

## Form ADV Part 2A Disclosure Brochure

Hanson McClain Strategic Advisors, Inc.  
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This brochure provides information about the qualifications and investment advisory business practices of Hanson McClain Strategic Advisors, Inc. If you have any questions about the contents of this brochure please contact us at (916) 482-2196 or [info@hansonmcclain.com](mailto:info@hansonmcclain.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Additional information about our investment advisory business is also available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can view our information on this website by searching for "Hanson McClain Strategic Advisors". You can also search using the Firm's CRD number. The CRD number for the Firm is **158395**.

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

## **Item 2 – Material Changes**

This item does not apply at this time and a summary of material changes is not provided because this is the first edition of our Firm's Form ADV Part 2 disclosure brochure. In the future, this item will discuss only specific material changes that are made to our Disclosure Brochure and provide readers with a summary of such changes. We will also reference the date of the last annual update of the brochure.

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

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## Item 4 – Advisory Business

### **Background and History**

Hanson McClain Strategic Advisors, Inc. (also referred to as “HMSA”, “us”, “we” and the “Firm” throughout this document) is an investment advisor registered with the United States Securities and Exchange Commission.

- Hanson McClain Strategic Advisors is a newly formed investment advisor registered since July 2011.
- The Firm is owned and controlled by Hanson McClain Group, Inc.
  - The controlling owners of Hanson McClain Group, Inc. are **Scott Hanson**, Co-Chief Executive Officer and **Pat McClain**, Co-Chief Executive Officer.
- The Firm’s Supervisors and Executive Officers include:
  - Co-Chief Executive Officers - Scott T. Hanson and Patrick C. McClain,
  - President - Steven T. Burnett,
  - Chief Compliance Officer - Tracy M. Kliewer,
  - Director of Supervision – Alan R. Carlisle,
  - Secretary - Julia C. Frise,
  - Chief Financial Officer - Matthew E. Russell, and
  - Chief Investment Officer – David W. Schauer

HMSA was created in 2011 as a spin-off from our affiliated investment advisory firm, Hanson McClain Advisors. Hanson McClain Advisors was originally founded in 1996 to provide value-added financial advisory and investment management services to individuals and institutions.

In July 2011 HMSA initiated the development of our third-party money management program and began offering investment management services to clients of unaffiliated investment advisors. HMSA operates as an independent, privately owned investment management firm that provides fee-only discretionary investment management to individuals, pension and profit sharing plans, charitable organizations, corporations, and other entities working with introducing investment advisors that are not affiliated with our Firm.

This disclosure brochure provides important information about our Firm, our services, and fee arrangements. If you have received this disclosure brochure, it is because your investment advisor has recommended or suggested HMSA as a third-party money manager or sub-advisor to manage a portion of your investable assets. It is important that you read the information contained within this disclosure brochure carefully and speak with your investment advisor if you have any questions about our services or arrangements.

### **Client Assets Managed by Hanson McClain Strategic Advisors, Inc.**

As a newly formed investment advisor we do not have any client assets under management as of the date of this Disclosure Brochure. It is our intention to manage all client assets on a discretionary basis. Please refer to Item 16 for information regarding investment discretion.

### **Advisory Services**

HMSA offers fee-based investment management services. Clients access HMSA's investment management services in several ways:

#### ***Solicited or Sub-Advised Separately Managed Accounts (SMA)***

We offer our investment management services to clients through the use of unaffiliated independent investment advisors contractually engaged by HMSA (collectively referred to as "Introducing Advisors"). We can also serve as sub-advisor to an unaffiliated independent investment advisor. Under these arrangements, each account is held at an unaffiliated brokerage firm or custodian selected by the Introducing Advisors. We do not recommend any custodial relationships for our Introducing Advisors.

We are responsible for directing the investment of the portion of your funds and securities assigned to our Firm using a limited power of attorney granted to HMSA by you in our Investment Management Agreement. We do not receive compensation from commissions or other charges levied by the account's brokerage or custodial firm. We are compensated solely by the investment management fee as detailed in our Investment Management Agreement (see Item 5 of this brochure for more details regarding our fee procedures).

The primary contact for matters concerning HMSA SMA accounts is the referring Introducing Advisor.

Typically this service is structured so that HMSA will serve as the sole investment advisor to the account. However, HMSA may act as sub-advisor to an unaffiliated independent investment advisor.

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

The investment strategy and management program used to manage your account is always based on your unique and individual investment needs, as expressed in our Risk Tolerance Questionnaire and portfolio strategy selection or selections. Prior to introducing a prospective client to HMSA, the Introducing Advisor must collect financial and demographic information and assist you with identifying your financial objectives by filling out our Client Questionnaire. The Introducing Advisor will describe the investment programs available from HMSA that may be most beneficial and appropriate given your objectives in light of your responses. The Introducing Advisor will then forward the Client Questionnaire and all associated paperwork to HMSA. HMSA will conduct a final review of the client's selection to assess whether it is appropriate given the client's stated risk tolerance and objectives. HMSA is expressly authorized to rely on the information provided in the Client Questionnaire without further verification. You must notify your Introducing Advisor of material changes in financial circumstances or investment goals that warrant changes to the portfolio strategy selected for an account.

Although the investment portfolios offered via SMA are designed to meet the objectives of general investment strategies (i.e. aggressive versus conservative strategies), clients have the ability to impose reasonable restrictions on the accounts we manage.

Prior to HMSA providing investment management services, you are required to enter into a formal Investment Management Agreement with HMSA setting forth the terms and conditions under which we will manage your assets and a separate custodial/clearing agreement with the broker-dealer/custodian.

