

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

**Item 1      Cover Page**

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This Brochure provides information about the qualifications and business practices of Polaris Wealth Advisers, LLC (“**Polaris**”, the “**Adviser**” or “**we**”). If you have any questions about the contents of this Brochure, please contact us at by telephone at (415) 263-5600 or by email at *jpowell@polariswealth.net*. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “**SEC**”) or by any state securities authority.

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

Registration of an investment adviser with the SEC or with any state securities authority does not imply any level of skill or training.

## **Item 2            Material Changes**

This section describes the material changes to the Adviser's Brochure since its last annual amendment on February 28, 2013.

In April 2013, the Adviser's Affiliate, Polaris Equity Management, Inc., began transferring its business to the Adviser. As a result, the Adviser's assets under management have increased substantially.

Since its last annual update, the Adviser opened the following offices:

4265 San Felipe Street  
Houston, TX 77027

1095 Evergreen Circle, Suite 200  
The Woodlands, TX 77380

The foregoing is only a summary of material changes. It does not identify every change to the brochure since the last annual update.

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#### **Item 4            Advisory Business**

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

Polaris Wealth Advisers, LLC (the “**Adviser**”), a limited liability company formed under the laws of the State of Delaware, was formed on June 9, 2011. The Adviser’s principal place of business is in San Francisco, California. The Adviser is currently principally-owned by Polaris Equity Management, Inc., whose sole shareholder is Jeffrey J. Powell. The Adviser shares management, employees and supervised persons with Polaris Equity Management, Inc. (referred to hereinafter as the Adviser’s “Affiliate”). The Affiliate is also a federally registered investment adviser (note that such registration does not imply a certain level of skill or training).

##### **B.        Description of Advisory Services (including any specializations)**

The Adviser will provide investment supervisory services on a discretionary and non-discretionary basis to its clients which will include individuals and institutions with separately managed accounts. The investment advisory services that the Adviser provides include wealth management and financial planning services designed to provide each client with an investment plan tailored to achieve their retirement and other financial planning goals.

The Adviser will have discretionary authority to make the following determinations without obtaining the consent of the client before the transactions are effected:

- the securities that are to be bought or sold;
- the total amount of the securities to be bought or sold;
- the brokers through which securities are to be bought or sold; and
- the commission rates at which securities transactions for client accounts.

The Adviser’s authority may be subject to conditions imposed by the client, examples of which may include where: 1) the client restricts or prohibits transactions in securities of a specific industry, and/or 2) the client directs that transactions be effected through specific brokers and dealers. The latter restriction may be conditioned by the client on the broker or dealer being competitive as to price and execution for each transaction, or offering a specified level of commission discount or may be subject to varying degrees of restrictions such as an instruction to utilize the broker or dealer: a) whether or not competitive, and b) where the specified levels of commission discounts are less favorable than might otherwise be obtained by the Adviser.

From time to time, Polaris may enter into sub-advisory agreements with other registered investment advisers. Such sub-advisory agreements will normally be established so that Polaris can provide investment management services to another adviser’s clients. Under these arrangements, Polaris will act as the sub-adviser. Polaris will offer the same selection of investment models to advisers as is offered to its own clients. The adviser will determine the suitability of Polaris’s models for its clients. Polaris will have full discretion to manage the adviser’s clients’ accounts. When such sub-advisory agreements are made, the sub-advisory arrangement will be disclosed by the adviser to its clients by delivery of the Form ADV Part 2A for the adviser and for Polaris.

##### **C.        Availability of Tailored Services for Individual Clients**

The Adviser will provide advice to client accounts based on each client’s specific wealth management and financial planning goals, investment objectives and strategies. The Adviser will also tailor its

advisory services by adhering to the investment restrictions imposed by clients.

**D. Wrap Fee Programs**

The Adviser does not currently participate in any wrap fee programs.

**E. Client Assets Under Management**

As of December 31, 2013, the Adviser had approximately \$424,682,000 client assets under management. As of that date, the Adviser managed approximately \$424,426,000 on a discretionary basis and approximately \$256,000 on a non-discretionary basis.

## Item 5 Fees and Compensation

### A. Advisory Fees and Compensation

The Adviser will charge each client an investment management fee (the “**Management Fee**”) based on the value of the client’s assets under management, generally in accordance with the below linear fee schedule. A linear fee schedule allows an account’s entire market value to be charged a given fee rate, with the ability to adjust the fee rate based on pre-set breakpoints.

Account Value	Annual Management Fee Rate
Up to \$499,999	1.250%
\$500,000 to \$999,999	1.150%
\$1,000,000 to \$2,499,999	1.000%
\$2,500,000 to \$4,999,999	0.900%
\$5,000,000 to \$9,999,999	0.800%
\$10,000,000 or greater	0.700%

The above fee schedule will apply to both discretionary and non-discretionary advisory accounts.

For existing accounts, Management Fees will be charged each quarter in advance based on the total market value of the assets in the client account (including net unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest) on the last day of the previous quarter. If a new client account is established during a quarter or a client makes an addition to its account during a quarter, the Management Fee will be charged as of the effective date of the investment management agreement or the date of the additional contribution based on the value of the assets as of the applicable date and will be prorated for the number of days remaining in the quarter. Management Fees will be negotiable in the sole and absolute discretion of the Adviser.

As noted previously under Item 1 above, Polaris also offers sub-advisory services to other registered investment advisers. In return for its sub-advisory services, Polaris will receive a portion of the advisory fees paid to the adviser. The fee schedules may vary by adviser. Polaris will maintain executed agreements for these arrangements on file.

### B. Payment of Fees

The Adviser will deduct the Management Fee quarterly from client accounts by instructing the client’s custodian.

### C. Other Fees and Expenses

In addition to paying Management Fees, client accounts will also be subject to other investment expenses such as custodial charges, brokerage fees, commissions and related costs; interest expenses; taxes, duties

and other governmental charges; transfer and registration fees or similar expenses; costs associated with foreign exchange transactions; other portfolio expenses; and costs, expenses and fees (including, investment advisory and other fees charged by investment advisers with, or funds in, which the client's account invests) associated with products or services that may be necessary or incidental to such investments or accounts. Client assets may be invested in mutual funds, exchange-traded funds ("**ETF**") or other registered investment companies. In these cases, the client will bear its *pro rata* share of the investment management fee and other fees of the fund, which are in addition to the investment Management Fee paid to the Adviser.

All fees paid to the Adviser for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and ETF to their shareholders. These fees and expenses are described in each mutual fund's and ETF's prospectus and may include a management fee, distribution fee (*i.e.*, Rule 12b-1 fee), sales charge and other fund expenses. A client could invest in a mutual fund or an ETF directly, without the services of the Adviser. In that case, the client would not receive the services provided by the Adviser which are intended, among other things, to assist the client in determining which mutual fund(s) or ETF(s) are most appropriate to each client's financial condition and objectives. Accordingly, each client should review both the fees charged by the mutual funds and the ETFs and the fees charged by the Adviser to fully understand the total amount of fees paid by the client and to thereby evaluate the advisory services being provided.

The Adviser generally will not invest its clients' assets in mutual funds. To the extent it does invest a client in a mutual fund, however, the Adviser would not receive any 12b-1 fees from that mutual fund. Clients should also understand that while the *Adviser* does not receive 12b-1 fees, a 12b-1 fee may still be paid to a mutual fund distributor. These 12b-1 fees could increase overall expenses to the client.

Please refer to Item 12 in this brochure for a discussion of Polaris' brokerage practices, including factors that we consider when selecting brokers and dealers for client transactions.

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

Clients will be required to pay Management Fees to the Adviser quarterly in advance. Upon the termination of a client account during a calendar quarter, the Management Fee will be prorated for the days remaining in that calendar quarter and any prepaid, unearned fees will be refunded to the relevant client.

The Client Agreement may be terminated by the Adviser or the client at any time, for any reason, upon written notice. Termination will be effective upon receipt of notice, although transactions in process will be completed in the normal course of business.

#### **E. Additional Compensation**

The Adviser does not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sales of mutual funds.



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

The Adviser currently does not charge performance-based fees (i.e., fees based on a share of capital gains or capital appreciation of the assets of a client).

**Item 7            Types of Clients**

The Adviser's clients will consist of individuals and institutions with separately managed accounts. The Adviser will generally require a minimum of \$500,000 of assets under management for a separately managed account but may waive this minimum in its sole and absolute discretion. If the account size falls below the minimum requirement due to market fluctuations only, a client will not be required to invest additional funds with the Adviser to meet the minimum account size.

## Item 8

## Methods of Analysis, Investment Strategies and Risk of Loss

### A. Methods of Analysis and Investment Strategies

Our investment philosophy is based upon having a three-tiered approach to investing our clients' money while seeking to meet their wealth management and financial planning goals. We will use fundamental research, technical analysis and market sentiment evaluations to determine how we will invest our clients' portfolios. We will combine multiple indicators that historically have been shown to add value in our investment decisions. We can objectively assess the weight of the evidence and make strategic decisions about our investment mix.

We will employ the following methods of analysis and investment strategies with respect to our clients:

*Fundamental Research.* Also known as basic or pure research, this analysis is conducted to understand the health or valuations of a company, index, or country. Researching different valuations of the S&P 500 (price-to-earnings, dividend yield, earnings growth, etc.), or looking at the economic growth of the United States are two examples of macro fundamental research. Analyzing a company's financial statements or sales growth is an example of micro fundamental research.

*Technical Analysis.* This can be used to identify nonrandom price patterns and trends in financial markets. We will use moving averages, support and resistance lines, stochastic statistics, relative strength, and other factors to better understand the momentum (positive or negative) of a particular market, segment of a market (sector or industry), or of a specific stock.

*Sentiment Evaluations.* This can be used to understand the basic investor psychology. Typically, we find that it is best to follow investor sentiment until it reaches an extreme and reverses, at which point we would typically take a contrary position. When the bullish sentiment reading has risen to high levels, it has frequently coincided with an intermediate-term peak in stock prices. Conversely, when most investors have been bearish, stock prices have been typically near a bottom.

*Buy and Hold.* The Adviser can engage in a buy and hold investment strategy wherein the Adviser would buy securities and holds them for a relatively longer period of time, regardless of short-term factors such as fluctuations in the market or volatility of the stock price.

*Equity.* The Adviser's equity strategy will focus on a broad range of equity investment styles, including growth, core, and value, as well as portfolios designed to be "style-neutral". We expect that some client accounts will focus on specific ranges on the capitalization scale, from micro-cap, through small-cap, mid-cap and large-cap, to mega-cap, while other client accounts will focus on investment opportunities in more than one capitalization category or across all capitalization levels.

*Hedging.* The Adviser may utilize a variety of financial instruments such as derivatives and options for risk management purposes.

*Option Trading.* The Adviser may engage in various option trading investment strategies. Options are investments whose ultimate value is determined from the value of the underlying investment. We may engage in the following types of option trading strategies: securities, covered options, uncovered options and spreading strategies.

These methods, strategies and investments involve risk of loss to clients and clients must be prepared to bear the loss of their entire contribution/investment.

**B. Material Risks (Including Significant, or Unusual Risks) Relating to Investment Strategies**

*Issuer-Specific Changes.* Changes in the financial condition of an issuer or counterparty, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can increase the risk of default by an issuer or counterparty, which can affect a security's or instrument's value. The value of securities of smaller, less well-known issuers can be more volatile than that of larger issuers. Smaller issuers can have more limited product lines, markets, or financial resources.

*Relative Value Risk.* In the event that the perceived mispricing's underlying the Adviser's relative value trading positions were to fail to converge toward, or were to diverge further from, relationships expected by the Adviser, client accounts may incur a loss.

*Hedging.* There can be no assurances that a particular hedge is appropriate, or that certain risk is measured properly. Further, while the Adviser may enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall performance and increased (rather than reduced) risk for the Adviser's investment portfolios than if the Adviser did not engage in any such hedging transactions.

*Frequent Trading.* The Adviser's strategy may involve frequent trading which will result in significantly higher commissions and charges to client accounts due to increased brokerage, which will offset client profits.

**C. Risks Associated with Types of Securities that are Primarily Recommended**

*Equity Securities.* The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

*Fixed-Income and Debt Securities.* Investment in fixed-income and debt securities such as bonds, notes and asset-backed securities, subject a client's portfolios to the risk that the value of these securities overall will decline because of rising interest rates. Similarly, portfolios that hold such securities are subject to the risk that the portfolio's income will decline because of falling interest rates. Investments in these types of securities will also be subject to the credit risk created when a debt issuer fails to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that debt to decline. Lastly, investments in debt securities will also subject the investments to the risk that the securities may fluctuate more in price, and are less liquid than higher-rated securities because issuers of such lower-rated debt securities are not as strong financially, and are more likely to encounter financial difficulties and be more vulnerable to adverse changes in the economy.

*Exchange Traded Funds.* Because ETFs are, by definition, portfolios of securities, the Adviser believes that the unsystematic risk associated with investments in ETFs is generally very low relative to investments in ordinary securities of individual issuers. However, there are events that can trigger sharp and sometimes adverse price movements in ETFs that are not related to movements of the market in general. Not limited to, but among these, are surprise dividends, changes to regular dividend amounts, announcements of rights offerings and possible surprise revisions to net asset values of the ETF. The

Adviser may invest in small and/or unseasoned ETFs with small market capitalization. While smaller ETFs generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, financial resources, product diversification, and competitive strength of larger ETFs. In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of larger ETFs. As a result, the securities of smaller ETFs may be subject to wider price fluctuations.

*Options.* In connection with the use of options, there may be an imperfect correlation between the change in market value of a security and the prices of the options in the client's account.

**Item 9            Disciplinary Information**

Not applicable.

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

**A.            Broker-Dealer Registration Status**

Not applicable.

**B.            Commodities-Related Registration Status**

Not applicable.

**C.            Material Relationships or Arrangements with Industry Participants and Material Conflicts of Interest Relating to Other Investment Advisers**

As noted previously, the Adviser is under common control with, and shares management, employees and supervised persons with Polaris Equity Management, Inc. (referred to herein as the Adviser's "Affiliate"). The Affiliate is also a federally registered investment adviser (note that such registration does not imply a certain level of skill or training).

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

**A.            Code of Ethics**

The Adviser has adopted a Code of Ethics (the “**Code**”) that obligates the Adviser and its related persons to put the interests of the Adviser’s clients before their own interests and to act honestly and fairly in all respects in their dealings with clients. All of the Adviser’s personnel will be required to comply with applicable federal securities laws. Clients or prospective clients may obtain a copy of the Code by contacting Angela Crescenzo (Chief Compliance Officer) by telephone at (415) 263-5600 or by email at [acrescenzo@polariswealth.net](mailto:acrescenzo@polariswealth.net). See below for further provisions of the Code as they relate to the pre-clearing and reporting of securities transactions by related persons.

The Adviser, in the course of its investment management and other activities (*e.g.*, board or creditor committee service), may come into possession of confidential or material nonpublic information about issuers, including issuers in which the Adviser or its related persons have invested or seek to invest on behalf of clients. The Adviser is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a client. The Adviser maintains and will enforce written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that the Adviser is meeting its obligations to clients and remains in compliance with applicable law. In certain circumstances, the Adviser may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but the Adviser will be prohibited from communicating such information to the client or using such information for the client’s benefit. In such circumstances, the Adviser will have no responsibility or liability to the client for not disclosing such information to the client (or the fact that the Adviser possesses such information), or not using such information for the client’s benefit, as a result of following the Adviser’s policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

**B.            Client Transactions in Securities where Adviser has a Material Financial Interest**

Not applicable.

**C.            Investing in Securities Recommended to Clients**

The Adviser, its Affiliate and/or its Employees (as defined below) and/or Employee relatives may invest in the same securities that we or our Affiliate recommend to clients. This could be viewed as presenting a potential conflict of interest.

The Adviser recognizes that the personal investment transactions of members and employees of the Adviser and/or its Affiliate demand the application of a high code of ethics and require that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, the Adviser believes that if investment goals are similar for clients and for members and employees of the Adviser and/or its Affiliate, it is logical that there be a common ownership of some securities. However, it is the express policy of the Adviser that no Employee may purchase or sell any security prior to a transaction being implemented for a client account, thereby preventing such Employee from benefiting from transactions placed on behalf of the Adviser’s advisory clients. In order to address conflicts of interest, the Adviser has adopted a set of procedures with respect to transactions effected by its officers and employees (hereafter, “**Employees**”) for their “personal accounts.”

In order to monitor compliance with its personal trading policy, the Adviser has implemented a quarterly



securities transaction reporting system for all of its Employees. (For purposes of the policy, an Employee's "personal account" generally includes any account (a) in the name of the Employee, his/her spouse, his/her minor children or other dependents residing in the same household, (b) for which the Employee is a trustee or executor, or (c) which the Employee controls, including the Adviser's client accounts which the Employee controls and in which the Employee or a member of his/her household has a direct or indirect beneficial interest.) The procedures adopted by the Adviser include the following, among other things:

1. Employees may not buy or sell securities for their personal portfolio(s) where his or her decision is substantially derived, in whole or in part, by reason of his or her employment at the Adviser, unless the information is also available to the investing public on reasonable inquiry. No Employee shall prefer his or her own interest to that of clients.
2. The Adviser will generally be granted discretionary authority over clients' accounts. However, the Adviser recognizes that each client has the ability to limit, in writing, the Adviser's discretionary authority over the client's account and, in that situation, may decline to accept any advice given by the Adviser.
3. The Adviser requires that all Employees must act in accordance with all applicable federal and state regulations governing registered investment advisory practices.
4. Any individual not in observance of any of the above may be subject to termination.

From time to time, trading by the Adviser, its Employees (and certain of their relatives) and its Affiliate in particular securities may be restricted in recognition of impending investment decisions on behalf of clients. If transaction orders for a client and the Adviser (and/or its Affiliate and/or its Employees and certain of their relatives) are not aggregated, the transaction orders for the Adviser (and/or its Employees and relatives) will be the last orders filled.

**D. Conflicts of Interest Created by Contemporaneous Trading**

See Item 11.C above.

## **Item 12 Brokerage Practices**

### **A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions**

The Adviser will generally seek “best execution” in light of the circumstances involved in transactions. The Adviser considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer’s compensation. Such factors include net price, reputation, financial strength and stability, efficiency of execution and error resolution, and offering to the Adviser on-line access to computerized data regarding a client’s accounts. In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer’s compensation, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Adviser’s practice to negotiate “execution only” commission rates, thus a client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate.

The Adviser has arrangements with TD Ameritrade Institutional and Schwab Institutional. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. member FINRA/SIPC/NFA (“TD Ameritrade”). TD Ameritrade is an independent SEC-registered broker-dealer. Schwab Institutional is a division of Charles Schwab & Co., Inc. member SIPC (“Schwab”). Schwab is an independent SEC-registered broker-dealer and investment adviser. The Adviser and its Affiliate are separate and unaffiliated with either TD Ameritrade or Schwab. The Adviser and its Affiliate are independently owned and operated.

#### **1. Research and Other Soft Dollar Benefits**

The Adviser has no formal soft dollar arrangements and does not use soft dollars to acquire any research services. The Adviser and its Affiliate participate in the TD Ameritrade Institutional and Schwab Advisor Services programs for investment advisors. Both TD Ameritrade and Schwab offer services to independently registered investment advisers which include custody of securities, trade execution, clearance and settlement of transactions. Please see the disclosure under Item 14 below for additional information regarding TD Ameritrade.

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

In selecting or recommending broker-dealers, the Adviser may consider whether the Adviser, its Affiliate or a related person receives client referrals from a broker-dealer or third party. The Adviser may have an incentive to select or recommend a broker-dealer based on its interests to receive client referrals rather than on the client’s interests to receive most favorable execution. To address this conflict of interest, the Adviser will seek to execute client trades through broker-dealers that refer clients to the Adviser where the Adviser believes that client trades with such broker-dealers are otherwise consistent with seeking best execution. See Item 14.B below for a discussion of the Adviser’s client referral arrangement with TD Ameritrade.

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

The Adviser generally asks its clients to direct the Adviser to appoint a third party broker-dealer to serve as custodian for the Adviser’s clients’ accounts. The Adviser, to the extent applicable, will then direct all securities transactions effected for such accounts with the relevant third party broker-dealer. For reasons described in Item 14 below, the Adviser’s various dealings with TD Ameritrade may give rise to potential conflicts between itself and its clients when recommending that such clients use TD Ameritrade as the

custodian to their accounts.

Additionally, because of a prior relationship between a client and one or more brokers, or for other reasons, a client may instruct the Adviser to execute any or all securities transactions for their account with or through one or more brokers designated by the client.

When a client directs the Adviser to use a specified broker-dealer to execute all or a portion of the client's securities transactions, the Adviser treats the client direction as a decision by the client to retain, to the extent of the direction, the discretion the Adviser would otherwise have in selecting broker-dealers to effect transactions and in negotiating commissions for the client's account. Although the Adviser attempts to effect such transactions in a manner consistent with its policy of seeking best execution, there may be occasions where it is unable to do so, in which case the Adviser will continue to comply with the client's instructions. Transactions in the same security for accounts that have directed the use of the same broker will be aggregated. When the directed broker-dealer is unable to execute a trade, the Adviser will select broker-dealers other than the directed broker-dealer to effect client securities transactions. A client who directs the Adviser to use a particular broker-dealer to effect transactions should consider whether such direction may result in certain costs or disadvantages to the client. Such costs may include higher brokerage commissions (because the Adviser may not be able to aggregate orders to reduce transaction costs), less favorable execution of transactions, and the potential of exclusion from the client's portfolio of certain foreign ordinary shares and/or small capitalization or illiquid securities due to the inability of the particular broker-dealer in question to provide adequate price and execution of all types of securities transactions. By permitting a client to direct the Adviser to execute the client's trades through a specified broker-dealer, the Adviser will make no attempt to negotiate commissions on behalf of the client and, as a result, in some transactions such clients may pay materially disparate commissions depending on their commission arrangement with the specified broker-dealer and upon other factors such as number of shares, round and odd lots and the market for the security. The commissions charged to clients that direct the Adviser to execute the client's trades through a specified broker-dealer may in some transactions be materially different than those of clients who do not direct the execution of their trades. Clients that direct the Adviser to execute trades through a specified broker-dealer may also lose the ability to negotiate volume commission discounts on batched transactions that may otherwise be available to other clients of the Adviser, and this may cost such clients more money. Not all advisers require clients to direct the adviser to execute client trades with a specific broker-dealer.

If the Adviser believes, in its exclusive discretion, that it cannot satisfy its fiduciary duty of best execution by executing a transaction for a client account with a broker designated by the client, the Adviser may execute that transaction with a different broker-dealer. Any client providing instructions to the Adviser regarding direction of brokerage transactions must notify the Adviser in writing if the client desires the Adviser to cease executing transactions with or through any such broker-dealer.

## **B. Trade Allocation and Order Aggregation**

### **1. Trade Allocation**

In general, all accounts that participate in a block transaction will participate on a *pro rata* or other objective basis, as described below. Adjustments in the number of securities acquired for or sold by a particular account may be made in order to meet certain requirements or (*e.g.*, to maintain round lots, to fill to specific percentages, or to avoid crossing certain ownership thresholds). The standard initial allocation methodologies are as follows:

- *Pro rata* allocation will generally consist of a weighted allocation based on account size whereby each account will receive a portion of the order based on the account's current market value

(measured on all assets under the Adviser's management) relative to other accounts participating in the transaction. If no other allocation method is selected, allocation will be effected on a *pro rata* basis.

- Percentage allocation formulas can be used in place of a *pro rata* allocation. In a percentage allocation, each client receives or achieves a specifically sized position – e.g., buying or selling to result in a 1% position (or a 5% industry or sector position) based on the current market value of the client's account or that portion of the account under the particular model.
- Other objective allocation methodologies are permissible provided they are employed with general consistency and operate fairly (e.g., doubling up on the size of positions taken for certain accounts).
- Standard allocation methods may be modified when common sense dictates that strict adherence to the usual allocation is impractical or leads to inefficient or undesirable results.

