFS may benefit LFS by providing leverage for LFS to negotiate a more favorable economic arrangement or to procure additional services with or through FFS. LFS advisory clients are not compelled to effect securities transactions through FFS. LFS professionals who effect transactions for advisory clients will not receive transaction or commission compensation from either FFS or any other executing broker.

#### **C.2. Relationships with Several Insurance Firms**

Certain managers, members, and registered employees of LFS are agents for certain insurance carriers. With respect to the provision of financial planning services, LFS professionals may recommend insurance products offered by such carriers for whom they function as agents and receive a commission for doing so. Clients are advised of a potential conflict of interest in that there is an economic incentive to recommend insurance and other investment products of such

carriers. Clients are also advised that LFS professionals strive to put their clients' interests first and foremost. Clients are under no obligation to act upon any recommendations of LFS. Other than for insurance products that require a securities license, such as variable insurance products, clients may utilize any insurance carrier or insurance agency they desire. For products requiring a securities and insurance license, clients may be limited to those insurance carriers that have a selling agreement with LFS's professionals' employing broker-dealer.

### **C.3. Tax Practitioner Activities**

LFS's Managing Member, John Lau, is a licensed tax practitioner. Mr. Lau spends approximately 25% of his time devoted to such accounting activities.

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

Other than as disclosed in Item 10.C. above, LFS does not recommend separate account managers or other investment products to advisory clients in which it receives compensation. LFS professionals who maintain both a securities broker-dealer and insurance license do receive commission payments for the sale of variable annuity and other insurance products. However, such variable annuity and insurance products are not included as part of the investment advisory relationship between the client and LFS.

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

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

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

LFS has policies and procedures in place to ensure that the interests of its clients are given preference over those of LFS, its affiliates, and its employees. For example, there are policies in place to prevent the misappropriation of material nonpublic information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

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

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

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

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

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

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

- require our advisory representatives and employees to act in the client's best interest
- prohibit fraudulent conduct in connection with the trading of securities in a client account
- prohibit employees from personally benefitting by causing a client to act, or fail to act in making investment decisions

- prohibit the firm or its employees from profiting or causing others to profit on knowledge of completed or contemplated client transactions
- allocate investment opportunities in a fair and equitable manner

provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a Advisory representatives and employees must follow LFS's procedures when purchasing or selling the same securities purchased or sold for the client.

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

LFS, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other LFS clients. LFS will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of LFS to place the clients' interests above those of LFS and its employees.

## Item 12: Brokerage Practices

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

#### A.1. Custodian Recommendations

LFS may recommend that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. or Fidelity Investments (collectively herein "custodian"), FINRA-registered broker-dealers, members SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although LFS may recommend that clients establish brokerage accounts with custodian, LFS is independently owned and operated and not affiliated with custodian. Custodian does not charge separately for custody services, but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through or that settle into custodian accounts.

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

##### A.1.a. Institutional Intelligent Portfolios™

Client accounts enrolled in the Program are maintained at, and receive the brokerage services of, CS&Co., a broker-dealer registered with the Securities and Exchange Commission and a member of FINRA and SIPC. While clients are required to use CS&Co. as custodian/broker to enroll in the Program, the client decides whether to do so and opens its account with CS&Co. by entering into a brokerage account agreement directly with CS&Co. We do not open the account for the client. If the client does not wish to place his or her assets with CS&Co., then we cannot manage the client's account through the Program. CS&Co. may aggregate purchase and sale orders for ETFs across accounts enrolled in the Program, including both accounts for our clients and accounts for clients of other independent investment advisory firms using the Platform. Schwab Advisor Services™ (formerly called Schwab Institutional) is Schwab's business serving independent investment advisory firms like us.

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

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

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

#### **A.1.c. Client's Custody and Brokerage Costs**

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

#### **A.1.d. Soft Dollar Arrangements**

As a result of the firm's recommendation to clients to custody assets with a specific custodian, the firm is deemed to be in receipt of soft dollar benefits from said custodian. These soft-dollar benefits are in the form of institutional trading and custody services, other products and services, and additional compensation received from custodians. Please refer to the following Items A.1.e. through A.1.i. for disclosure of such benefits.