HMSA will allocate investment management assets of its client accounts, on a discretionary basis, among one or more of its proprietary investment management portfolio strategies.

Additional details and disclosures regarding HMSA's investment management portfolio strategies are provided to clients via separate documentation prior to or at the time a portfolio strategy is determined. Basic information is provided at Item 8 of this brochure. HMSA's proprietary portfolio strategies have been designed to comply with the provisions set forth under Rule 3a-4 of the Investment Company Act of 1940. Rule 3a-4 provides similarly managed investment programs, such as HMSA's strategic allocation program, with a non-exclusive safe harbor from the definition of an investment company. In accordance with Rule 3a-4, the following disclosure is specifically applicable to HMSA's management of client assets:

1. *Initial Interview* – at the opening of the account, HMSA, through the client's Introducing Advisor, shall obtain from the client information sufficient to determine the client's financial situation and investment objectives;
2. *Individual Treatment* - every client's account is managed on the basis of the client's financial situation and investment objectives;
3. *Quarterly Notice* – at least HMSA, through the client's Introducing Advisor, shall notify the client to advise HMSA whether the client's financial situation or investment objectives have changed, or if the client wants to impose and/or modify any reasonable restrictions on the management of the client's account;
4. *Annual Contact* – at least annually, HMSA, through the client's Introducing Advisor, shall contact the client to determine whether the client's financial situation or investment objectives have changed, or if the client wants to impose and/or modify any reasonable restrictions on the management of the client's account.
5. *Consultation Available* – HMSA and the client's Introducing Advisor shall be reasonably available to consult with the client relative to the status of client's account;
6. *Quarterly Statement* – clients are provided with a statement, at least quarterly, that is prepared by the account custodian and delivered to the client directly from the custodian. That statement shall contain a description of all activity in the client's account during the preceding period. The client may also receive a quarterly performance report from their Introducing Advisor that is made available to the Introducing Advisor by HMSA. All clients are responsible, and therefore urged by HMSA, to compare performance reports received from their Introducing Advisor against the account statements prepared and delivered by the custodian;
7. *Ability to Impose Restrictions* – clients have the ability to impose reasonable restrictions on the management of his/her/its account, including the ability to instruct HMSA not to purchase certain specific securities or mutual funds;
8. *No Pooling* – the client's beneficial interest in a security does not represent an undivided interest in all the securities held by the custodian, but rather represents a direct and beneficial interest in the securities which comprise the client's account;
9. *Separate Account* - a separate account is maintained for the client with the Custodian; and

*10. Ownership* – each client retains ownership of the account (e. g. right to withdraw securities or cash, exercise or delegate proxy voting, and receive transaction confirmations).

In order to access HMSA's investment management services through an SMA, clients must generally establish accounts at a qualified custodian approved for that purpose by HMSA.

Accounts established through a program sponsored by an unaffiliated investment advisor and/or broker-dealer will be held and cleared through a broker-dealer selected by the program sponsor, pursuant to a relationship between the sponsor and the clearing broker-dealer. The program sponsor reserves the right to designate alternative clearing and custody arrangements similar to those of its preferred clearing broker-dealer. Physical custody of funds and securities is maintained by the various clearing firms, not by HMSA. Please read Item 12 of this Brochure for more information regarding our brokerage practices.

In performing its services, HMSA is not required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely on the information provided. It remains the client's responsibility to promptly notify the Introducing Advisor if there is ever any change in the client's financial situation or investment objectives for the purpose of reviewing, evaluating, or revising previous recommendations and/or services. A copy of this Brochure will be provided to each client before, or at the same time, the Investment Management Agreement is executed. HMSA's clients are advised to promptly notify the Introducing Advisor if there are ever any changes in their financial situation or investment objectives, or if they wish to impose any reasonable restrictions upon HMSA's management services.

***Sponsored Investment Management Platforms or Investment Wrap Programs (Platform)***

Clients may also gain access to HMSA investment management services through programs or investment platforms sponsored by unaffiliated investment advisors and/or broker-dealers. These programs may be wrap-fee programs, lists of available investment managers, or general asset allocation programs. Through these programs or platforms, clients must establish an account directly with the program sponsor. HMSA is then available to clients for selection as an independent money manager. Many of the terms and conditions of these programs are determined by the program sponsor. Through these programs, HMSA will be available to clients for selection as an independent money manager.

Clients must establish an account directly with the program sponsor. All applicable contracts and account paperwork will be completed by the client with the assistance of the program sponsor representative. The program sponsor representative will obtain the necessary financial data from the client, assist the client in determining suitability, and help the client to set the appropriate investment objectives. The program sponsor will then provide all necessary information to HMSA. The program sponsor representative will meet periodically to review the client's financial situation, investment objectives, and current portfolios and then make any necessary changes to the HMSA portfolio strategy selection, and notify HMSA of any changes to be made. A representative of the program sponsor will be responsible for providing the HMSA disclosure brochure. Depending on the money manager program, a HMSA client agreement may also be provided to the client.

HMSA will have the power and authority, as granted by the client through the program sponsor contract, to make investment decisions over the portion of the client's assets delegated to HMSA. However, HMSA will not be responsible for executing transactions in the client's account. HMSA will provide all trade instructions to the sponsor of the program who will be responsible for executing the recommendations of HMSA.

