



Appendix 1 of Form ADV, Part 2A  
Wrap Fee Program Brochure  
April 28, 2016

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This wrap fee program brochure provides information about the qualifications and business practices of WealthSource Partners, LLC (“**WealthSource**”). If you have any questions about the contents of this brochure, please contact us at (805) 546-1000. 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 WealthSource is also available on the SEC’s website at [adviserinfo.sec.gov](http://adviserinfo.sec.gov) by searching for CRD No. 282202. References herein to WealthSource as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.

## **Item 2 – Material Changes**

This Wrap Fee Program Brochure was amended on February 3, 2016 to provide updated information on the management of the Vellum ETF Portfolios. Then, on April 28, 2016, this Wrap Fee Program Brochure was amended to provide updated information regarding all of the Vellum Portfolios. Specifically, disclosure was added to make it clear that the Vellum Portfolios may move partially or completely to cash at any given time as part of its tactical asset allocation process. Additionally, disclosures regarding the Vellum ETF Portfolios were amended to update descriptions regarding the trading models and overall portfolio exposure. Finally, the disclosure regarding the Vellum Mutual Fund Portfolios was replaced in its entirety. The previous Vellum Mutual Fund Portfolios are no longer being marketed, offered or serviced by WealthSource. In their place, WealthSource now offers ten new Vellum Mutual Fund Portfolios that are designed based on the same general structure and process used to construct the Vellum ETF Portfolios.

This Wrap Fee Program Brochure was also amended on April 28, 2016 to remove disclosure regarding soft dollar benefits that WealthSource no longer receives, to update information previously provided regarding WealthSource's affiliation with insurance agencies and agents, and to disclose WealthSource's solicitation arrangement with Ryan Louis Morelli and the conflicts of interest associated with such arrangement. Additionally, amendments were made at that time to disclose sponsorships received by WealthSource for WealthSource's 2016 Advisor Summit from Putnam Retail Management Limited Partnership, Fidelity Brokerage Services LLC, Advisors Excel, LLC and The Pacific Financial Group, Inc. and the conflicts of interest associated with WealthSource's receipt of such sponsorships.

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## Item 4 – Services, Fees and Compensation

### WRAP FEE PROGRAM SERVICES

A “wrap fee program” provides clients with at least two types of services, investment advisory and trade execution, for a single “wrap” fee. The wrap fee paid to WealthSource by clients who participate in the WealthSource Managed Wrap Fee Program (the “**Program**”) covers all fees and costs associated with portfolio management, trade execution, custody, and client reporting relating to Program assets. All portfolio management services for clients participating in the Program are provided by WealthSource.

### WRAP FEES

WealthSource’s annual wrap fees are based on a percentage of the market value of the client’s Program assets and generally range from a minimum of 1.00% to a maximum of 2.50%. All wrap fee arrangements, however, are negotiated individually with each client based on various objective and subjective factors. These factors include, but are not limited to, the amount of the assets placed under WealthSource’s management, the investment strategy that the client’s Program assets are managed under, the level and scope of the overall investment advisory services to be rendered and the complexity of the engagement. The final fee schedule negotiated with each Program client will be delineated in the client’s Investment Management Agreement with WealthSource (“**IMA**”).

Program clients should be aware that the wrap fees they pay may be more than the aggregate costs they would incur if they purchased each of the services provided by the Program separately. Additionally, the wrap fee is not based on the number of transactions effected in Program accounts and consequently, the likelihood that a client may pay higher investment advisory fees increases as the number of transactions effected in a client’s Program account(s) decreases. Furthermore, while WealthSource does not charge Program clients higher fees based on the volume of trading in their Program account, WealthSource may have an incentive to limit trading in a client’s Program account(s) because the execution costs that WealthSource incurs can be based on the aggregate number of trades executed in the accounts of Program clients. Program clients should also be aware that WealthSource has a conflict of interest when it recommends mutual funds that are available for purchase on a no-load and/or no-transaction fee basis over other comparable mutual funds that are subject to sales charges because WealthSource may not incur any expenses relating to such transactions, which ultimately reduces WealthSource’s costs in operating the Program, and because such cost savings are not passed through to Program clients.

Program clients generally elect to have wrap fees deducted directly from their custodial account(s), but, in the alternative, may elect to be billed for such fees. The IMA and/or the custodial/clearing agreement will authorize the custodian to debit client accounts for the amount

of WealthSource's wrap fee and authorize the custodian to remit such fee to WealthSource. In the limited event that WealthSource bills the client directly for wrap fees, payment is due upon receipt of WealthSource's invoice. Wrap fees are generally deducted or billed monthly in advance, based on the market value of the Program assets under WealthSource's management on the last business day of the previous month, but may be billed quarterly in advance or monthly or quarterly in arrears in certain circumstances. Wrap fees are prorated for any new account opened during a calendar month or quarter based on a 360-day year/30-day month calendar. WealthSource does not prorate its wrap fees with respect to cash flows except as part of a new account opening.

