



Form ADV, Part 2A  
Disclosure Brochure  
April 28, 2016

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This 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 U.S. 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 Disclosure Brochure was amended on February 3, 2016 to provide updated information on the management of the Vellum ETF Portfolios and to eliminate disclosures regarding certain Tactical Active Management Strategies that will not be made available to clients as was originally planned.

On April 28, 2016, this Disclosure Brochure was amended to update information previously provided regarding the Vellum Portfolios and the M 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. With respect to the M Portfolios, the disclosure was amended to reflect that they are closed to new investment, except to clients with a pre-existing investment in such portfolios.

This Disclosure 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 – Advisory Business

### BACKGROUND

WealthSource Partners, LLC is a limited liability company that was organized on November 2, 2015 in the State of California and was created from the merger of the assets of Vellum Financial, LLC (“**Vellum**”) and Avant-Garde Advisors LLC (“**AGA**”). WealthSource is owned 49.98% by Vellum, a California Limited Liability Company formed in August of 2009, and 49.98% by AGA, a Delaware Corporation formed in September of 2009.

Vellum is wholly owned, in aggregate, by A. Bryan Sullivan, Kelly Smith, and Kevin Swanson, while AGA is wholly owned by Avant-Garde Wealth Management Inc. (“**AGWM**”) whose two largest shareholders are Eric Patton and Jon Dubravac. With respect to WealthSource, Mr. Sullivan serves as Chief Executive Officer, Mr. Dubravac serves as Chief Development Officer, Mr. Patton serves as Chief Operating Officer, Mr. Smith serves as Chief Strategy Officer, Mark Malek serves as Chief Investment Officer and David Ito serves as Chief Compliance Officer and General Counsel.

WealthSource offers investment advisory services, which generally consist of (1) financial planning, (2) the provision of discretionary or non-discretionary investment recommendations relating to the purchase or sale of securities or the selection of third-party investment managers (“**TPIM**”), and (3) the ongoing monitoring of clients’ securities portfolios. WealthSource’s investment advisory services are tailored to the specific needs of each client. At the outset of each new client relationship, an investment adviser representative of WealthSource (“**IAR**”) ascertains the client’s investment objective(s), needs, and risk tolerance and, based on that information, recommends an asset allocation to one or more of WealthSource’s Tactical Active Management Strategies, Individual Securities Strategies and/or Strategic Asset Allocation Strategies or to one or more TPIMs.

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 or a TPIM to make investment decisions in a timely manner, (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, or (3) if invested with a TPIM, the TPIM prohibits clients from imposing the requested restriction. 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.

As of April 26, 2016, WealthSource had \$381,237,205.61 in assets under management, of which \$365,780,150.02 was managed on a discretionary basis.

## INVESTMENT ADVISORY SERVICES

### **Tactical Active Management Strategies**

#### **Vellum Portfolios**

The Vellum Portfolios are managed using 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 price movements of hundreds of potential investments, primarily ETFs and mutual funds, in an attempt to find advantageous entry and exit points. Each portfolio 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 portfolios utilize an algorithmic trading system created and maintained by AlphaDroid Strategies LLC (“**AlphaDroid**”) and licensed to WealthSource. Please see the “[Item 10 – Other Financial Industry Activities and Affiliations](#)” section for additional information on AlphaDroid.

WealthSource determines and sets the specific parameters that AlphaDroid’s algorithmic trading system operates within by determining (1) which trading models each portfolio will consist of and (2) 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, common and/or preferred, 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 other portfolios, which are variations of the Vellum Mutual Fund Portfolios, which are designed to work within specific variable annuities that may be recommended to clients that are issued either by Security Benefit Life Insurance Company or Jefferson National Life Insurance Company.

#### Avant-Garde Portfolios

WealthSource offers three portfolios that utilize a proprietary algorithm that ranks each ETF in the respective portfolio’s selection universe, which generally consists of anywhere from 18 to 28 ETFs, in order to determine which ETFs within the selection universe to invest in. Rankings are based on the algorithm’s analysis of each ETF’s price momentum, volatility and correlation to its peers in the selection universe. In order to determine how much to invest in each ETF, the algorithm also determines which way the market is trending in order to materially increase each portfolio’s exposure to risk, as measured by Beta, when markets are trending up and to materially decrease each portfolio’s exposure to risk when markets are trending down, a tactic called Flexible Beta.