Accounts established through a program sponsored by an unaffiliated investment advisor and/or broker-dealer will be held and cleared through a broker-dealer selected by the program sponsor, pursuant to a relationship between the sponsor and the clearing broker-dealer. The program sponsor reserves the right to designate alternative clearing and custody arrangements similar to those of its preferred clearing broker-dealer. Physical custody of funds and securities is maintained by the various clearing firms, not by HMSA. As is the case with SMA accounts, clients accessing HMSA through a Platform have the ability to impose reasonable restrictions on their accounts.

#### **Administrative Services Provided by ORION Advisor Services, LLC**

HMSA has contracted with ORION Advisor Services, LLC (referred to as "ORION") to utilize its technology platforms to support data reconciliation, performance reporting, fee calculation and billing, research, client database maintenance, quarterly performance evaluations, payable reports, web site administration, models, trading platforms, and other functions related to the administrative tasks of managing client accounts. Due to this arrangement, ORION will have access to client accounts, but ORION will not serve as an investment advisor to HMSA clients.

HMSA and ORION are non-affiliated companies. ORION charges HMSA an annual fee for each account administered by ORION. The annual fee is paid from the portion of the management fee retained by HMSA. Please refer to Item 5 of this brochure for details regarding our fee procedures.

#### **Types of Investments**

When managing client accounts, we typically construct each client's account holdings using low-fee mutual funds and no-load mutual funds to build diversified portfolios. It is not HMSA's typical investment strategy to attempt to time the market but we may increase cash holdings modestly as deemed appropriate, based on your risk tolerance and our expectations of market behavior. In addition, we may hold some of the following types of securities in client portfolios.

- Exchange-listed securities
- Securities traded over-the-counter
- Exchange Traded Funds (ETFs)
- Foreign issues
- Corporate debt securities (other than commercial paper)
- Certificates of deposit
- Municipal securities
- United States government securities

#### **Participation in Wrap Fee Programs**

Although we do not sponsor wrap-fee programs, we manage client accounts through both wrap-fee programs and traditional management programs. Under a wrap-fee program, advisory services and transaction services are provided for one fee. This is different from traditional management programs whereby our services are provided for a fee, but transaction services are billed separately on a per-transaction basis. From an investment management perspective, there is not a fundamental difference in the way we manage wrap-fee accounts versus traditional management accounts. The only significant difference is the way in which transaction services are paid.



## Item 5 – Fees and Compensation

The amount, calculation, and method of deducting our investment management fees will vary depending on the method you use to access our investment management services. Brokerage commissions and/or transaction ticket fees charged by the custodian are generally billed directly to your account. However, your Introducing Advisor or Platform sponsor may decide to absorb transaction costs and not charge your account separately. The decision to charge transaction fees to your account is always left to the Introducing Advisor or Platform sponsor and is not determined by HMSA. We do not receive any portion of commissions or fees from the Introducing Advisor, Platform sponsor, or the custodian on your account.

In addition, you may incur certain charges imposed by third parties other than HMSA in connection with investments made through your account, including but not limited to, mutual fund sales loads, 12b-1 fees and surrender charges, variable annuity fees and surrender charges, and IRA/qualified retirement plan fees. Management fees charged by HMSA are separate and distinct from the fees and expenses charged by investment company securities that may be held in your account. A description of these fees and expenses are available in each investment company security's prospectus.

### **HMSA Separately Managed Accounts (SMA)**

HMSA's annual fee for investment management services in an SMA is determined by the fee table shown in each client's Investment Management Agreement. The total management fee includes the fee paid to HMSA from the table plus an Asset Based Service Fee determined by and paid to the Introducing Advisor. The total investment management fee, therefore, covers both HMSA's Management Fee and the Asset-Based Service Fee. The Asset Based Service Fee is that portion of the total management fee paid to Introducing Advisor.

Clients may pay more or less to obtain HMSA's investment management services than do other clients. In such situations, where the client pays more, any additional compensation is paid to the Introducing Advisor or an Introducing Advisor representative in the role as an unaffiliated investment adviser or investment adviser representative. This compensation is for the consulting and monitoring services provided to the client on an ongoing basis relative to the client's engagement of HMSA. Such arrangements, and their terms and conditions, are exclusively determined between the client and the Introducing Advisor or the Introducing Advisor representative. HMSA is not a party to such arrangements.

The annual investment management fee rate charged varies depending upon the market value of assets under management and the specific type of investment management services to be rendered. Fees are typically deducted directly from the account on a quarterly basis. The service fee rate will be negotiated and agreed upon by the client and the Introducing Advisor. However, you cannot negotiate the portion of investment management fees retained by HMSA.

The maximum asset based service fee that may be charged by Introducing Advisors is currently 1.90%. While the specific fee sharing arrangement between HMSA and Introducing Advisors varies, generally HMSA will retain no more than 0.35% of the investment management fee charged to the client, so the total investment management fee charged to a client never exceeds 2.25%.

Accounts are billed using either a tiered fee schedule or a single fee rate. For accounts billed on a tiered fee schedule, multiple accounts from a single client household may be combined for the purpose of meeting breakpoints of a fee schedule.

Annual management fees are divided, calculated and billed quarterly in advance based on the Average Daily Balance (ADB) of the client's assets under management for the previous period. ADB does not take into account un-priced securities, nor does it count days when the account has zero balance. Fees are calculated based on all investments held or connected with the account and include money market and cash balances. However, HMSA may exclude from the fee calculation certain portions that are transferred in to a managed account as an accommodation or are not actively managed by HMSA. Accounts opened mid-period will be charged an initial management fee that includes a portion of the fee that is pro-rated for the number of days that the account is opened in the first period.