The IMA will continue in effect until terminated by either party by written notice in accordance with the terms of the IMA. In the event that a Program client terminates their IMA prior to the end of a month or quarter and is billed in advance, the client will receive a refund of any unearned wrap fees that were deducted from their custodial account(s). If the Program client was billed in arrears, the client will be responsible for paying pro-rated wrap fees for services rendered up to and through the date of termination. The amount of the refund is calculated by dividing the number of days left in the quarter after the date of termination by the total number of days in the quarter using a 360-day year/30-day month calendar and multiplying that amount against the wrap fee that was received by WealthSource in advance for the month or quarter. The value of any amount owed is calculated by dividing the number of days in the month/quarter up to and including the date of termination by the total number of days in the month/quarter using a 360-day year/30-day month calendar and multiplying that amount against the market value of the Program assets on the date of termination.

## **OTHER FEES AND EXPENSES CLIENTS MAY PAY**

In addition to the wrap fee discussed above, clients may also pay markups/markdowns on fixed income transactions as well as bank service fees; wire transfer and electronic fund transfer fees; interest on loans, debit balances and margin accounts; borrowing charges on securities sold short; odd-lot differential fees; transfer taxes; and other fees and taxes on brokerage accounts and securities transactions.

Mutual funds and exchange traded funds also charge internal management fees, which are paid to an unaffiliated third-party investment manager and disclosed in the fund's prospectus. Such charges and fees are exclusive of and in addition to WealthSource's wrap fee. Consequently, Program clients will pay two levels of investment management fees, one to WealthSource embedded in the wrap fee and one embedded within the net asset value of the mutual funds and exchange traded funds that Program clients are invested in.

## **IAR COMPENSATION**

Investment advisory representatives of WealthSource ("IAR") who recommend the Program to

WealthSource clients receive a portion of WealthSource's wrap fees. The amount of compensation received by IARs for Program assets will vary and the amount of such compensation may be more than what they would receive if the Program client elected to pay separately for investment advice, brokerage, and other services. Consequently, IARs may have an incentive to recommend the Program to clients over other programs or services offered by WealthSource.

Furthermore, because WealthSource negotiates wrap fee arrangements individually with each Program client, WealthSource's clients could pay diverse fees for the same services. Program clients should be aware that the wrap fee arrangements that WealthSource negotiates with each client are not designed to result in the same level of net profitability for WealthSource. Although WealthSource believes that the wrap fee arrangements that it negotiates with each individual client are reflective of the value of the services that WealthSource provides to such client, Program clients should be aware that the services provided by WealthSource may be available from other investment advisers for a lower fee.

Program clients, consequently, are encouraged to review and assess the services that WealthSource provides as well as the overall value of the Program and make their own independent determinations as to whether to enter into a wrap fee arrangement with WealthSource.

## **Item 5 – Account Requirements and Types of Clients**

WealthSource generally requires a minimum account opening balance of \$400,000 to open a Program account. Multiple accounts of immediately-related family members, at the same mailing address, however, may be considered one consolidated account for purposes of meeting the minimum account opening balance threshold. Additionally, WealthSource, in its sole discretion, may reduce or waive its minimum account opening balance requirement, however, program clients should be aware that the strategies that WealthSource offers through the Program may not be applied effectively for accounts smaller than \$100,000. Program clients are generally individuals and high net worth individuals, but also include some trusts and pension plans.

## **Item 6 – Portfolio Manager Selection and Evaluation**

### **SELECTION OF PORTFOLIO MANAGERS**

All Program accounts are managed by WealthSource through the IAR assigned to the account. WealthSource does not currently make available outside portfolio managers as part of the Program. It is WealthSource's belief that both it and its IARs have sufficient financial background and experience to provide the types of portfolio management services offered by the Program. Program clients are encouraged to review the respective Form ADV, Part 2B(s)

(“**Brochure Supplement**”) for the IAR assigned to their Program account for information on their specific background and experience.

WealthSource does not calculate composite performance returns for itself or its IARs, but does provide Program clients with quarterly performance information relative to their account(s). Program clients should be aware that no third-party, to WealthSource’s knowledge, reviews any performance information that is created, prepared or distributed by or on behalf of WealthSource to determine the accuracy of the returns or its compliance with any applicable presentation standards. When providing quarterly performance information to clients, WealthSource endeavors to provide clients with time-weighted returns that are calculated on a uniform and consistent basis.

## **WEALTHSOURCE AS PORTFOLIO MANAGER**

As noted above, WealthSource is the only portfolio manager for the Program. Program clients should be aware that this practice of limiting the Program’s offering of portfolio management services to those provided by WealthSource creates a conflict of interest as this practice allows WealthSource to retain a greater portion of the Program’s wrap fees.

## **WEALTHSOURCE ADVISORY SERVICES**

As noted above, WealthSource acts as the sole portfolio manager for the Program through its IARs. The following provides information on the Advisory Services provided by WealthSource to Program clients.

### **Types of Advisory Services**

WealthSource offers two types of portfolio management services as part of the Program, which are described in detail below:

### **Tactical Active Management Strategies – Vellum Portfolios**

WealthSource’s Tactical Active Management Strategies are based on an active quantitative process that is designed to seek out and capture profits in up markets and take defensive positions during down markets by tracking the investment price movements of hundreds of potential investments, primarily ETFs and mutual funds, in an attempt to find advantageous entry and exit points. Each strategy consists of up to 22 different trading models and each trading model generally consists of a universe that ranges from three to 30 mutual fund or ETF investment options. These strategies utilize an algorithmic trading system created and maintained by AlphaDroid Strategies LLC (“**AlphaDroid**”) and licensed to WealthSource. Please see the “[Item 9 – Additional Information](#)” section for additional information on AlphaDroid.