- *FlexBeta* – This portfolio consists of a selection universe of 24 ETFs representing different asset classes and invests on an equal-weighted basis in the six ETFs currently ranked the highest by the algorithm.

- *SectorBeta* – This portfolio invests in domestic sector-based ETFs.
- *WorldBeta* – This portfolio primarily invests in foreign equity ETFs, but may periodically invest in domestic non-equity ETFs.

### *M Portfolios*

In addition to the Vellum and Avant-Garde Portfolios, WealthSource also manages another set of tactical asset management strategies called the M Portfolios, which are generally closed to new investment. The M Portfolios are managed using 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 price movements or other trends. Unlike the Vellum Portfolios, however, the M Portfolios utilize an algorithmic trading system created, maintained and owned by WealthSource's Chief Investment Officer, Mark Malek. All M Portfolios are customized for the IAR, based on the investment guidelines and reasonable investment restrictions that they want to impose on the universe of investments and/or the operation of the algorithm in order to meet the needs of their client(s). The M Portfolios are offered on a discretionary basis only.

In selecting the base universe of investments for the M Portfolios, equities and ETFs are generally limited to those traded on U.S. exchanges, which do not raise liquidity concerns, in Mr. Malek's sole opinion, due to low daily trading volumes and/or large bid/ask spreads. With respect to mutual funds, the universe of investments for the M Portfolios consists of all open-end mutual funds available through the respective custodial platform that the client utilizes for his/her/its investment account(s). Mr. Malek, however, may limit the universe of mutual fund investments for a specific type of mutual fund category (e.g., high yield bond, healthcare sector, small cap equity) to those mutual funds that do not carry short-term redemption fees and/or have low expense ratios, if the algorithm would still have a sufficient pool of available mutual fund options to analyze and choose from, in the sole determination of Mr. Malek.

### *Individual Securities Strategies*

WealthSource offers four portfolios that are based on The Applied Finance Group's ("AFG") multi-factor framework (i.e., intrinsic value, Economic Margin momentum, and management quality) that incorporates the concept of Economic Margin™. Economic Margin evaluates a company's performance from an economic cash flow perspective by measuring the return a company earns above or below its cost of capital in order to understand how well the company has utilized its invested capital. First, these portfolios attempt to calculate intrinsic value by forecasting future levels of Economic Margins for a company and then discounting those cash flows in order to better understand the differences between a stock's intrinsic value and its market price. These portfolios also evaluate the magnitude of changes in recent Economic Margin forecasts in an effort to more accurately (1) identify irrational price fluctuations in a stock's market price and (2) predict how earnings revisions may impact a company's economic profitability levels. Finally, these portfolios evaluate a company's management team by their



ability to follow and apply wealth creating strategies that grow the business by capturing positive net present value opportunities.

- *AFG 50* – A focused group of 50 stocks designed to consistently outperform the S&P 500 index. The AFG 50 is long only, with targeted annual turnover below 40%. It is sector-neutral relative to the S&P 500, and is rebalanced every quarter.
- *AFG Quarterly Focus* – A focused group of five to seven stocks that have attractive valuations according to AFG’s multi-factor framework and which AFG believes are compelling investments to hold because of the existence of a near-term catalyst that may affect the stock’s value. The holdings are re-evaluated quarterly, no stock may be held for longer than two consecutive quarters and the market capitalization of individual stock positions will generally be greater than \$1 billion and most often greater than \$2 billion.
- *AFG ADR* – A focused group of 20 American Depositary Receipts identified by the application of AFG’s multi-factor framework.
- *AFG 20* – A focused group of 20 stocks derived by applying a sector trend analysis overlay, performed by WealthSource, on the AFG 50. The AFG 20 is long only, with targeted annual turnover of 10%.

### **Strategic Asset Allocation Strategies**

WealthSource also provides investment advisory services to clients, on a discretionary and non-discretionary basis, 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 10 – Other Financial Industry Activities and Affiliations](#)” section for additional information relating to 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. *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.

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

In providing investment advisory services, WealthSource may recommend the portfolio management services of other unaffiliated, independent investment advisers based on the needs of the client. When recommending TPIMs on a discretionary basis, WealthSource will perform due diligence on TPIM candidates, hire one or more TPIMs on the client's behalf, monitor each TPIM's performance and adherence to its stated investment strategy, and, if necessary, terminate the TPIM on the client's behalf.