Both HMSA's Investment Management Agreement and the broker-dealer/custodian's custodial/clearing agreement will authorize the broker-dealer/custodian to accept instructions from HMSA to debit the account for the amount of our investment management fee and to directly remit that management fee to HMSA. The authority for HMSA to calculate and have fees deducted directly from client accounts is a form of custody (as defined by the SEC under Rule 206(4)-2 of the Investment Advisers Act of 1940). Please read Item 15 of this Brochure for more information regarding Custody.

You can cancel our management services at any time for any reason by providing your Introducing Advisor with written notice to cancel services. Your Introducing Advisor must then forward to us the written request to terminate our services. In rare situations, we may determine it is necessary to terminate a client arrangement. In these situations, we provide the client and Introducing Advisor with 30 (thirty) days written notice. Services will be terminated without penalty and you will receive a pro-rated refund based on the amount of time remaining in the quarter. HMSA will cooperate fully in any requests to deliver funds and securities held in the account to another custodian. Transactions in a closed account are subject to broker/dealer-custodian's normal brokerage rates. Termination of services will not affect the liabilities or obligations of the parties arising out of transactions initiated prior to termination.

### **Sponsored Investment Management Platforms**

Participants in a platform program will pay an annualized investment management fee to HMSA generally not to exceed 0.35% of the assets under HMSA's management. Depending on the program, HMSA's fee will either be charged in addition to the overall program fee charged to a client or included in the program fee charged to the client. When HMSA's annual fee for investment management services is separate from and in addition to the program fee, the fee rate is determined by the fee table shown in each client's Investment Management Agreement with HMSA. HMSA's investment management fees are non-negotiable with clients.

In accordance with the program sponsor's billing arrangements, HMSA may provide the program sponsor, broker-dealer, or account custodian a quarterly invoice. HMSA's fees are then billed and collected by the program sponsor, broker-dealer, or account custodian and remitted directly to HMSA. Clients should refer to the program sponsor's disclosure brochure and contract for a full description of all fees and billing arrangements related to the program.

Fees for accounts managed by HMSA on a broker-dealer's or custodian's platform will be calculated and collected by the platform sponsor and remitted to HMSA. In those cases, any other fees or costs, such as a platform fee or trading costs, is deducted and retained by the sponsor. HMSA is not a party to, and does not participate in, such fees.

The process for removing HMSA as a sub-advisor or money manager on a Platform must comply with the procedures established by the Platform sponsor. Typically, such procedures will be detailed in the

Platform client agreement. Therefore, please refer to the Platform agreement and other materials for specific procedures to remove HMSA as a sub-advisor.

### **Wrap-Fee Arrangements**

To the extent HMSA portfolios are offered by a custodian or on a platform where some portion of the custodian's fees are wrapped (or bundled), including transaction fees, and HMSA cannot determine the portion of the wrapped fee that represents transaction fees, the entire wrapped fee reduces both net of fee and gross of fee performance. HMSA does not estimate trading fees in such cases. HMSA does not currently sponsor or participate in any wrapped fee arrangements in which HMSA's management fee cannot be identified as a charge separate from the bundled fee.

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

Item 6 of the Form ADV Part 2 instructions is not applicable to our brochure because we do not charge or accept performance-based fees which can be defined as fees based on a share of capital gains on or capital appreciation of the assets held within a client's account.

## **Item 7 – Types of Clients**

We offer advisory services to:

- Individuals
- Pension and profit sharing plans
- Trusts, estates, or charitable organizations
- Corporations

### **Minimum Investment Amount Required**

We require a minimum investment amount of \$30,000 to establish an investment management account.

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

### **Method of Analysis in Formulating Investment Advice**

The HMSA investment philosophy extends beyond the "normal" asset class strategy. We not only use multiple fund managers with differing strategies and styles to gain better diversification, but we add an overlay of differing economic scenarios and outcomes that assist us in balancing portfolio risk and return. Each of our model portfolios are first designed with a neutral risk/return profile. We then overlay a tactical macro perspective that uses valuation and differing scenarios, evaluating differing economic regimes that may suggest an over/under weight of a particular asset class or sector.

We also have a highly intensive bottom up selection process. Our bottom up process begins with our investment committee as each member is responsible for reviewing funds within a particular asset class. Each committee member's reviews are then vetted by the entire committee. The process includes a number of both quantitative metrics (Sharpe ratio, turnover, bull/bear market performance, etc.) and qualitative metrics (management team, costs, etc.) that we believe gives us an accurate view of why certain funds have outperformed and may continue to outperform their peers. Our ongoing monitoring of these positions includes those same quantitative and qualitative measures, as well as discussions with fund managers. The management interface assists us in evaluating the continuity of the management philosophy, and whether or not that philosophy meets our objectives and expectations.

Our portfolios reflect a relatively low turnover approach. We typically rebalance the portfolios once per year. However, conditions have and may dictate rebalancing more often throughout the year. Our structured process focuses on macro economic factors and intensive active manager research is considered to provide the framework for our asset management program.

### **Investment Strategies when Managing Client Assets and/or Providing Investment Advice**

HMSA utilizes several strategies when managing client accounts. Included are:

#### **Aggressive Growth Portfolio**

This portfolio is designed for those investors who are willing to assume a higher level of risk in exchange for the potential of greater long-term returns. The allocation ranges for this portfolio are as follows: Larger-Cap Equities 50-90%, Smaller-Cap Equities 5-30%, Foreign Equities 10%-35%, REITS 0-10%, High Yield Bonds 0-25%, Alternatives 0-20%. The portfolios allocation will vary within the above ranges based upon a variety of valuation factors. This portfolio is consistent with investors with a time horizon longer than 6 years.