WealthSource determines and sets the specific parameters that AlphaDroid's algorithmic trading system operates within by determining which trading models each portfolio will consist of and by determining the investments that will be included in the selection universe of each trading model. Using mathematical algorithms that analyze market data based on WealthSource's parameters, AlphaDroid's trading system then provides WealthSource with trade signals, on an ongoing basis, with respect to each trading model, which are reviewed and approved by WealthSource's Chief Investment Officer prior to implementation. Because the Vellum Portfolios allocate portfolio assets tactically, they may move partially or completely to cash at any given time and are offered on a discretionary basis only.

### Exchange Traded Funds ("ETF")

There are ten Vellum ETF portfolios (i.e., ETF-0 through ETF-9), which are designed to accommodate various levels of investment risk tolerance. Each ETF portfolio consists of two components, a growth sleeve and a fixed income sleeve, in various weightings. The growth sleeve consists of six trading models and seeks to primarily invest in ETFs that provide exposure to both domestic and foreign equities of all capitalizations and sectors, but at any given time, may be up to 20% invested in ETFs that provide exposure to alternative investments and/or strategies such as currencies, commodities, REITS as well as long/short equity, global macro, market neutral and/or event-driven strategies. The fixed income sleeve consists of four trading models and seeks to primarily invest in ETFs that provide exposure to domestic and foreign fixed income securities, such as treasuries, municipal bonds, high yield bonds, corporate bonds, senior loans, convertible securities and preferred stock. Each trading model can consist of a universe of three to over 30 ETF investments options, but are typically comprised of four to 12 ETF options.

### Mutual Funds ("MF")

There are also ten Vellum Mutual Fund portfolios (i.e., MF-0 through MF-9), which are designed to accommodate various levels of investment risk tolerance. Each MF portfolio consists of two components, a growth sleeve and a fixed income sleeve, in various weightings. The growth sleeve consists of 11 to 12 trading models and seeks to primarily invest in MFs that provide exposure to both domestic and foreign equities of all capitalizations and sectors, but at any given time, may be up to 40% invested in MFs that provide exposure to U.S. government bonds, convertible securities, REITs, and high yield bonds. The fixed income sleeve consists of ten trading models and seeks to primarily invest in MFs that provide exposure to domestic and foreign fixed income securities, such as treasuries, municipal bonds, high yield bonds, corporate bonds, convertible securities, mortgage-backed securities, asset-backed securities and bank loans. At any given time, however, the fixed income sleeve may consist of up to 25% equity securities, common and/or preferred. Each trading model can consist of a universe of three to over 30 MF investments options, but are typically comprised of three to eight MF options.

## Variable Annuities

WealthSource also offers five strategies that are variations of the Vellum Mutual Fund Portfolios, which are designed to work within specific variable annuities that may be recommended to clients.

## Strategic Asset Allocation Strategies

WealthSource also provides discretionary investment advisory services to clients using various strategic asset allocation approaches. Strategic Asset Allocation Strategy accounts are tailored to the client's specific needs and are constructed using either a custom portfolio of securities recommended by the IAR and/or a model portfolio implemented by WealthSource that is designed and maintained by Focus Point Solutions, Inc. ("**FocusPoint**", CRD No. 131195). Please see the "[Item 9 – Additional Information](#)" section for additional information regarding FocusPoint.

Strategic Asset Allocation Strategy portfolios may include some or all of the following securities: mutual funds, ETFs, ETNs, levered ETFs, stocks, bonds, options (i.e., selling covered calls and purchasing puts and calls), variable insurance products, private investment funds (e.g., hedge funds) and other public and private securities or investments, although the majority of client portfolios managed under this strategy will consist of mutual funds and/or ETFs. WealthSource may utilize margin and/or engage in short selling in the management of Strategic Asset Allocation Strategy accounts. Program clients should be aware that the market value of the client's account and corresponding fee payable by the client to WealthSource is generally increased as a result of the use of margin and, consequently, a conflict of interest exists when WealthSource recommends the use of margin to clients. Client accounts are generally rebalanced or reallocated periodically in order to reestablish the targeted percentages of the initial asset allocation. This rebalancing or reallocation will generally be performed quarterly, but may be performed more or less frequently if agreed to by the client.

## Tailoring of Advisory Services

WealthSource's investment advisory services are tailored to the specific needs of each client. At the outset of each new client relationship, the IAR will ascertain the client's investment objective(s), needs, and risk tolerance and, based on that information, recommend an asset allocation to one or more of WealthSource's Tactical Active Management Strategies and/or Strategic Asset Allocation Strategies.