When recommending TPIMs on a non-discretionary basis, WealthSource will perform due diligence on TPIM candidates, recommend one or more TPIMs to the client, and monitor each TPIM's performance and adherence to its stated investment strategy. The client, however, will enter into an investment management agreement directly with the TPIM and, consequently, WealthSource will not have the authority or ability to hire or terminate the TPIM on the client's behalf.

Clients should be aware that when WealthSource recommends TPIMs on a non-discretionary basis, WealthSource will be acting as a solicitor for the TPIM. Under this arrangement, the client will not pay any investment advisory fees to WealthSource with respect to assets placed under the TPIM's management. Instead, WealthSource will be compensated through the receipt of solicitation fees paid by the TPIM. Please see the "[Item 5 – Fees and Compensation](#)" and the "[Item 10 – Other Financial Industry Activities and Affiliations](#)" sections below for important information regarding conflicts of interest relating to WealthSource's activities as a solicitor.

In light of the breadth of investment strategies that are available through TPIMs and the unique combination of investment risks associated with each type of investment strategy, clients who are recommended the services of a TPIM should carefully review the Form ADV, Part 2A (i.e., disclosure brochure) and applicable Part 2Bs (i.e., brochure supplements) of the TPIM for important information concerning the TPIM and the investment strategy recommended, including any associated risks and conflicts of interest.

### **PENSION CONSULTING SERVICES**

WealthSource also offers fee-only non-discretionary pension consulting services primarily to corporate retirement plans. Such services typically include the provision of investment advice about asset classes and investment alternatives, assistance in the selection of investment options to be made available by the retirement plan to its participants, monitoring of investment options that have been selected, periodic onsite meetings with responsible plan fiduciaries and providing general education to the plan's participants.

### **FINANCIAL PLANNING SERVICES (STAND-ALONE)**

For those clients who do not wish to receive continuous and regular investment advisory services

from WealthSource, WealthSource offers stand-alone financial planning services based on an analysis of the client's current financial situation, goals, and objectives. Financial planning generally encompasses one or more of the following areas: Investment Analysis and Planning, Retirement Planning, Charitable Planning, Education Planning, Real Estate Analysis, Mortgage/Debt Analysis and Insurance Analysis.

## **WEALTHSOURCE MANAGED WRAP FEE PROGRAM**

WealthSource sponsors the WealthSource Managed Wrap Fee Program (the “**Program**”) and offers the services of the Program to both its existing and prospective clients. Under a wrap fee program, the wrap fee program sponsor arranges for the client to receive investment advisory services, the execution of securities brokerage transactions, custody and reporting services for a single specified fee. Participation in a wrap fee program may cost the clients more or less than purchasing such services separately. Clients who are recommended the services of the Program by WealthSource should receive a copy of Appendix 1 of WealthSource's Form ADV, Part 2A for the Program (the “**Wrap Fee Program Brochure**”) in addition to this Disclosure Brochure, which contains important information about the Program that should be read carefully. If you did not receive a copy of the Wrap Fee Program Brochure, please contact us at (805) 546-1000. In addition to sponsoring the Program, WealthSource also makes available some of its portfolio management services to the Program's wrap fee clients. There are no material differences in how WealthSource manages the accounts of the Program's wrap fee clients and WealthSource's other non-wrap fee clients. As compensation for its provision of portfolio management services to clients of the Program, WealthSource receives a portion of the Program's wrap fee.

## **Item 5 – Fees and Compensation**

### **INVESTMENT ADVISORY FEES**

WealthSource's annual fees for investment advisory services, for both discretionary and non-discretionary accounts, are based on a percentage (%) of the market value of the assets under WealthSource's management and range from a minimum of 0.50% to a maximum of 2.00% for non-wrap fee clients and 2.50% for wrap fee clients. Certain advisory clients, however, may be grandfathered into fee arrangements for investment advisory services that are below the current minimum annual fee of 0.50%. All advisory 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 types of securities to be managed by WealthSource, 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 client will be delineated in the client's Investment Management Agreement with WealthSource (“**TMA**”).

Clients generally elect to have WealthSource's investment advisory 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 investment advisory fee and authorize the custodian to remit such fee to WealthSource. In the limited event that WealthSource bills the client directly for investment advisory fees, payment is due upon receipt of WealthSource's invoice. Investment advisory fees are generally deducted or billed monthly in advance, based on the market value of the 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. Investment advisory 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 investment advisory 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 client terminates their IMA prior to the end of a month or quarter and was billed in advance, the client will receive a refund of any unearned management fees that were deducted from their custodial account(s). If the client was billed in arrears, the client will be responsible for paying pro-rated management 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 investment advisory 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 assets on the date of termination.