#### **Growth Portfolio**

This portfolio is designed for those investors who are seeking longer-term growth, and are willing to assume a higher level of risk but with lower volatility than a traditional, buy and hold growth oriented portfolio. The allocation ranges for this portfolio are as follows: Larger-Cap Equities 45-70%, Smaller-Cap Equities 5-30%, Foreign Equities 10%-35%, Investment Grade Bonds 15-30%, REITS 0-10%, High Yield Bonds 0-25%, Alternatives 0-20%. This portfolio is consistent with investors with a time horizon longer than 5 years.

#### **Growth and Income Portfolio**

This portfolio is designed for those investors who are seeking longer-term growth, but are willing to forgo some upside for lower volatility. The allocation ranges for this portfolio are as follows: Larger-Cap Equities 40-55%, Smaller-Cap Equities 0-20%, Foreign Equities 5-25%, Investment Grade Bonds 30-60%, REITS 0-10%, High Yield Bonds 0-15%, Alternatives 0-20%. This portfolio is consistent with investors with a time horizon longer than 5 years.

#### **Balanced Portfolio**

This portfolio is designed for those investors who are seeking to balance longer-term growth and income needs. The allocation ranges for this portfolio are as follows: Larger-Cap Equities 35-45%, Smaller-Cap Equities 0-15%, Foreign Equities 5-20%, Investment Grade Bonds 40-60%, REITS 0-10%, High Yield Bonds 0-15%, Alternatives 0-20%. This portfolio is consistent with investors with a time horizon longer than 5 years.

#### **Moderate Conservative Portfolio**

This portfolio is designed for those investors who are seeking to position the portfolio more conservatively for income while maintaining a longer-term moderate growth component. The allocation ranges for this portfolio are as follows: Larger-Cap Equities 30-40%, Smaller-Cap Equities 0-10%, Foreign Equities 0-10%, Investment Grade Bonds 40-70%, REITS 0-10%, High Yield Bonds 0-15%, Alternatives 0-20%. This portfolio is consistent with investors with a time horizon longer than 4 years.

#### **Conservative Portfolio**

This portfolio is designed for those investors who are seeking to position the portfolio with an income first objective as well as a conservative growth objective. Reducing risk is a higher priority than growth

potential. The allocation ranges for this portfolio are as follows: Larger-Cap Equities 15-30%, Smaller-Cap Equities 0-10%, Foreign Equities 0-10%, Investment Grade Bonds 55-80%, REITS 0-10%, High Yield Bonds 0-15%, Alternatives 0-20%. This portfolio is consistent with investors with a time horizon longer than 3 years.

### **Risk of Loss**

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

Because of the inherent risk of loss associated with investing, HMSA is unable to represent, guarantee, or even imply that our services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines. There are certain additional risks associated when investing in securities through this investment management program.

- **Management Risk** – Your investment with our Firm varies with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our investment strategies do not produce the expected returns, the value of the investment may decrease
- **ETF and Mutual Fund Risk** – HMSA primarily utilizes mutual funds and exchange traded funds. When HMSA invests in an ETF or mutual fund for a client, the client will bear additional expenses based on its pro rata share of the ETFs or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. Clients will also incur brokerage costs when purchasing ETFs.
- **Market Risk** – Markets as a whole go down resulting in a decrease in the value of client investments. This is also referred to as systemic risk.
- **Equity (stock) market risk** – Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.
- **Company Risk** - When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives

unfavorable media attention for its actions, the value of the company may be reduced

- **Fixed Income Risk** - When investing in bonds, there is the risk that issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk. Bonds are also inversely related to interest rates meaning when one goes up the other goes down. Therefore, an increase in interest rates, which are completely outside the control of HMSA, will reduce the value of a bond.
- **Credit Risk** - Credit risk can be described as the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

#### **Item 9 – Disciplinary Information**

This item is not applicable to our brochure because there are no legal or disciplinary events listed at Item 9 of the Form ADV Part 2 instructions that are material to a client's or prospective client's evaluation of our business or integrity.

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

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

##### **Hanson McClain Retirement Network, LLC doing business as Hanson McClain**

HMSA is under common ownership with a full-service, introducing broker/dealer, Hanson McClain Retirement Network, LLC, doing business as Hanson McClain. Hanson McClain is a member of FINRA and SIPC. Hanson McClain is also an investment advisor registered with the SEC.

HMSA and Hanson McClain are owned by Hanson McClain Group, Inc. a holding company with majority ownership controlled equally between Scott Hanson and Pat McClain.

Advisor representatives of HMSA are also registered securities agents with Hanson McClain and provide retail financial services directly to clients of Hanson McClain. In addition to providing retail brokerage services, Hanson McClain provides marketing, consulting, and client acquisition services to other investment adviser firms, broker/dealers and their representatives through the Hanson McClain

Retirement Network. It should be noted that some of the Introducing Advisors referring clients to our Firm are partners in the Hanson McClain Retirement Network. Additional details regarding this arrangement are provided at Item 14 of this brochure.

Hanson McClain is also a licensed insurance agency and the associated persons of Hanson McClain and HMSA may also be independently licensed to sell insurance products through various insurance companies. When acting in these capacities, commissions are paid to Hanson McClain for selling these products.