All clients, regardless of investment strategy, have the ability to impose reasonable restrictions, at any time, on the securities or types of securities to be held in their portfolios. Restrictions, however, are deemed "unreasonable" (1) if they would interfere with the ability of WealthSource to make investment decisions in a timely manner or (2) if they would compel WealthSource to

make investment decisions that would be inconsistent with the client's investment objectives, time horizon and/or risk tolerance. Any investment restrictions or changes to such restrictions must be provided to WealthSource in writing and signed by the client. Please note that the imposition of one or more investment restrictions could result in investment returns that are less optimal than the investment returns that would have been achieved if no investment restrictions were imposed on WealthSource.

### **Wrap Fee Program Considerations**

With respect to the portfolio management services provided by WealthSource, there is no difference in how WealthSource manages Program accounts and how it manages its other advisory accounts. Clients should be aware that a portion of the Program's wrap fee paid by the client is retained by WealthSource as compensation for its portfolio management services.

### **Performance-Based Fees and Side-By-Side Management**

Neither WealthSource nor any IAR or other supervised person of WealthSource accepts performance-based advisory fees.

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

#### **Methods of Securities Analysis**

WealthSource may use one or a combination of the following methods of securities analysis as part of its overall investment management discipline:

#### **Fundamental Analysis**

This is a technique that attempts to determine a security's value by focusing on the underlying factors that affect a company's actual business and its future prospects. Fundamental analysis is about using real data to evaluate a security's value. It refers to the analysis of the economic well-being of a financial entity as opposed to only its price movements. One of the primary assumptions of fundamental analysis is that the market price for a security does not fully reflect the security's "real" value. WealthSource may evaluate a combination of qualitative and quantitative factors to identify undervalued securities, based on both macroeconomic factors, such as the overall economy and industry conditions, and company-specific factors such as financial condition and management.

In order to perform fundamental analysis, WealthSource may rely on many types of resources, such as Morningstar, financial newspapers and magazines (e.g. the Wall Street Journal, Forbes, etc.), annual reports, prospectuses, research materials prepared by others, SEC filings, press releases, corporate rating services, and company websites.

### Technical Analysis

This is a technique that attempts to determine a security's value by developing models and trading rules based on price and volume transformation. Technical analysis assumes that market prices reflect all relevant information so the analysis focuses on the history of a security's trading behavior rather than external drivers such as economic, fundamental and news events. The practice of technical analysis incorporates the importance of understanding how market participants perceive and act on relevant information rather than focusing on the information itself. Ultimately, technical analysts develop trading models and rules by evaluating factors such as trends, market participant behaviors, supply and demand and pricing patterns and correlations.

### Cyclical Analysis

This is a technique that analyzes historical relationships between price and market trends, to forecast the direction of prices. WealthSource may use cyclical analysis in conjunction with other strategies to help determine if shifts are required for its clients' investment strategies depending on long and short-term trends in financial markets and the performance of the overall national and global economy.

### Investment Strategies and Transactions

Please see the "[Types of Advisory Services](#)" discussion, in this section, for a description of the various types of investment strategies WealthSource may use in formulating investment advice and/or managing assets for Program clients. When implementing investment advice given to Program clients, WealthSource may engage in the following types of transactions:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Trading (securities sold within thirty (30) days)

### Risk of Loss

All investing involves risk of loss, including the possible loss of all amounts invested. No methodology or investment strategy is guaranteed to be successful or profitable. Furthermore, different types of investments involve varying degrees of risk, and it should not be assumed that the future performance of any specific investment or investment strategy, including the investments and/or investment strategies recommended or undertaken by WealthSource, will be profitable or equal any specific performance level(s).

While WealthSource uses tools to try to reduce risk, the risk of loss always exists. In some cases, the amount of potential loss may exceed the amount of principal invested if leveraging tactics,

such as margin or short selling, are used in the management of your account. Investing generally works best when we understand your risk tolerance and when you communicate any changes to your investment objectives, needs, risk tolerance, and expectations to us promptly.

A number of material risks associated with WealthSource's investment strategies and the securities used to implement those strategies are set forth below. The following, however, is not meant to be a complete description of risks as WealthSource does not primarily recommend any particular type of security or investment strategy, but rather tailors its recommendations to the needs of its clients.

### General Risks

- Advisory / Management Risk: There is no guarantee that WealthSource's judgment or investment decisions will necessarily produce the intended results. WealthSource's judgment may prove to be incorrect, which could result in clients not achieving their investment objectives.
- Alternative Investments Risk: Alternative investments as well as securities that invest primarily in alternative investments and/or strategies may not be suitable for all investors and involve special risks, such as risks associated with commodities, real estate, leverage, selling securities short, derivatives and potential illiquidity.
- Credit / Counterparty Risk: Certain securities, such as Exchange-Traded Notes (i.e., ETNs), are exposed to the risk that adverse economic events (e.g., bankruptcy or insolvency) may prevent the issuer or counterparty of a security from meeting its financial obligations thus impairing or erasing the value of the security.
- Exchange-Traded Funds: ETF shares may trade at a discount or premium to their net asset value. This difference between the bid price and the ask price is often referred to as the "spread", which generally varies based on the ETF's trading volume and market liquidity. Although many ETFs are registered as investment companies under the Investment Company Act of 1940, some ETFs, in particular those that invest in commodities, are not registered as an investment company.
- Foreign Investment Risk: Investments in securities of foreign issuers may involve risks that include fluctuations in currency exchange rates, political instability, confiscations, taxes or restrictions on currency exchange, difficulty in selling foreign investments, and reduced legal protections. These risks may be more pronounced for investments in developing countries.
- Frequent Trading Risk: A strategy involving the frequent trading of securities generally results in significantly higher portfolio turnover rates and can negatively affect investment performance due to increased brokerage commissions, transactions fees and expenses and/or financing charges. In addition, frequent trading is likely to result in short-term capital gains tax treatment.
- Interest-Rate Risk: Fluctuations in interest rates may cause investment prices to fluctuate.