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

WealthSource's investment advisory fees are exclusive of bank service fees, interest on loans and debit balances, wire transfer and electronic fund transfer fees, interest on 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. Furthermore, for those clients who are recommended a TPIM on a non-discretionary basis, such clients will pay the TPIM a separate investment management fee.

For those clients not participating in the Program, WealthSource's investment advisory fees are also exclusive of brokerage commissions and/or transaction fees for effecting certain securities transactions (e.g., transaction fees for certain no-load mutual funds and commissions on stocks/equity securities) and custodial fees. Please see the "[Item 12 – Brokerage Practices](#)" section below for discussions regarding certain expenses and brokerage, respectively, which may be relevant to this discussion of fees and your assessment of WealthSource's services. Clients

participating in the Program should be aware that WealthSource may have a conflict of interest when it recommends mutual funds available for purchase on a no-load and/or no-transaction fee basis over other comparable mutual funds that are subject to sales charges as the selection of such mutual funds may ultimately reduce WealthSource's costs in operating the Program and such cost savings are not passed through to the client.

Clients should also be aware that WealthSource may recommend ETFs and mutual funds as part of its investment strategies. Investments in ETFs and mutual funds, including closed-end mutual funds, however, generally include an embedded investment advisory fee paid to an unaffiliated third-party investment manager. As such, clients with investments in these types of securities are subject to two layers of investment advisory fees.

**Fee Differentials:** Because WealthSource negotiates advisory fee arrangements individually with each client, WealthSource's clients could pay diverse fees for the same services. Clients should be aware that the advisory 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 advisory fee arrangements that it negotiates with each individual client are reflective of the value of the services that WealthSource provides to such client, clients should be aware that the services provided by WealthSource may be available from other investment advisers for a lower fee.

*Clients, consequently, are encouraged to review and assess the services that WealthSource provides and make their own independent determinations regarding our investment advisory fees prior to entering into an investment advisory agreement with WealthSource.*

## **SOLICITATION FEES**

As noted above, when WealthSource recommends TPIMs on a non-discretionary basis, WealthSource acts as a solicitor for the TPIM and typically shares in the fees received by the TPIM from WealthSource's clients who were referred to the TPIM. The receipt of solicitation fees by WealthSource creates a material conflict of interest as WealthSource will be acting as an agent for the TPIM and the client simultaneously and the recommendation of the TPIM may be influenced by the solicitation fee to be received by WealthSource rather than solely on the needs and best interests of the client. WealthSource addresses this conflict of interest by providing disclosure to effected clients of the specific solicitation arrangement in a Solicitor Disclosure Document and disclosure of the conflict in this Disclosure Brochure. Clients should be aware that they may be able to access the services of the TPIM directly, without WealthSource's involvement, or through other investment advisers at a lower cost than through WealthSource. If you did not receive a copy of WealthSource's Solicitor Disclosure Document, please contact us at (805) 546-1000.

## **PENSION CONSULTING FEES**

WealthSource's annual fees for non-discretionary pension consulting services are based on either a percentage (%) of the market value of the pension assets being serviced, generally in a range from a minimum of 0.35% to a maximum of 1.00%, or a flat amount. All non-discretionary pension consulting arrangements, including the fees to be paid, however, are negotiated individually with each retirement plan client based on the types of services being provided under the engagement.

Pension consulting fees may be deducted directly from the retirement plan's custodial account(s), including from the accounts of its participants; billed directly to the retirement plan; or billed directly to the retirement plan's sponsor. If WealthSource's pension consulting fees are to be deducted directly from the retirement plan's custodial accounts, the ERISA Non-Discretionary Investment Management Agreement ("EIMA") between WealthSource and the retirement plan client will authorize the custodian to debit the retirement plan client's accounts for the amount of WealthSource's pension consulting fee and to remit such fee to WealthSource. If WealthSource bills the retirement plan client directly for pension consulting fees, payment is due upon receipt of WealthSource's invoice.

Pension consulting fees are generally deducted or billed quarterly in arrears, based on the market value of the assets being serviced by WealthSource as of the last business day of the quarter, but may be billed quarterly or monthly in advance or monthly in arrears in certain circumstances. Pension consulting fees are prorated for any new account opened during a quarter or month.