It should be noted that HMSA clients will **not** open brokerage accounts through Hanson McClain and will **not** be insurance clients of Hanson McClain. Thus, we avoid potential conflicts of interest other investment advisors (including our affiliate Hanson McClain Advisors) have when requiring or recommending the use of an affiliated broker/dealer and affiliated insurance company.

**Hanson McClain, Inc. doing business as Hanson McClain Advisors**

HMSA is under common ownership with a retail investment advisor firm, Hanson McClain, Inc., doing business as Hanson McClain Advisors which is also owned by Hanson McClain Group, Inc. HMSA is registered with the SEC, relying on Rule 203A-2(c) under the Investment Advisers Act of 1940, because HMSA is under common control with Hanson McClain Advisors, an investment adviser that is registered with the SEC, and HMSA's principal office and place of business is the same as Hanson McClain Advisors.

We share investment advisory personnel and Investment Committee members with Hanson McClain Advisors. Thus, the investment strategies and recommendations provided by HMSA are very similar to Hanson McClain Advisors. However, Hanson McClain Advisors retains a higher overall fee for its services than does HMSA for its services. In addition, Hanson McClain Advisors does not rely on Introducing Advisors to attain new clients and assist it with delivering investment advice to clients. Therefore, a conflict of interest exists between our interests and the interests of HMSA clients in that we are more attentive to clients of Hanson McClain Advisors. However, generally speaking, the types of investment recommendations and methods of formulating investment advice for Hanson McClain Advisors clients are the same as those provided to HMSA clients.

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

**Code of Ethics Summary**

According to the *Investment Advisers Act of 1940*, an investment adviser is considered a fiduciary. As a fiduciary, it is an investment adviser's responsibility to provide fair and full disclosure of all material facts. In addition, an investment adviser has a duty of utmost good faith to act solely in the best interest of each of its clients. HMSA and its supervised persons have a fiduciary duty to all clients.

HMSA and our affiliated investment advisor, Hanson McClain Advisors, have established a Code of Ethics, which all supervised persons must read and then execute an acknowledgement agreeing that they understand and agree to follow. Our fiduciary duty to clients is considered the core underlying principle for the Code of Ethics and represents the expected basis for all supervised persons' dealings with clients. We have the responsibility to make sure that the interests of clients are placed ahead of own personal investment interests.

- All supervised persons will conduct business in an honest, ethical and fair manner.
- All supervised persons will comply with all federal and state securities laws at all times.

- Full disclosure of all material facts and potential conflicts of interest will be provided to clients prior to services being conducted.
- All supervised persons have a responsibility to avoid circumstances that might negatively affect or appear to affect the supervised persons' duty of complete loyalty to their clients.

This section is only intended to provide current clients and potential clients with a description of our Code of Ethics. If current or prospective clients wish to review our Code of Ethics in its entirety, it may be requested and a copy will be provided promptly.

#### **Affiliate and Employee Personal Securities Transactions Disclosure**

Our supervised persons may buy or sell securities or have an interest or position in a security for their personal account that they also recommend to clients. As these situations may represent a potential conflict of interest, it is our policy that our personnel may not prefer their own interest to that of an advisory client. No person supervised by HMSA may purchase or sell any security prior to a transaction or transactions being implemented for an advisory account. Supervised persons shall not buy or sell securities for their personal account(s) where their decision is derived, in whole or in part, by information obtained as a result of his/her employment unless the information is also available to the investing public upon reasonable inquiry. HMSA maintains a list of all securities holdings for itself and all supervised persons, which is reviewed on a regular basis by a principal of the Firm.

### **Item 12 – Brokerage Practices**

HMSA does not require or recommend the use of any particular broker/dealer to serve as qualified custodian. HMSA's services are considered "open architecture" and our arrangement with ORION (described in Item 4) permit HMSA to manage accounts held at broker/dealers selected and determined by the Introducing Advisor or Platform sponsor. Clients may be required to use a particular broker/dealer, but the requirement to do so is determined by the Introducing Advisor or Platform sponsor. Therefore, the Introducing Advisor and/or Platform Sponsor are solely responsible for conducting broker/dealer due diligence and best execution analysis.

Because HMSA does not recommend or select brokerage platforms, we may not be able to obtain the best prices and execution for the transaction. Clients may receive less favorable prices than would otherwise be the case if their Introducing Advisor or Platform sponsor selected an alternative broker/dealer or custodian. Pricing for transactions, custodial services and other services provided by a broker/dealer will vary based on the broker/dealer utilized. Thus some clients hiring HMSA's management services will pay more for such services than other clients.

Because we do not recommend or require the use of specific brokerage platforms, we do not receive client referrals for recommending particular brokerage platforms. Further, we do not have soft-dollar arrangements with broker/dealers.

#### **Aggregation of Client Orders**

Transactions implemented by HMSA for client accounts are effected independently, unless HMSA decides to purchase or sell the same securities for several clients at approximately the same time. This process is referred to as aggregating orders, batch trading, or block trading and may be used by HMSA. Even if more advantageous to clients, HMSA does not typically aggregate orders. If HMSA chooses to aggregate client orders, the allocation of securities among client accounts will be done on a fair and equitable basis. Typically, the process of aggregating client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more



equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among HMSA clients in proportion to the purchase and sale orders placed by an individual HMSA investment advisor representative for each client account on any given day. When HMSA determines to aggregate client orders for the purchase or sale of securities, including securities in which an associated person of HMSA may invest, HMSA will do so in accordance with the parameters set forth in the SEC No-Action Letter, *SMC Capital, Inc.* It should be noted, HMSA does not receive any additional compensation or remuneration as a result of aggregation.