This effect is typically more pronounced for intermediate and longer-term obligations.

- **Liquidity Risk**: Due to a lack of demand in the marketplace or other factors, it may not be possible to sell certain securities promptly or it may only be possible to sell certain securities at less than desired prices making it difficult to value the security or sell it in a timely manner at an acceptable price.
- **Margin Risk**: If the securities in a margin account decline in value, the value of the collateral supporting the margin loan also declines, which could result in a margin call that could (1) force you to sell securities or other assets in the account, (2) result in the broker-dealer selling your securities or other assets without contacting you, (3) result in the broker-dealer moving securities from your other account(s) to your margin account and pledging the transferred securities. Additionally, since you are borrowing funds in order to purchase securities, you can incur losses greater than the amount of your investment.
- **Market Risk**: The price of any security, including bonds or mutual funds may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Options Risk**: Certain types of options trading is permitted by WealthSource in order to obtain long exposure to a security for a specific period of time (i.e., purchasing call options), to offset/hedge a potential market risk in a client's portfolio (i.e., purchasing put options on a security held in the client's account) or to generate income (i.e., selling (writing) covered call options). When writing covered call options, there is the additional risk that you may no longer own the underlying security if it is called away.
- **Reinvestment Risk**: This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Short Selling Risk**: When short selling, there is the risk that the securities borrowed in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, wherein the seller might be compelled, at the most disadvantageous time, to replace the borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.
- **Sub-Adviser Risk**: WealthSource may utilize model portfolios in the management of certain Program accounts that are created and maintained by third-party investment advisers that are unaffiliated with WealthSource. The methods of analysis and material risks associated with these investment strategies are generally the same as other investment strategies created and maintained by WealthSource, which are within the same investment strategy category (i.e., Tactical Asset Management or Strategic Asset Allocation). WealthSource, however, is not involved in the day-to-day management of these model portfolios and, consequently, investments in such models are subject to



possible defaults or misconduct of such sub-advisers. Additionally, access to strategies designed and maintained by third-party investment advisers that are made available through WealthSource could be interrupted or no longer accessible to clients in the event of a service disruption or termination of WealthSource's arrangement with a third-party investment adviser.

#### Tactical Active Management Strategies – Additional Risks

- Model Risk: All quantitative analysis carries a risk that the mathematical model used might be based on one or more incorrect assumptions.
- Data Risk: Algorithmic trading systems rely on the cleanliness and accuracy of the underlying data (such as stock or ETF prices) that are input into the algorithms to generate exposure recommendation signals. If input data is inaccurate, then the data output will be similarly tainted.
- Hacking Risk: There is a risk that unauthorized outside interference with the programming or distribution method of a third-party algorithmic trading system could impair its ability to function as designed.
- Quantitative Risk: Rapidly changing and unforeseen market dynamics could lead to a decrease in the short-term effectiveness of an algorithmic trading system.
- Macroeconomic Risk: Unusual events, such as those resulting from shifts in geo-political, systematic, economic, or social conditions, may result in abrupt changes to a security's price, which could upset the model's ability to generate reliable trade signals.
- Licensing Risk: As WealthSource is not the proprietary owner of all of the algorithmic trading systems that it uses to manage client accounts, WealthSource may not be able to provide uninterrupted and/or consistent advisory services to clients who utilize the Vellum Portfolios in the event that the proprietary owner of that algorithmic trading system terminates their relationship with WealthSource.

#### Proxy Voting

WealthSource does not vote client proxies or accept authority to vote client securities. Instead, Program clients will receive proxies and/or other solicitations directly from their account custodian or a transfer agent and maintain exclusive responsibility for (1) directing the manner in which proxies solicited by issuers of securities owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other types of events pertaining to the client's investment assets. Program clients may contact WealthSource to discuss questions they may have with respect to a particular proxy and/or other solicitation, however, WealthSource is under no responsibility to give any advice on how to vote such proxy.

## **Item 7 – Client Information Provided to Portfolio Managers**

Because WealthSource is both the sponsor and sole portfolio manager of the Program, WealthSource has complete access to all information about all Program clients and IARs have complete access to all information with respect to their Program clients. Furthermore, as IARs are generally the primary recipient of all information submitted by clients to WealthSource, it is generally not necessary for WealthSource to provide updated client information to its IARs.

## **Item 8 – Client Contact with Portfolio Managers**

WealthSource does not impose any restrictions on the ability of Program clients to directly contact and/or consult with WealthSource or their IAR.

## **Item 9 – Additional Information**

### **DISCIPLINARY INFORMATION**

Neither WealthSource nor any of its management persons have been the subject of any legal or disciplinary events that are material to an evaluation of WealthSource's advisory business or the integrity of its management.

### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

#### **Algorithmic Trading System – AlphaDroid Strategies LLC**

As noted above in the discussion under "[Item 6 – Portfolio Manager Selection and Evaluation](#)", WealthSource has a material arrangement with AlphaDroid, a developer of an algorithmic trading system that is marketed to financial advisors. Bryan Sullivan, WealthSource's Chief Executive Officer, is both an owner and principal of AlphaDroid and has been actively involved, on an ongoing basis, in assisting in the development of AlphaDroid's algorithmic trading system to meet the needs of financial advisors such as WealthSource, which currently utilizes AlphaDroid's algorithmic trading system in the management of the Vellum Portfolios.

#### **Non-Discretionary Investment Advisory Services – Focus Point Solutions, Inc.**

WealthSource receives non-discretionary investment advisory services from FocusPoint Solutions, Inc., which generally consists of securities and asset allocation recommendations, which may be used in the management of WealthSource's Strategic Asset Allocation Strategy accounts. As part of this service, WealthSource also receives access to FocusPoint's portfolio managers to answer portfolio and/or market-related questions and weekly commentary from FocusPoint regarding their views on the economy and market. For these services, WealthSource



pays FocusPoint an investment advisory fee based on the amount of WealthSource's assets under management that utilize FocusPoint's recommendations. Please see the "[Item 6 – Portfolio Manager Selection and Evaluation](#)" section for additional information regarding FocusPoint.

### **Registered Representatives**

IARs, in their individual capacities separate from WealthSource, may be registered representatives of broker-dealers that are unaffiliated with and independent of WealthSource ("**Registered Representatives**"). Registered Representatives may recommend and/or sell certain investment products on a commission basis to clients. WealthSource does not charge any wrap fees on such investments, does not share in any commission revenue received by Registered Representatives and does not provide any investment advisory services with respect to such investments. The receipt of commission compensation by Registered Representatives, however, creates a conflict of interest as the recommendation to purchase an investment product may have initially resulted from financial planning services provided to the client and may be influenced by the commission compensation to be received, rather than solely on the needs and best interests of the client. WealthSource addresses this conflict of interest by disclosing the conflict in this Wrap Fee Program Brochure and reminding clients that they are under no obligation to use the brokerage services of Registered Representatives.

- Kevin Swanson (CRD No. 2528342) – Comprehensive Asset Management and Services, Inc. (CRD No. 43814)

### **Insurance Agents and/or Agencies**

IARs, in their individual capacities separate from WealthSource, may be licensed insurance agents ("**Insurance Agents**") and may recommend and/or sell certain insurance products on a commission basis to clients. WealthSource does not charge any wrap fees on insurance products purchased on a commission basis, does not share in any commission revenue received by Insurance Agents, and does not provide any ongoing investment advisory services with respect to such insurance products. The receipt of commission compensation by Insurance Agents, however, creates a conflict of interest as the recommendation to purchase an insurance product may have initially resulted from financial planning services provided to the client and may be influenced by the commission compensation to be received, rather than solely on the needs and best interests of the client. Additionally, the services of Insurance Agents may be recommended by WealthSource and/or its other non-insurance licensed IARs. As a result of such referrals, Insurance Agents may receive increased compensation creating a potential conflict of interest. WealthSource addresses these conflicts of interest by disclosing them in this Wrap Fee Program Brochure and reminding clients that they are under no obligation to use the services of Insurance Agents or their affiliated Insurance Agencies.

- Affiliated Insurance Agencies
  - Anthem Risk Management, LLC (FL Ins. License No. L095886)

- Retirement Outfitters, LLC (CO Ins. License No. 330954)
- Safeguard Financial and Insurance Services (CA License No. 0F06671)
- Strategic Planning LLC (CO Ins. License No. 441939)
- WealthSource Insurance Services, LLC (CA Ins. License No. 0K70809)
- **Affiliated Insurance Agents**
  - Lohe, Jason Harris (CA Ins. License No. 0D61928) – Safeguard Financial and Insurance Services
  - Maguire, Mark (CO Ins. License No. 155676)
  - Murray, Jeffrey Alan (CA Ins. License No. 0B20030, CO Ins. License No. 441939) – Strategic Planning LLC
  - Smith, Kelly Morrow (CA Ins. License No. 0C05923) – WealthSource Insurance Services, LLC
  - Sullivan, Arlo Bryan (CA Ins. License No. 0B55578) – WealthSource Insurance Services, LLC
  - Swanson, Kevin Charles (CA Ins. License No. 0B59064) – WealthSource Insurance Services, LLC
  - Traylor Smith, Barbara Alison (CA Ins. License No. 0D30497, CO Ins. License No. 109486) – Retirement Outfitters, LLC
  - Weintraub, Lane (CO Ins. License No. 264836)

**Selling Agreement – The Pacific Financial Group, Inc.**

WealthSource has entered into a Selling Agreement with The Pacific Financial Group, Inc. (“TPFG”, CRD No. 105203) pursuant to which WealthSource solicits the participants of retirement plans to become clients of TPFG and makes recommendations to those participants to allocate their self-directed brokerage account assets into managed portfolios and/or mutual funds managed by TPFG. In making investment allocation recommendations pursuant to this arrangement, plan participants should be aware that WealthSource has a potential conflict of interest when it recommends that participants allocate assets from their core account to their self-directed brokerage account and has a conflict of interest when it recommends that self-directed brokerage account assets be invested in TPFG’s managed portfolios and/or mutual funds.