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

## **FINANCIAL PLANNING FEES (STAND-ALONE)**

WealthSource's financial planning fees are based on either a fixed or hourly fee basis, but are negotiable in all cases. On an hourly fee basis, WealthSource charges \$300 per hour for IARs



and \$75 per hour for administrative time. Hourly financial planning fees are paid in arrears upon completion of the financial plan or termination of the client's Financial Planning Agreement with WealthSource ("FPA"), with the exception of a required \$1,000 retainer. On a fixed fee basis, WealthSource's financial planning fees generally range between \$1,000 to \$50,000 depending on the level and scope of the service required and the professional(s) rendering the service. Fixed fees are paid 50% in advance, but never more than six months in advance, with the remainder due upon completion of the financial plan. If the FPA is terminated prior to completion of the financial plan, the fixed fee arrangement will convert to an hourly fee arrangement, but will be capped at the negotiated fixed fee amount. If the financial planning services rendered on an hourly basis exceed the amount paid in advance by the client, the client will owe the difference. If the financial planning services rendered on an hourly basis are less than the amount paid in advance by the client, the client will be refunded the difference.

## **Item 6 – Performance Based Fee and Side-by-Side Management**

Neither WealthSource nor any IAR of WealthSource accepts performance-based fees.

## **Item 7 – Types of Clients**

WealthSource's clients primarily include individuals, high net worth individuals and corporations. WealthSource generally requires a minimum account opening balance of \$100,000. Multiple accounts of immediately-related family members, at the same mailing address, may be considered one consolidated account for purposes of meeting the minimum account opening balance threshold. Furthermore, WealthSource, in its sole discretion, may reduce or waive its minimum account opening balance requirement based on certain criteria (e.g., anticipated assets to be put under WealthSource's management in the future, the dollar amount of the assets to be managed, related accounts under WealthSource's management, and account composition). TPIMs recommended by WealthSource may also impose minimum account opening balances.

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

### **METHODS OF ANALYSIS**

WealthSource may use one or a combination of the following methods of securities analysis, directly or indirectly, 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**

Please see the "[Item 4 – Advisory Business](#)" section for a description of the various types of investment strategies WealthSource may use in formulating investment advice and/or managing client assets. When implementing investment advice given to 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 exchanged-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.
- **Focused Investment Risk:** A strategy which invests in a focused portfolio of securities

may be subject to increased risk because changes in the value of one of the securities may have a greater impact on the total value of the portfolio than if the portfolio is invested in a large number of issuers.

- **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 gain 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 and TPIM Risk:** WealthSource may recommend the portfolio management services of TPIMs to certain clients and may also utilize model portfolios created and maintained by sub-advisers in the management of certain client accounts. The methods of analysis and material risks associated with investment strategies implemented by TPIMs and sub-advisers for WealthSource’s clients are typically the same as comparable investment strategies that are created and maintained by WealthSource, however, since WealthSource is not involved in the day-to-day management of such TPIMs or sub-advisers, investments managed by TPIMs and sub-advisers are subject to possible defaults or misconduct on the part of the TPIM or sub-adviser. Additionally, access to strategies designed and maintained by TPIMs 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 the TPIM or sub-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 or M Portfolios in the event that the proprietary owners of those algorithmic trading systems terminate their relationship with WealthSource.

## Item 9 – 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.

## Item 10 – Other Financial Industry Activities and Affiliations

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 investment advisory 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 Disclosure 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 investment advisory 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 Disclosure 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)

The Pacific Financial Group, Inc. (“**TPFG**”, CRD No. 105203): WealthSource has entered into a Selling Agreement with TPFG 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 Disclosure Brochure and reminding clients that they are under no obligation to purchase investments offered by TPFG. Please see “[Item 14 – Client Referrals and](#)

[Other Compensation](#)” for additional information regarding this Selling Agreement.

Putnam Retail Management Limited Partnership (“**Putnam**”, CRD No. 5948528): The RIA Advisory Group of Putnam, 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 Disclosure 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**”): Fidelity 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 Disclosure 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 (“**AE**”, CA Ins. License No. 0K67702, CO Ins. License No. 300655, FL Ins. License No. L052557): AE 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 Disclosure 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.

Ryan Louis Morelli (CRD No. 2968770, CA Ins. License No. 0E44796): WealthSource has entered into a solicitation arrangement with Ryan Louis Morelli, 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. Please see “[Item 14 – Client Referrals and Other Compensation](#)” for additional information regarding this solicitation arrangement.

AlphaDroid Strategies LLC: As noted above in the discussion under “[Item 4 – Advisory Business](#)”, WealthSource has a material arrangement with AlphaDroid, a developer of an algorithmic trading system that is marketed to financial advisors. Bryan Sullivan 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.

Focus Point Solutions, Inc.: WealthSource receives non-discretionary investment advisory services from FocusPoint, which generally consists of securities and asset allocation recommendations for various model portfolios managed by FocusPoint, which may be used in the management of WealthSource’s Strategic Asset Allocation Strategy accounts. 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, FocusPoint receives an investment advisory fee based on the amount of WealthSource’s assets under management that utilize FocusPoint’s models. Please see the “[Item 4 – Advisory Business](#)” section for additional information regarding FocusPoint.

Third-Party Investment Managers: WealthSource may recommend the portfolio management services of unaffiliated TPIMs, 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. Please see the “[Item 4 – Advisory Business](#)” and the “[Item 5 – Fees and Compensation](#)” sections for additional information relating to these arrangements, their associated conflicts of interest, and how WealthSource addresses such conflicts.

Two Rivers Fiduciary Co. (“Two Rivers”): WealthSource may recommend the trust, estate, fiduciary, custodial and/or other services of Two Rivers, a Colorado corporation that operates as Two Rivers Trust Co. and as a branch office of Investors Independent Trust Company (“**Investors Independent**”), a Colorado non-depository trust company. AGWM and Douglas Boyd May, IAR, are non-controlling, minority owners of Two Rivers. In addition, 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 them in this Disclosure Brochure and reminding clients that they are under no

obligation to use the services of Two Rivers. Please see the [“Item 12 – Brokerage Practices”](#) section for additional information regarding Two Rivers.

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

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.

## **Item 12 – Brokerage Practices**

### **RECOMMENDING BROKER-DEALERS**

WealthSource generally recommends that investment advisory accounts be maintained at the following qualified broker-dealer custodians: Charles Schwab & Co., Inc. (“**Schwab**”) and TD Ameritrade, Inc. (“**TDA**”). In certain situations, however, WealthSource may also recommend the custodial services of The Haverford Trust Company, a Pennsylvania state-chartered bank; Trust Company of America, a Colorado depository trust company; as well as Investors Independent and Two Rivers, both of which utilize the custodial services of The Midwest Trust Company, a Kansas state-chartered trust company and affiliate of Investors Independent. Please see the [“Item 10 – Other Financial Industry Activities and Affiliations”](#) section for additional



information regarding Two Rivers. All of the custodians noted above are independent of and unaffiliated with WealthSource with the exception of Two Rivers, which is minority owned by AGWM and Douglas Boyd May. For clients who choose the custodial services of Schwab and TDA for their accounts, all transactions will typically be executed by the custodial broker-dealer selected by the client, however, WealthSource may use other broker-dealers to execute trades for client accounts, a practice sometimes referred to as trading away or prime brokerage depending on the custodial arrangement the client has selected.

Clients should be aware that when WealthSource places trades for clients with broker-dealers other than the client's custodian, the client will typically incur prime brokerage or trade away fees imposed by the custodian that are in addition to any brokerage commissions, transaction fees and/or markups/markdowns charged by the executing broker-dealer. Depending on the size of the order being placed for the client and the share price of the security in question, the amount of the prime brokerage or trade-away fee that may be applied by the custodian may exceed any potential execution benefits the client may obtain from using a broker-dealer other than the custodian to execute the client's transaction.

Consequently, prior to recommending the custodial services of Schwab and TDA to clients, WealthSource considers certain factors relating to the custodian's ability to provide best execution, including:

- The broker-dealer's ability to execute, clear and settle trades (buy and sell securities for your accounts) and their responsiveness to WealthSource during the order placement and clearance and settlement process.
- The efficiency with which the broker-dealer executes transactions (e.g., speed of execution, access to markets and/or counterparties, price improvement).
- The broker-dealer's commission rates and transaction fees and willingness to negotiate them.
- The broker-dealer's ability to handle time-sensitive orders.
- The broker-dealer's ability to follow and implement any trade instructions provided by WealthSource.
- The reputation of the broker-dealer.
- The broker-dealer's ability to offer soft dollar credits toward research and execution-related services and the value of any research provided by the broker-dealer.

In addition, WealthSource considers the size, quality and depth of each custodian's mutual fund and ETF supermarkets and whether the custodian charges a separate fee for custody. While WealthSource may recommend that clients use Schwab or TDA as their custodian and thus also as their primary broker-dealer, the client is solely responsible for deciding which custodian(s) to use. WealthSource does not open custodial accounts for clients, but may assist clients in the account opening process.

For clients who utilize the custodial services of Schwab or TDA pursuant to WealthSource's recommendation, WealthSource negotiates commission rates and transaction fees with the broker-dealers used to execute their transactions. Clients, however, should be aware that those commission rates and transaction fees may be higher than those charged by other qualified broker-dealers to effect the same transaction. In negotiating commission rates, WealthSource seeks competitive rates in relation to the value of the brokerage and research services received from the broker-dealer and, consequently, WealthSource may not necessarily obtain the lowest possible commission rates. For clients that do not participate in the Program, brokerage commissions, transaction fees, trade-away and/or prime brokerage fees are exclusive of, and in addition to, WealthSource's investment advisory fee.

## **RESEARCH AND ADDITIONAL BENEFITS**

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

WealthSource does not have any formal soft dollar arrangements. Schwab and TDA, however, 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. Clients should be aware that WealthSource may use support services and/or products from Schwab and/or 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.

WealthSource's clients do not pay more as a result of WealthSource's receipt of these support services and/or products. 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. The receipt of these benefits, however, are not a material consideration for WealthSource when determining whether to recommend that a client utilize the services of a particular custodian.

## **DIRECTED BROKERAGE**

WealthSource does not generally accept directed brokerage arrangements (i.e., when a client

mandates that their account transactions be effected through a specific broker-dealer (“**Directed Broker**”). If, however, WealthSource agrees to a client’s directed brokerage arrangement, the client is responsible for negotiating all terms and conditions for their accounts, including commissions and transaction fees, with the Directed Broker. Clients should be aware that if WealthSource agrees to the client’s directed brokerage arrangement, WealthSource will not seek best execution for the client and, consequently, the client may be unable to obtain the most favorable execution for their transactions. Furthermore, if WealthSource has previously negotiated commission rates and/or transaction fees with the Directed Broker, such negotiated rates and fees will not be applicable to client and client will not be able to benefit from WealthSource’s ability to obtain volume discounts. Consequently, clients may pay materially higher commissions and transaction fees than WealthSource’s other clients. Additionally, WealthSource will not aggregate the client’s trade orders with those of WealthSource’s other clients placed with the Directed Broker, if any, and, consequently, clients may not receive execution prices that are as favorable as those obtained for WealthSource’s other clients.

### **AGGREGATION OF ORDERS**

Transactions for each client account are generally effected independently, unless WealthSource decides to purchase or sell the same securities for multiple clients at approximately the same time on the same day or when it appears that aggregating client orders for the same security would result in lower transaction costs for the affected clients. The goal of aggregating client orders (i.e., placing block trades) is to seek an average purchase or sale price for all affected clients to help ensure that one client is not getting more favorable treatment over another client and/or to negotiate more favorable commission rates or transactions fees. There is no guarantee that aggregation will be successful or that the goals of aggregation will be achieved.

Before placing a block trade, WealthSource prepares a written allocation statement that identifies the participating client accounts and the allocation to be made to each account or, if applicable, enters such information into WealthSource’s trade order management system. When a block trade is placed, each participating client receives a price that represents the average of the prices at which all of the transactions in a given block trade were executed. If the order is not completely filled, the securities purchased or sold are distributed among participating clients on a pro rata basis or in some other equitable manner that is approved in writing by WealthSource’s Chief Compliance Officer.

Clients should be aware that WealthSource is not obligated to aggregate client orders even if one or more of the goals noted above might be achievable. If WealthSource elects not to place a block trade, clients will not receive average pricing and, if the client is not participating in the Program, will also pay commission rates and/or transaction fees with respect to their transaction in accordance with the standard commission rates and/or transaction fees negotiated between WealthSource and the broker-dealer. Furthermore, block trades are placed only when WealthSource reasonably believes that aggregating client orders will be consistent with its duty

to seek best execution for its clients. No client participating in a block trade will be favored over any other client that also participates in the same block trade. Clients, however, should be aware that the average price received in a block trade could be more or less advantageous than the price a particular client would have received if they did not participate in the block trade.

### **Item 13 – Review of Accounts**

For those clients to whom WealthSource provides investment advisory services, account reviews are conducted by the 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. 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).

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

#### **Soft Dollar and Other Benefits**

As noted above, WealthSource receives certain economic benefits from Schwab and TDA, without cost or at a discount, which may or may not benefit clients. Both situations, however, create a conflict of interest for WealthSource because we do not have to produce or pay for these products or services and our receipt of these products and services creates an incentive for us to recommend the custodial and/or brokerage services of Schwab and TDA over other broker-dealers. Please see the "[Item 12 – Brokerage Practices](#)" section for additional information regarding these arrangements and their associated conflicts of interest and how WealthSource addresses them.

### **Solicitation Fees from The Pacific Financial Group, Inc.**

WealthSource has entered into a Selling Agreement with The Pacific Financial Group, Inc. (CRD No. 105203), a SEC registered investment adviser that provides investment advisory services to, among others, the participants of retirement plans subject to the Employee Retirement Income Security Act of 1974 (“ERISA”). Pursuant to this arrangement, WealthSource assists plan participants in identifying their risk tolerance level and retirement time horizons and, based on that information, WealthSource assists plan participants by (1) making recommendations on how to allocate their assets in their core account, (2) making recommendations on how much to allocate from their core account to their self-directed brokerage account, and (3) making recommendations on how to allocate assets in their self-directed brokerage account to managed portfolios (e.g., Income Portfolio, Absolute Return Portfolio, Balanced Portfolio, Equity Portfolio, Strategic Multi-Cap Portfolio, Global Portfolio) offered by TPFPG that ultimately invest exclusively in TPFPG’s proprietary mutual funds.

In return for these services, WealthSource receives an annual asset-based solicitation fee from TPFPG based only on the amount of self-directed brokerage account assets invested in TPFPG’s managed portfolios that resulted from WealthSource’s recommendations. Consequently, plan participants should be aware that WealthSource has a potential conflict of interest when it recommends that plan 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 TPFPG’s managed portfolios. Please see the “[Item 10 – Other Financial Industry Activities and Affiliations](#)” section for additional information relating to TPFPG.

### **Solicitation Fees from TPIMs**

As noted above, WealthSource recommends the portfolio management services of unaffiliated TPIMs on a discretionary or non-discretionary basis to clients. When recommending TPIMs on a non-discretionary basis, WealthSource serves as a solicitor for the TPIM and receives a solicitation fee for its recommendation of the TPIM’s services, which creates a material conflict of interest for WealthSource. Please see the “[Item 4 – Advisory Business](#)”, the “[Item 5 – Fees and Compensation](#)”, and the “[Item 10 – Other Financial Industry Activities and Affiliations](#)” sections for additional information relating to these arrangements, their associated conflicts of interest, and how WealthSource addresses such conflicts.

### **Solicitation Fees Paid by WealthSource**

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 Disclosure Brochure, which contains important information about his solicitation arrangement with WealthSource that should be read carefully.

### **Item 15 – Custody**

Although WealthSource does not maintain physical custody of the assets of its clients, clients generally grant WealthSource the authority to deduct its investment advisory fees directly from clients' custodial accounts. All clients, however, should receive account statements directly from the custodian of their account(s), at least quarterly, and should carefully review the information contained within their custodial account statements. Please note, account custodians do not verify the accuracy of WealthSource's investment advisory fee calculations.

WealthSource also provides clients with quarterly performance reports, which summarize account activity and performance. Clients are urged to compare the information contained within their custodial account statements with the information contained within the quarterly performance reports provided by WealthSource and to contact WealthSource promptly if you identify any discrepancies.

### **Item 16 – Investment Discretion**

Clients may engage WealthSource to provide investment advisory services on a discretionary basis. Prior to assuming discretionary authority over a client's account, WealthSource requires the client to execute an IMA, which grants WealthSource full discretionary authority to buy, sell, or otherwise effect investment transactions, in the client's name, involving assets held within certain accounts. Clients who engage WealthSource on a discretionary basis may, at any time, impose limitations, in writing, on WealthSource's discretionary authority (e.g., limit or exclude the purchase of certain securities in their account and/or limit or prohibit the use of margin, options, and/or short selling in their account).

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

WealthSource does not vote client proxies or accept authority to vote client securities. Instead, 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. 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 18 – Financial Information**

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