### **Trading Error Policy**

HMSA has implemented procedures designed to prevent trade errors; however, trade errors in client accounts cannot always be avoided. Consistent with its fiduciary duty, it is the policy of HMSA to correct trade errors in a manner that is in the best interest of the client. In cases where the client causes the trade error, the client will be responsible for any loss resulting from the correction. Depending on the specific circumstances of the trade error, the client may not be able to receive any gains generated as a result of the error correction. In all situations where the client does not cause the trade error, the client will be made whole and any loss resulting from the trade error will be absorbed by HMSA if the error was caused by HMSA. The remedy for an error caused by HMSA may be in the form of a credit against future HMSA investment management fees. If the error is caused by the broker-dealer, the broker-dealer will be responsible for covering all trade error costs. If an investment gain results from the correcting trade, the gain will remain in the client's account unless the same error involved other client account(s) that should also receive the gains and it is not permissible for all clients to retain the gain. HMSA may also confer with clients to determine if the client should forego the gain (e.g., due to tax reasons). HMSA will never retain any portion of any gains made as a result of trade error corrections or profit in any way from trade errors.

If the gain does not remain in the account, the client's broker/dealer will maintain gains that may result from correcting a trade error and in some instances may use such gains to offset overall losses the broker/dealer incurs from trading errors.

## **Item 13 – Review of Accounts**

Investment Models held in accounts managed by HMSA are reviewed at least quarterly by HMSA. The client's Introducing Advisor generally reviews managed SMA and Platform Accounts with the client on a mutually agreed upon schedule.

All clients are encouraged to discuss their investment objectives, needs and goals with their Introducing Advisor and to keep their Introducing Advisor informed of any changes regarding the client's situation. All clients are encouraged to meet, at least annually, with their Introducing Advisor to comprehensively review investment objectives and performance. Introducing Advisors are responsible for forwarding all client information, including objectives and suitability information, to HMSA.

Clients will receive account statements and transaction confirmation notices at least quarterly from the qualified custodian at which their accounts are maintained. In addition, HMSA provides quarterly performance reports for clients with SMA and Platform Accounts (where included as a platform feature) summarizing account performance. Performance reports are made available to each Introducing Advisor who will decide whether or not to forward the performance reports to his/her client. If an Introducing Advisor would like HMSA to mail the performance reports to underlying clients, HMSA charges the

Introducing Advisor a \$13 annual fee for each account to cover shipping and handling expenses. The Introducing Advisor may choose to pass this fee on to the client.

It is important for clients to review all account statements received directly from the custodian. Further, clients are urged to compare position and performance reports provided by HMSA against the account statements received directly from the custodian. If at any time a client does not receive the most recent account statement(s) or does not have access to account statements, the client should contact his or her Introducing Advisor immediately.

The underlying portfolios held in client accounts and recommended by HMSA are reviewed on an on-going basis by the HMSA Investment Committee which is led and supervised by the Firm's Chief Investment Officer, President and Director of Supervision. The committee is comprised of other advisory personnel licensed as investment advisor representatives. The primary responsibilities of the Investment Committee are:

- Develop HMSA's investment philosophy
- Collaborate on the principles of portfolio design and investment management
- Identify the investment objectives HMSA's investment portfolios will pursue
- Establish the risk/return profiles for HMSA's investment portfolios
- Monitor the execution of HMSA's portfolios for tracking of expected outcomes
- Collaborate to arrive at a consensus view on HMSA's investment outlook and forecasts, and to identify promising opportunities
- Prioritize investment research, process development, and staff utilization initiatives
- Monitor and confirm the continuing alignment of the investment products and company activities with HMSA's business objectives
- Address and resolve operational and administrative issues as needed

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

As a third-party investment advisor providing asset management services, HMSA relies exclusively on client referrals from unaffiliated investment advisors and their representatives ("Introducing Advisors"). Details of the compensation provided to investment advisors that refer clients to HMSA are provided at Item 5 of this brochure. All of our referral arrangements are in compliance with federal or state regulations (as applicable). Solicitation/referral fees are paid pursuant to a written agreement retained by both the Firm and the Introducing Advisor. Introducing Advisors are required to provide clients with several documents, including a copy of this Form ADV Part 2 Disclosure Brochure and a Solicitor Disclosure Document prior to or at the time of entering into any investment advisory contract with HMSA.

Clients that engage HMSA's services will pay more or less to obtain HMSA's investment management services than do other clients, since a portion of the overall fee is determined by the Introducing Advisor. Variations in the Introducing Advisor's compensation may be due to the Introducing Advisor's role as an unaffiliated investment adviser or investment adviser representative for the consulting and monitoring services the Introducing Advisor may provide to the client on an ongoing basis relative to the client's engagement of HMSA. Such arrangements, and their terms and conditions, are exclusively determined between the client and the Introducing Advisor, and HMSA is not a party to these arrangements.

HMSA pays to some broker-dealers and investment advisor firms a fixed annual participant provider fee to be listed on the broker-dealer or investment advisor's platform of approved third party managers. The platform listing permits the broker-dealer or investment advisor's representatives to recommend HMSA's

investment management services to their clients. The fixed annual participant fee is payable regardless of the number, if any, of a broker-dealer or investment advisor's clients that engage HMSA's services. HMSA may enter into similar arrangements with additional broker-dealers or investment advisors, pursuant to which HMSA will be added to the respective firm's third party manager platforms. HMSA may also agree to serve as sub-advisor to an unaffiliated investment advisor.

### **Hanson McClain Retirement Network**

In addition to the fee arrangements described above, some Introducing Advisors have joined the Hanson McClain Retirement Network (referred to as the "Network") which is a client acquisition program for independent financial advisors designed and provided through our affiliate Hanson McClain Retirement Network, LLC doing business as Hanson McClain. The Network provides marketing support and training to members (referred to as "Partners"). Partners are not considered supervised persons or affiliates of Hanson McClain and must be licensed as securities agents with a registered broker/dealer, licensed as investment advisor representatives with an investment advisor firm or dually licensed as both a securities agent and investment advisor representative.

Hanson McClain trains Partners to help employees of companies such as those in the telecommunications and utility industries with retirement planning. Services provided by Hanson McClain do not include investment advice directly to Partners or their clients. Hanson McClain does not meet with individual clients. Hanson McClain's marketing services focus on identification of key market areas and segments; marketing strategies to increase the Partner's client base; and developing and promoting workshops. Workshops suggested by Hanson McClain are general education in nature and focused on 401(k) and pension plans offered by the workshop attendees' company. Workshop materials provided by Hanson McClain to Partners do not include product sales or personalized investment advice. Partners specialize in both salaried and non-salaried employees' retirement programs.

For Partners that contract for enhanced Network services, Hanson McClain takes an active role in coordinating workshops for Partners. Under an enhanced arrangement, Hanson McClain will create and setup workshops as well as providing marketing materials for the workshop. In addition, Hanson McClain Relationship Manager(s) assigned to the Partner will solicit attendees to workshop(s). Relationship Managers are supervised persons of Hanson McClain and are licensed as investment advisor representatives.

As consideration for the services provided by Hanson McClain to its Partners, Partners must assign, as compensation, a percentage of all revenues earned from Partner's clients attained as a result of the marketing training and services provided by Hanson McClain. Revenue includes the Partner's receipt of commissions earned from brokerage services and/or advisory fees earned from advisory services. Hanson McClain may receive up to 30% of all revenue earned by the Partner. The compensation allocation continues throughout the term of the Joint Marketing Agreement, including renewal period(s), between Hanson McClain and the Partner. The exact arrangements, including term and compensation, are detailed in the Joint Marketing Agreement between Hanson McClain and the Partner.

Although Introducing Advisors that are also Partners of the Network compensate Hanson McClain directly for Network services, there is a conflict of interest when Partners serve as Introducing Advisors for HMSA because Partners may be influenced to refer clients to HMSA based on the services and support provided by Hanson McClain and not solely based on the performance history and investment services provided by HMSA. If your Introducing Advisor is also a Hanson McClain Partner, specific disclosure regarding the arrangement and conflict of interest will be provided to you in writing.

## Item 15 – Custody

Custody, as it applies to investment advisors, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding client funds and securities. If an investment advisor has the ability to access or control client funds or securities, the investment advisor is deemed to have custody and must ensure proper procedures are implemented. HMSA is deemed to have custody of client funds and securities whenever HMSA is given the authority to have fees deducted directly from client accounts. However, this is the only form of custody HMSA Services will ever maintain. It should be noted that authorization to trade in client accounts is not deemed by regulators to be custody.

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

## Item 16 – Investment Discretion

Upon receiving written authorization from a client, HMSA will maintain trading authorization over client accounts. Upon receiving written authorization from the client, HMSA will implement trades on a **discretionary** basis (which shall be granted in the Investment Management Agreement). When discretionary authority is granted, HMSA will have the authority to determine the type of securities and the amount of securities that can be bought or sold for the client's portfolio without obtaining the client's consent for each transaction.

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

## Item 17 – Voting Client Securities

HMSA does not vote proxies on behalf of its clients. While there are some investment advisors that will vote proxies and other corporate decisions on behalf of their clients, HMSA has determined that taking on the responsibility for voting client securities results does not add enough value to the services provided to clients to justify the additional compliance and regulatory costs associated with voting client securities. Therefore, it is the responsibility of HMSA clients to vote all proxies for securities held in accounts managed by HMSA.

You will receive proxies directly from your custodian or transfer agent and such documents will not be delivered by or from HMSA. While HMSA does not vote client proxies, if you ever have a question about a particular proxy you can contact your Introducing Advisor.

### **Legal Actions**

Clients retain the right under the applicable securities laws to initiate individually a lawsuit or join a class-action lawsuit against the issuer of a security that was held, purchased or sold by or for a client. HMSA will not initiate such a legal proceeding on behalf of any of its client and does not provide legal advice to clients regarding potential causes of action against such a security issuer and whether its clients should join a class-action lawsuit. HMSA recommends clients seek legal counsel prior to making a decision regarding whether to participate in such a class-action lawsuit. HMSA's services do not include monitoring or informing its clients of any potential or actual class-action lawsuits against the issuers of the securities that were held, purchased or sold by or for any of its clients. However, upon a client's specific instruction, HMSA may provide factual information related to the individual client's investment history in the security underlying the individual or class-action lawsuit and provide assistance with the completion of a portion of certain class-action paperwork. At no time should such assistance by HMSA be deemed as a substitute for consulting with legal counsel.

### **Item 18 – Financial Information**

This item is not applicable to this brochure. HMSA does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Therefore, HMSA is not required to include a balance sheet for its most recent fiscal year. HMSA is not subject to a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Finally, HMSA has not been the subject of a bankruptcy petition at any time.