In addition to the receipt of solicitation fees from TPFG, TPFG was a cash sponsor of WealthSource’s 2016 Advisor Summit. TPFG’s sponsorship creates an additional conflict of interest for WealthSource because it creates another incentive for WealthSource to recommend TPFG’s services to its clients as such sponsorship and any future sponsorships reduces WealthSource’s out-of-pocket costs to host its Advisor Summits. WealthSource addresses these conflicts of interest by providing disclosure of the arrangements and the associated conflicts of interest to clients in this Wrap Fee Program Brochure and reminding clients that they are under no obligation to purchase investments offered by TPFG.

### **Third-Party Investment Managers**

For those accounts not participating in the Program, WealthSource may recommend the portfolio management services of unaffiliated Third-Party Investment Managers (“**TPIM**”), which are registered investment advisers with either the SEC or one or more state securities authorities, on a discretionary or non-discretionary basis to clients. When recommending TPIMs on a non-discretionary basis, WealthSource serves as a solicitor and receives a solicitation fee from the TPIM for its recommendation of the TPIM’s services, which creates a material conflict of interest for WealthSource.

### **Two Rivers Fiduciary Co.**

WealthSource may recommend the trust, estate, fiduciary, custodial and/or other services of Two Rivers Fiduciary Co. doing business as Two Rivers Trust Co. (“**Two Rivers**”), a Colorado corporation that operates as a branch office of Investors Independent Trust Company, a Colorado non-depository trust company. Avant-Garde Wealth Management Inc. and Douglas Boyd May, indirect owners of WealthSource, are non-controlling minority owners of Two Rivers. Additionally, WealthSource subleases office space to Two Rivers in Grand Junction, Colorado, and Two Rivers exclusively uses WealthSource’s investment advisory services for all of its clients in need of such services. Consequently, a conflict of interest exists when WealthSource recommends the services of Two Rivers to its existing or prospective clients. WealthSource addresses these conflicts of interest by disclosing the conflict in this Wrap Fee Program Brochure and reminding clients that they are under no obligation to use the services of Two Rivers.

### **Putnam Retail Management Limited Partnership**

The RIA Advisory Group of Putnam Retail Management Limited Partnership (“**Putnam**”, CRD No. 5948528), which is a registered broker-dealer and the distributor of the Putnam Mutual Funds, was a cash sponsor of WealthSource’s 2016 Advisor Summit. Putnam’s sponsorship creates a conflict of interest for WealthSource because it creates an incentive for WealthSource to recommend the Putnam Mutual Funds as well as any other proprietary investment products and services of Putnam and/or its affiliates to clients. WealthSource addresses these conflicts of interest by providing disclosure of the sponsorship and the associated conflicts of interest to clients in this Wrap Fee Program Brochure and reminding clients that they have the ability to impose reasonable restrictions on the securities or types of securities to be held in their portfolios, including a restriction on the purchase and/or use of Putnam’s proprietary investment products and services.

### **Fidelity Brokerage Services LLC**

Fidelity Brokerage Services LLC (“**Fidelity**”, CRD No. 7784) was a sponsor of WealthSource’s 2016 Advisor Summit, which creates a conflict of interest for WealthSource because it creates

an incentive for WealthSource to recommend the proprietary investment products and services of Fidelity and/or its affiliates to clients. WealthSource addresses these conflicts of interest by providing disclosure of the sponsorship and the associated conflicts of interest to clients in this Wrap Fee Program Brochure and reminding clients that they have the ability to impose reasonable restrictions on the securities or types of securities to be held in their portfolios, including a restriction on the purchase and/or use of Fidelity's proprietary investment products and services.

### **Advisors Excel, LLC**

Advisors Excel, LLC ("AE", CA Ins. License No. 0K67702, CO Ins. License No. 300655, FL Ins. License No. L052557) is an Insurance Marketing Organization that supports the sales activities of WealthSource's affiliated insurance agency, WealthSource Insurance Services, LLC. For its services, AE receives override commissions from the sale of insurance products by WealthSource Insurance Services, LLC and/or its affiliated insurance agents. AE was a cash sponsor of WealthSource's 2016 Advisor Summit, which creates a conflict of interest for WealthSource because it creates an additional incentive for WealthSource to recommend the services of WealthSource Insurance Services, LLC and/or its affiliated insurance agents to clients in order to indirectly compensate AE for its sponsorship. WealthSource addresses these conflicts of interest by providing disclosure of the sponsorship and the associated conflicts of interest to clients in this Wrap Fee Program Brochure and reminding clients that they are under no obligation to use the services of WealthSource Insurance Services, LLC and/or its affiliated insurance agents.

### **Solicitor - Ryan Louis Morelli**

WealthSource has entered into a solicitation arrangement with Ryan Louis Morelli (CRD No. 2968770, CA Ins. License No. 0E44796), a licensed insurance agent in the State of California, pursuant to which Mr. Morelli is compensated by WealthSource for referrals of prospective investment advisory clients. In light of this compensation arrangement, clients should be aware that Mr. Morelli has a conflict of interest when recommending the investment advisory services of WealthSource.