#### **A.1.e. Institutional Trading and Custody Services**

Custodian provides LFS with access to its institutional trading and custody services, which are typically not available to custodian retail investors. These services are generally available to independent investment advisers on an unsolicited basis, at no charge to them so long as a

certain minimum amount of the advisor's clients' assets are maintained in accounts at custodian. Custodian's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or that would require a significantly higher minimum initial investment.

#### **A.1.f. Other Products and Services**

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

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

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

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

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

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

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

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

LFS may participate in institutional customer programs sponsored by broker-dealers or custodians. LFS may recommend these broker-dealers or custodians to clients for custody and



brokerage services. There is no direct link between LFS's participation in such programs and the investment advice it gives to its clients, although LFS receives economic benefits through its participation in the programs that are typically not available to retail investors. These benefits may include the following products and services (provided without cost or at a discount):

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

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

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

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

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

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

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

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

**A.3. Directed Brokerage****A.3.a. LFS Recommendations**

LFS currently recommends Schwab or Fidelity as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

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

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

**B. Aggregating Securities Transactions for Client Accounts****B.1. Best Execution**

LFS, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, and the amount of such securities. LFS recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. LFS will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

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

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

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

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

Since LFS may be managing accounts with similar investment objectives, LFS may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by LFS in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

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

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

### **B.3. Order Aggregation**

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

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

### **B.4. Allocation of Trades**

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

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

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

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

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

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

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

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

All investment advisory clients receive customized performance reports of their accounts as well as comparative performance of underlying benchmark market indices and of their benchmark composite index on a quarterly basis. Investment advisory clients also receive standard account statements from the custodian of their accounts on a monthly basis, but no less frequently than quarterly.

Financial planning clients do not normally receive investment reports. There are no post-plan reviews unless engaged to do so by the client.

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

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

Other than as described in Item 10.C. and Item 12 of this Brochure, LFS does not receive economic benefits from external sources.

### **B. Advisory Firm Payments for Client Referrals**

LFS does not make payment for client referrals.

## Item 15: Custody

Under government regulations, LFS is deemed to have custody of a client's assets if the client authorizes us to instruct their custodian to deduct our advisory fees directly from the client's account. The custodian maintains actual custody of clients' assets. Clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances and portfolio holdings in the client's account. Clients are urged to compare billing statements provided by LFS to the custodian statement for accuracy. Any discrepancies should be brought to the firm's attention. The custodian's statement is the official record of the account.

## **Item 16: Investment Discretion**

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



## Item 17: Voting Client Securities

LFS does not take discretion with respect to voting proxies on behalf of its clients. LFS will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of LFS supervised and/or managed assets. In no event will LFS take discretion with respect to voting proxies on behalf of its clients.

Except as required by applicable law, LFS will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

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

Where LFS receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it will forward all notices, proof of claim forms, and other materials to the client. Electronic mail is acceptable where appropriate and where the client has authorized contact in this manner.

For Institutional Intelligent Portfolios<sup>TM</sup>, as described in the Program Disclosure Brochure, clients enrolled in the Program designate SWIA to vote proxies for the ETFs held in their accounts. We have directed SWIA to process proxy votes and corporate actions through and in accordance with the policies and recommendations of a third-party proxy voting service provider retained by SWIA for this purpose. Additional information about this arrangement is available in the Program Disclosure Brochure. Clients who do not wish to designate SWIA to vote proxies may retain the ability to vote proxies themselves by signing a special CS&Co form available from us.

## **Item 18: Financial Information**

### **A. Balance Sheet**

LFS does not require the prepayment of fees of \$1,200 or more, six months or more in advance, and as such is not required to file a balance sheet.

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

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

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

There is nothing to report for this item.