## 2. Order Aggregation

The Adviser will frequently purchase or sell the same security for many clients contemporaneously (or near the same time) and using the same executing broker. It will be the Adviser's practice, where possible, to aggregate client orders for the purchase or sale of the same security submitted contemporaneously (or near the same time) for execution using the same executing broker. The Adviser will also aggregate in the same transaction, the same securities for accounts where the Adviser has brokerage discretion. Such aggregation may enable the Adviser to obtain for clients a more favorable price or a better commission rate based upon the volume of a particular transaction. However, in cases where the client has negotiated the commission rate directly with the broker, the Adviser will not be able to obtain more favorable commission rates based on an aggregated trade. In such cases, the client will be precluded from receiving the benefit of any possible commission discounts that might otherwise be available as a result of the aggregated trade. In cases where trading or investment restrictions are placed on a client's account, the Adviser may be precluded from aggregating that client's transaction with others. In such a case, the client may pay a higher commission rate and/or receive less favorable prices than clients who are able to participate in an aggregated order. When an aggregated order is completely filled, the Adviser allocates the securities purchased or proceeds of sale *pro rata* among the participating accounts, based on the purchase or sale order. Adjustments or changes may be made under certain circumstances, such as to avoid odd lots or excessively small allocations. If the order at a particular broker is filled at several different prices, through multiple trades, generally all such participating accounts will receive the average price and pay the average commission, subject to odd lots, rounding, and market practice. If an aggregated order is only partially filled, the Adviser's procedures provide that the securities or proceeds are to be allocated in a manner deemed fair and equitable to clients. Depending on the investment strategy pursued and the type of security, this may result in a *pro rata* allocation to all participating clients. The Adviser, its related persons (including its Affiliate), and its Affiliate's clients may also participate in an aggregate order.

## **Item 13            Review of Accounts**

### **A.            Frequency and Nature of Review**

Jeffrey J. Powell, Managing Partner, will review securities in client accounts on a periodic basis, generally no less frequently than weekly. A review of individual client accounts and a re-evaluation of client wealth management or financial planning goals and objectives will be conducted on an annual basis. More frequent reviews of client accounts may be triggered by changes in variables such as market, political, or economic circumstances, or a change in the client's individual circumstances.

### **B.            Factors Prompting a Non-Periodic Review of Accounts**

Significant market events affecting the prices of one or more securities in client accounts, changes in the wealth management or financial planning goals, investment objectives or guidelines of a particular client, or specific arrangements with particular clients may trigger reviews of client accounts on other than a periodic basis.

### **C.            Content and Frequency of Regular Account Report**

Each client that is a separate account will receive quarterly statements and trade confirmations from the client's broker-dealer and will receive annual reports from the Adviser. The reports may include a summary of assets, realized and unrealized capital gains and losses, performance measured against an appropriate index, and anticipated and actual income generated by the portfolio. Such reports may be delivered electronically to the client in accordance with the client's agreement with the Adviser.

**Item 14****Client Referrals and Other Compensation****A. Economic Benefits Received from Non-Clients for Providing Services to Clients**

As disclosed under Item 12 above, Adviser and its Affiliate participate in TD Ameritrade's institutional customer program and the Adviser and its Affiliate may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between the Adviser's and its Affiliate's participation in the program and the investment advice it gives to its clients, although they receive economic benefits through participation in the program that are typically not available to TD Ameritrade retail investors.

These benefits 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 adviser 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; and discounts on compliance, marketing, research, technology, and practice management products and/or services provided to the Adviser and its Affiliate by third party vendors (i.e., the fees paid by the Adviser and/or its Affiliate to these third party vendors with respect to these products and/or services would generally have been higher had they not participated in the program). TD Ameritrade may also have paid for business consulting and professional services received by the Adviser's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit the Adviser and its Affiliate but may not benefit client accounts. These products or services may assist the Adviser and/or its Affiliate in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help the Adviser and its Affiliate manage and further develop their respective business enterprises. The benefits received by the Adviser (or its related persons) through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, the Adviser endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by the Adviser, its Affiliate (or their related persons) in and of itself creates a potential conflict of interest and may indirectly influence the Adviser's choice of TD Ameritrade for custody and brokerage services.

The Adviser and its Affiliate will also receive from TD Ameritrade, pursuant to a separate agreement ("**Additional Services Addendum**"), certain additional benefits ("**Additional Services**") that may or may not be offered to any other independent investment advisers participating in the Program. Specifically, the Additional Services will include an annual payment by TD Ameritrade to cover expenses associated with Ned Davis Research as well as Bridge Portfolio and Orion Advisor Services, third-party service and technology firms through which the Adviser and its Affiliate outsource back-office operations. TD Ameritrade will provide the Additional Services in its sole discretion and at its own expense, and the Adviser and its Affiliate will not pay any fees to TD Ameritrade for the Additional Services.

The Adviser's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to the Adviser, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, the Adviser's and/or its Affiliate's client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Agreement, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, the Adviser may have an incentive to recommend to its clients that the assets under management by the Adviser be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. The Adviser's and its Affiliate's receipt of

Additional Services does not diminish its duty to act in the best interests of its clients, including seeking best execution of trades for client accounts.

In addition, TD Ameritrade may sponsor seminars attended by its clients and may ask the Adviser and/or its Affiliate to present at such seminars. With respect to the TD Ameritrade seminars in which the Adviser and/or its Affiliate is a presenter, the Adviser and/or its Affiliate will generally pay for all the expenses associated with such seminars (e.g., location rental fees), and TD Ameritrade will pay for any expenses it may incur relating to the seminars, including, but not limited to, costs and expenses associated with notifying its clients of the seminars (e.g., mailing-related expenses).

Registrant serves on the TD Ameritrade Institutional President's Council ("Council"). The Panel consists of independent investment advisors that advise TD Ameritrade Institutional ("TDA Institutional") on issues relevant to the independent advisor community. The Council meets in person on average 1-2 times per year and conducts periodic conference calls on an as needed basis. At times, Council members are provided confidential information about TDA Institutional initiatives. Council members are required to sign confidentiality agreements. TD Ameritrade, Inc. ("TD Ameritrade") does not compensate Council members. However, TD Ameritrade pays or reimburses Registrant for the travel, lodging and meal expenses Registrant incurs in attending Council meetings. The benefits received by Registrant or its personnel by serving on the Council do not depend on the amount of brokerage transactions directed to TD Ameritrade. Clients should be aware, however, that the receipt of economic benefits by Registrant or its related persons in and of itself creates a potential conflict of interest and may indirectly influence Registrant's recommendation of TD Ameritrade for custody and brokerage services.

These arrangements with TD Ameritrade may pose a conflict of interest in that they may create an incentive for the Adviser to recommend to its clients the services of TD Ameritrade, which may include custodial and brokerage services.

## **B. Compensation to Non-Supervised Persons for Client Referrals**

The Adviser and its Affiliate will receive client referrals from TD Ameritrade through participation in the TD Ameritrade AdvisorDirect Program (the "Service"), a referral program established by TD Ameritrade. The Service is designed to help TD Ameritrade's brokerage customers and other investors, seeking fee-based personal investment management services or financial planning services, to find independent investment advisors to manage their assets for which TD Ameritrade provides custodial and/or brokerage services. Pursuant to the terms of participation in the Service, the Adviser will pay on-going fees to TD Ameritrade in connection with successful client referrals to it, with such fees not to exceed twenty-five percent (25%) of the advisory fees paid to the Adviser by clients referred to the Adviser as a result of its participation in the Service (the "Referral Fees"). The Adviser will also pay TD Ameritrade the Referral Fees on any advisory fees received by the Adviser from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired the Adviser on the recommendation of such referred client. With respect to these clients, the Adviser will not charge any fees or costs higher than the Adviser's standard fee schedule offered to other advisory clients or otherwise pass Referral Fees paid to TD Ameritrade to its clients. The Adviser's Affiliate participates in the Service on the same terms described above. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form, which is available from the Adviser upon request.

Clients should be aware that in addition to meeting the minimum eligibility criteria for selection for

participation in the Service, the Adviser may have been selected by TD Ameritrade based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, the Adviser's clients' accounts maintained at TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, the Adviser may have an incentive to (i) recommend to clients that client assets under the Adviser's management should be held in custody with TD Ameritrade and (ii) place transactions for client accounts with TD Ameritrade. Clients should also be aware that pursuant to the terms of its participation in the Service, the Adviser agreed not to solicit clients referred through the Service to transfer their brokerage accounts from TD Ameritrade or establish brokerage or custody accounts at other custodians other than when the Adviser's fiduciary duties require it to recommend other broker-dealers or custodians to such clients. The Adviser's participation in the Service does not diminish its duty to seek best execution of trades for client accounts. Participation in the Service may pose a potential conflict of interest between the Adviser and certain of its clients in that it may create an incentive for the Adviser to recommend TD Ameritrade to provide those clients with custody and brokerage services.

The Adviser may from time to time also engage other solicitors to whom it pays referral fees for the referral of their clients to the firm. In such cases, this practice will be disclosed in writing to the client, and the Adviser will comply with the other requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940 and applicable state and federal laws.



**Item 15            Custody**

The Adviser does not have “custody” of client assets for purposes of Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended.

## Item 16 Investment Discretion

The Adviser will provide investment advisory services on a discretionary basis to clients. Please see Item 4 above for a description of limitations clients may place on the Adviser's discretionary authority.

Prior to assuming full discretion in managing a client's assets, the Adviser will enter into an investment management agreement or other agreement that sets forth the scope of the Adviser's discretion.

Unless otherwise instructed or directed by a discretionary client, the Adviser will have the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) and (ii) the amount of securities to be purchased or sold for the client account. Because of the differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among clients in invested positions and securities held. The Adviser will submit an allocation statement to the Adviser's trading desk describing the allocation of securities to (or from) client accounts for each trade/order submitted. The Adviser may consider the following factors, among others, in allocating securities among clients: (i) client investment objectives and strategies; (ii) client risk profiles; (iii) tax status and restrictions placed on a client's portfolio by the client or by applicable law; (iv) size of the client account; (v) nature and liquidity of the security to be allocated; (vi) size of available position; (vii) current market conditions; and (viii) account liquidity, account requirements for liquidity and timing of cash flows.

Although it is the Adviser's policy to allocate investment opportunities to eligible client accounts on a *pro rata* basis (based on the value of the assets of each participating account relative to value of the assets of all participating accounts), these factors may lead the Adviser to allocate securities to client accounts in varying amounts. Even client accounts that are typically managed on a *pari passu* basis may from time to time receive differing allocations of securities based on total assets of each account eligible to invest in the particular investment type (*e.g.*, equities) divided by the total assets of all accounts eligible to invest in the particular investment.

Securities acquired by the Adviser for its clients through a limited offering will be allocated pursuant to the procedures set forth in the Adviser's allocation policy. The policy provides that the Adviser will determine the proposed allocation of limited offering securities after considering the factors described above with respect to general allocations of securities and determining those client accounts eligible to hold such securities. Eligibility will be based on the legal status of the clients and the client's investment objectives and strategies.

The Adviser may effect cross transactions between discretionary client accounts, except as otherwise noted below. Cross transactions enable the Adviser to effect a trade between two clients for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the market and saving commission costs for both accounts. Cross transactions include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed accounts remain substantially similar. The Adviser has a potentially conflicting division of loyalties and responsibilities regarding both parties to cross transactions. Cross transactions between client accounts are not permitted if they would constitute principal trades or trades for which the Adviser or its Affiliates are compensated as a broker unless client consent has been obtained based upon written disclosure to the client of the capacity in which the Adviser or its Affiliates will act. In addition, cross transactions are not permitted for benefit plan or other similar accounts that are subject to ERISA.

If it appears that a trade error has occurred, the Adviser will review the relevant facts and circumstances to determine an appropriate course of action. To the extent that trade errors and breaches of investment guidelines and restrictions occur, the Adviser's error correction procedure is to ensure that clients are treated fairly and, following error correction, are in the same position they would have been if the error had not occurred. The Adviser will have discretion to resolve a particular error in any appropriate manner that is consistent with the above stated policy. In the event that a client account incurs a trade error as a result of the Adviser's gross negligence, willful misconduct, or fraud, trade errors will be corrected by the Adviser as soon as practicable, in a manner such that the client incurs no loss. Trade errors that result other than by breach of the standard of care above are borne by the client account.

**Item 17            Voting Client Securities**

Presently, the Adviser does not vote proxies for any client accounts. The client retains the right and responsibility to vote proxies. Clients will receive their proxies or other solicitations directly from their custodian.

**Item 18            Financial Information**

The Adviser is required in this section to provide you with certain financial information or disclosures about our financial condition. We have no financial commitment that impairs our ability to meet contractual commitments to clients, and have not been the subject of bankruptcy proceedings.

## **Privacy Policy**

Maintaining the confidentiality of client personal financial information is very important to the Adviser. To provide clients with superior service, the Adviser may collect several types of nonpublic personal information about its clients, including:

- Information from forms that clients may fill out and send to the Adviser in connection with a new account application for separately managed accounts (such as name, address, and social security number).
- Information a client may give the Adviser orally.
- Information about the amount clients have invested (such as initial investment and any additions to and withdrawals from a capital account).
- Information about any bank account clients may use for transfers between accounts.

The Adviser does not sell or disclose client personal information to anyone except as permitted or required by law. The Adviser may share this information with the Adviser's legal counsel as it deems appropriate and with regulators. Finally, the Adviser may disclose information about clients at the client's request (for example, by sending duplicate account statements to someone designated by the client), or as otherwise permitted or required by law.

Within the Adviser, access to information about clients is restricted to those employees who need to know the information to service client accounts. The Adviser employees are trained to follow our procedures to protect client privacy and are instructed to access information about clients only when they have a business reason to obtain it.

The Adviser reserves the right to change its privacy policy in the future, but the Adviser will not disclose client nonpublic personal information as required or permitted by law without giving the client an opportunity to instruct the Adviser not to.

## **Anti-Money Laundering Policy**

The Adviser maintains policies designed to detect and report any activities that raise suspicions of money laundering activities, and may modify these policies from time to time. In that regard, the Adviser requires prospective clients to provide such information as the Adviser deems necessary for the Adviser to comply with applicable legal or regulatory requirements, including, without limitation, anti-money laundering requirements, and the Adviser may disclose information respecting clients and investors to governmental and/or regulatory or self-regulatory authorities to the extent that the Adviser deems required by applicable law or regulation and the Adviser may file reports with such authorities as the Adviser deems required by applicable law or regulation. If required by applicable law, regulation or interpretation thereof, the Adviser may suspend all activity with respect to a client's or investor's account, including suspending the client's to withdraw funds or assets from the account pending the Adviser's receipt of instructions regarding the account from the appropriate governmental or regulatory authority.