## **CODE OF ETHICS**

WealthSource maintains a Code of Ethics that includes (1) standards of business conduct that all of our supervised persons are expected to adhere to; (2) a prohibition on insider trading; (3) provisions relating to the receipt and giving of gifts, and (4) policies and procedures requiring the periodic reporting of personal securities transactions and holdings. As our client or prospective client you are entitled to a copy of our Code of Ethics upon request. You may request a copy by contacting us at (805) 546-1000.

WealthSource and/or its supervised persons may buy or sell securities that are also held by or recommended to clients and may occasionally trade in securities in a personal account, at or about the same time that WealthSource trades in the same security, or a related security, for a client account. This may create potential conflicts of interest because WealthSource and/or its IAR(s) (1) may have an incentive not to recommend the sale of those securities to clients in order to protect the value of a personal investment (2) may have an incentive to recommend the purchase of those securities to clients in order to immediately sell it at a profit in a personal account upon the rise in market price (i.e., scalping) and (3) may have an incentive to place personal investment orders before those of clients in order to obtain a better price and/or otherwise materially benefit from the purchase or sale of those securities (i.e., front run). When engaging in personal trading, we believe that our clients' interests should come first and our supervised persons are reminded of WealthSource's fiduciary duty and their obligation to comply with WealthSource's standards of business conduct. Additionally, WealthSource monitors the personal securities transactions and holdings of its access persons for any activity that may indicate a violation of WealthSource's Code of Ethics.

## REVIEW OF ACCOUNTS

Account reviews are conducted by the Program client's IAR, generally quarterly, but no less frequently than annually. Account reviews are performed to assess the client's progress toward their investment objectives and to determine whether any changes with respect to the investment management of the client's account are warranted in light of the client's financial situation, risk tolerance and investment objectives. Program clients, however, are advised that it is your responsibility to promptly notify WealthSource if there are ever any changes to your financial situation, goals, needs or investment objectives.

Account reviews may also be conducted by the client's IAR on an ad hoc basis upon the occurrence of a triggering event, such as a change in a client's financial situation (e.g., retirement, termination of employment, physical move, inheritance) or investment objectives; the occurrence of material market, economic or political events; or at the client's request. Additionally, ad hoc account reviews may be performed on a sample basis by WealthSource's Chief Investment Officer and/or Investment Policy Committee.

Clients are provided with written quarterly performance reports that contain holdings information, beginning and ending market values, asset allocation information by sector and asset class, and performance return information. Written quarterly performance reports are provided for client convenience only and should not be relied on for tax purposes. Clients should rely on their custodial account statements as the official record of their account(s).

## **CLIENT REFERRALS AND OTHER COMPENSATION**

### **Support Services and/or Products**

Schwab and TDA make available to us, without cost and/or at a discount, support services and/or products, some of which assist WealthSource in better monitoring and servicing client accounts, but some of which benefit WealthSource without directly benefiting clients or their account(s). Included within the support services that may be obtained by WealthSource may be investment-related research, both proprietary and that of third parties; pricing information and market data; software and other technology that provide access to client account data; compliance and/or practice management-related publications; discounted or gratis consulting services; discounted or gratis attendance at conferences, meetings, and other educational and/or social events; marketing support; computer hardware and/or software and/or other products used by WealthSource in furtherance of its investment advisory business. Program clients should be aware that WealthSource may use support services and/or products from Schwab and TDA to service and/or otherwise benefit all or a substantial number of WealthSource's clients, including clients whose accounts are held in custody at a broker-dealer other than the one providing the product or service.

As all brokerage commissions and transaction fees for Program accounts are paid by WealthSource, Program clients do not pay more for executing transactions as a result of WealthSource's receipt of support services and/or products. Furthermore, WealthSource has not committed to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products with or through the firms noted above as a result of any existing arrangement. The availability of the services and/or products noted above, however, benefit WealthSource because we do not have to produce or purchase them. Consequently, clients should be aware that the receipt of support services and/or products by WealthSource and/or our related persons from Schwab and TDA in and of itself creates a potential conflict of interest as it creates an incentive for WealthSource to recommend the custodial and brokerage services of Schwab and TDA over other broker-dealers.

### **Solicitation Arrangement**

WealthSource utilizes the solicitation services of Ryan Louis Morelli (CRD No. 2968770), a licensed insurance agent with the state of California (CA Ins. License No. 0E44796). Pursuant to Mr. Morelli's arrangement with WealthSource, Mr. Morelli refers prospective investment advisory clients to WealthSource and receives a percentage of the net investment advisory fees received by WealthSource from those clients. In light of this compensation arrangement, clients should be aware that Mr. Morelli has a conflict of interest when recommending the investment advisory services of WealthSource. Clients who are recommended the investment advisory services of WealthSource by Mr. Morelli should receive a copy of his Solicitors Disclosure Document in addition to this Wrap Fee Program Brochure, which contains important information

about his solicitation arrangement with WealthSource that should be read carefully.

## **FINANCIAL INFORMATION**

WealthSource is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients.