

# Factorwave, Inc.

## Firm Brochure - Form ADV Part 2A

*This brochure provides information about the qualifications and business practices of Factorwave, Inc.. If you have any questions about the contents of this brochure, please contact us at (312) 479-2736 or by email at: [esinclair@factorwave.com](mailto:esinclair@factorwave.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.*

*Additional information about Factorwave, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Factorwave, Inc.'s CRD number is: 282321.*

1742 North Wilmot  
Chicago, IL, 60647  
(312) 479-2736  
<https://www.factorwave.com>  
[esinclair@factorwave.com](mailto:esinclair@factorwave.com)

*Registration does not imply a certain level of skill or training.*

Version Date: 1/8/2016

## **Item 2: Material Changes**

Factorwave, Inc. has not yet filed an annual updating amendment using the Form ADV Part 2A. Therefore there are no material changes to report.

## Item 3: Table of Contents

Item 1: Cover Page	
Item 2: Material Changes .....	i
Item 3: Table of Contents .....	ii
Item 4: Advisory Business .....	2
A. Description of the Advisory Firm.....	2
B. Types of Advisory Services.....	2
C. Client Tailored Services and Client Imposed Restrictions .....	2
D. Wrap Fee Programs.....	2
E. Assets Under Management.....	3
Item 5: Fees and Compensation.....	3
A. Fee Schedule.....	3
B. Payment of Fees.....	3
C. Client Responsibility For Third Party Fees.....	4
D. Prepayment of Fees .....	4
E. Outside Compensation For the Sale of Securities to Clients.....	4
Item 6: Performance-Based Fees and Side-By-Side Management .....	4
Item 7: Types of Clients .....	4
Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss.....	5
A. Methods of Analysis and Investment Strategies .....	5
B. Material Risks Involved .....	5
C. Risks of Specific Securities Utilized .....	6
Item 9: Disciplinary Information .....	8
A. Criminal or Civil Actions .....	8
B. Administrative Proceedings .....	8
C. Self-regulatory Organization (SRO) Proceedings .....	8
Item 10: Other Financial Industry Activities and Affiliations.....	8
A. Registration as a Broker/Dealer or Broker/Dealer Representative .....	8
B. Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor .....	8
C. Registration Relationships Material to this Advisory Business and Possible Conflicts of Interests.....	8
D. Selection of Other Advisers or Managers and How This Adviser is Compensated for Those Selections .....	9
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	9
A. Code of Ethics.....	9
B. Recommendations Involving Material Financial Interests .....	9
C. Investing Personal Money in the Same Securities as Clients.....	9
D. Trading Securities At/ Around the Same Time as Clients' Securities .....	10

Item 12: Brokerage Practices.....	10
A.    Factors Used to Select Custodians and/or Broker/Dealers .....	10
1.    Research and Other Soft Dollar Benefits .....	10
2.    Brokerage for Client Referrals .....	10
3.    Clients Directing Which Broker/Dealer/Custodian to Use .....	10
B.    Aggregating (Block) Trading for Multiple Client Accounts .....	11
Item 13: Review of Accounts .....	11
A.    Frequency and Nature of Periodic Reviews and Who Makes Those Reviews.....	11
B.    Factors That Will Trigger a Non-Periodic Review of Client Accounts.....	11
C.    Content and Frequency of Regular Reports Provided to Clients.....	11
Item 14: Client Referrals and Other Compensation .....	12
A.    Economic Benefits Provided by Third Parties for Advice Rendered to Clients (Includes Sales Awards or Other Prizes) .....	12
B.    Compensation to Non – Advisory Personnel for Client Referrals.....	12
Item 15: Custody.....	12
Item 16: Investment Discretion .....	12
Item 17: Voting Client Securities (Proxy Voting).....	12
Item 18: Financial Information.....	12
A.    Balance Sheet .....	13
B.    Financial Conditions Reasonably Likely to Impair Ability to Meet Contractual Commitments to Clients .....	13
C.    Bankruptcy Petitions in Previous Ten Years .....	13

## **Item 4: Advisory Business**

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

Factorwave, Inc. (hereinafter “FW”) is a Corporation organized in the State of Delaware.

The firm was formed in November 2015, and the principal owners are Euan Crompton Sinclair and Thomas Joseph Johnson.

### **B. Types of Advisory Services**

#### ***Portfolio Management Services***

FW provides “robo-advisory” portfolio management services via an online interface. This entails the use of algorithm-based portfolio management advice, rather than in-person investment advice. These automated investment solutions are customized to each client and based on individual characteristics, such as the client’s age, risk tolerance, income, and current assets, among others.

#### ***Subscription Services***

FW provides a securities rating service for a fee that will offer recommendations on purchasing and selling specific securities, sectors, asset classes, or other specific groupings of securities at a stated time.

#### **Services Limited to Specific Types of Investments**

FW generally limits its investment advice to mutual funds, fixed income securities, equities, ETFs (including ETFs in the gold and precious metal sectors) and commodities, although FW primarily recommends equities to a majority of its clients. FW may use other securities as well to help diversify a portfolio when applicable.

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

FW provides online “robo-advisory” portfolio management. Client accounts are generally invested into a target allocation depending on the client’s individual profile. This automated approach factors in client financial situation and risk tolerance, although the algorithms used to provide advisory services are designed to be utilized by FW across multiple clients. Clients may not impose restrictions in investing in certain securities or types of securities in accordance with their values or beliefs.

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

A wrap fee program is an investment program where the investor pays one stated fee that includes management fees, transaction costs, fund expenses, and other administrative fees. FW does not participate in any wrap fee programs.

## **E. Assets Under Management**

FW has the following assets under management:

Discretionary Amounts:	Non-discretionary Amounts:	Date Calculated:
\$0	\$0	October 2015

# **Item 5: Fees and Compensation**

## **A. Fee Schedule**

### ***Asset-Based Fees for Portfolio Management***

FW provides robo-advisory portfolio management services via an online interface.

Total Assets Under Management	Annual Fee
All assets	0.25%

The final fee schedule is attached as Exhibit II of the Investment Advisory Contract. Clients may terminate the agreement without penalty for a full refund of FW's fees within five business days of signing the Investment Advisory Contract. Thereafter, clients may terminate the Investment Advisory Contract generally with 30 days' written notice.

FW uses the value of the account as of the last business day of the prior billing period, after taking into account deposits and withdrawals, for purposes of determining the market value of the assets upon which the advisory fee is based.

### ***Subscription Fees***

FW offers a daily subscription security ratings service for a fee between \$50 and \$100. This fee is charged monthly. This service will be provided via postal mail or electronic mail and may be cancelled by giving 30 days' written notice.

## **B. Payment of Fees**

### ***Payment of Asset-Based Portfolio Management Fees***

Robo-advisory portfolio management fees are withdrawn directly from the client's accounts with client's written authorization on a monthly basis. Fees are paid in advance.

### ***Payment of Subscription Fees***

Subscription fees are paid via check and wire. Fees are paid in advance. Securities ratings and pricing services fees are paid monthly.

## **C. Client Responsibility For Third Party Fees**

Clients are responsible for the payment of all third party fees (i.e. custodian fees, brokerage fees, mutual fund fees, transaction fees, etc.). Those fees are separate and distinct from the fees and expenses charged by FW. Please see Item 12 of this brochure regarding broker-dealer/custodian.

## **D. Prepayment of Fees**

FW collects fees in advance. Refunds for fees paid in advance will be returned within fourteen days to the client via check, or return deposit back into the client's account.

For all asset-based fees paid in advance, the fee refunded will be equal to the balance of the fees collected in advance minus the daily rate\* times the number of days elapsed in the billing period up to and including the day of termination. (\*The daily rate is calculated by dividing the annual asset-based fee rate by 365.)

Unearned subscription fees will be refunded to the date of cancellation.

## **E. Outside Compensation For the Sale of Securities to Clients**

Neither FW nor its supervised persons accept any compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

FW does not accept performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

## **Item 7: Types of Clients**

FW generally provides advisory services to the following types of clients:

- ❖ Individuals
- ❖ High-Net-Worth Individuals

### ***Minimum Account Size***

There is no account minimum for any of FW's services.

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

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

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

FW's methods of analysis include quantitative analysis and modern portfolio theory.

**Quantitative analysis** deals with measurable factors as distinguished from qualitative considerations such as the character of management or the state of employee morale, such as the value of assets, the cost of capital, historical projections of sales, and so on.

**Modern portfolio theory** is a theory of investment that attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, each by carefully choosing the proportions of various asset.

#### ***Investment Strategies***

FW uses long term trading, short term trading, short sales, margin transactions and options trading (including covered options, uncovered options, or spreading strategies).

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

### **B. Material Risks Involved**

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

**Quantitative Model Risk:** Investment strategies using quantitative models may perform differently than expected as a result of, among other things, the factors used in the models, the weight placed on each factor, changes from the factors' historical trends, and technical issues in the construction and implementation of the models.

**Modern Portfolio Theory** assumes that investors are risk adverse, meaning that given two portfolios that offer the same expected return, investors will prefer the less risky one. Thus, an investor will take on increased risk only if compensated by higher expected



returns. Conversely, an investor who wants higher expected returns must accept more risk. The exact trade-off will be the same for all investors, but different investors will evaluate the trade-off differently based on individual risk aversion characteristics. The implication is that a rational investor will not invest in a portfolio if a second portfolio exists with a more favorable risk-expected return profile – i.e., if for that level of risk an alternative portfolio exists which has better expected returns.

### ***Investment Strategies***

FW's use of short sales, margin transactions and options trading generally holds greater risk, and clients should be aware that there is a material risk of loss using any of those strategies.

**Long term trading** is designed to capture market rates of both return and risk. Due to its nature, the long-term investment strategy can expose clients to various types of risk that will typically surface at various intervals during the time the client owns the investments. These risks include but are not limited to inflation (purchasing power) risk, interest rate risk, economic risk, market risk, and political/regulatory risk.

**Short term trading** risks include liquidity, economic stability, and inflation, in addition to the long term trading risks listed above. Frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

**Short sales** entail the possibility of infinite loss. An increase in the applicable securities' prices will result in a loss and, over time, the market has historically trended upward.

**Margin transactions** use leverage that is borrowed from a brokerage firm as collateral. When losses occur, the value of the margin account may fall below the brokerage firm's threshold thereby triggering a margin call. This may force the account holder to either allocate more funds to the account or sell assets on a shorter time frame than desired.

**Options transactions** involve a contract to purchase a security at a given price, not necessarily at market value, depending on the market. This strategy includes the risk that an option may expire out of the money resulting in minimal or no value, as well as the possibility of leveraged loss of trading capital due to the leveraged nature of stock options.

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

### **C. Risks of Specific Securities Utilized**

FW's use of short sales, margin transactions and options trading generally holds greater risk of capital loss. Clients should be aware that there is a material risk of loss using any investment strategy. The investment types listed below are not guaranteed or insured by the FDIC or any other government agency.

**Mutual Funds:** Investing in mutual funds carries the risk of capital loss and thus you may lose money investing in mutual funds. All mutual funds have costs that lower investment returns. The funds can be of bond “fixed income” nature (lower risk) or stock “equity” nature.

**Equity** investment generally refers to buying shares of stocks in return for receiving a future payment of dividends and/or capital gains if the value of the stock increases. The value of equity securities may fluctuate in response to specific situations for each company, industry conditions and the general economic environments.

**Fixed income** investments generally pay a return on a fixed schedule, though the amount of the payments can vary. This type of investment can include corporate and government debt securities, leveraged loans, high yield, and investment grade debt and structured products, such as mortgage and other asset-backed securities, although individual bonds may be the best known type of fixed income security. In general, the fixed income market is volatile and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. The risk of default on treasury inflation protected/inflation linked bonds is dependent upon the U.S. Treasury defaulting (extremely unlikely); however, they carry a potential risk of losing share price value, albeit rather minimal. Risks of investing in foreign fixed income securities also include the general risk of non-U.S. investing described below.

**Exchange Traded Funds (ETFs):** An ETF is an investment fund traded on stock exchanges, similar to stocks. Investing in ETFs carries the risk of capital loss (sometimes up to a 100% loss in the case of a stock holding bankruptcy). Areas of concern include the lack of transparency in products and increasing complexity, conflicts of interest and the possibility of inadequate regulatory compliance. Precious Metal ETFs (e.g., Gold, Silver, or Palladium Bullion backed “electronic shares” not physical metal) specifically may be negatively impacted by several unique factors, among them (1) large sales by the official sector which own a significant portion of aggregate world holdings in gold and other precious metals, (2) a significant increase in hedging activities by producers of gold or other precious metals, (3) a significant change in the attitude of speculators and investors.

**Commodities** are tangible assets used to manufacture and produce goods or services. Commodity prices are affected by different risk factors, such as disease, storage capacity, supply, demand, delivery constraints and weather. Because of those risk factors, even a well-diversified investment in commodities can be uncertain.

**Options** are contracts to purchase a security at a given price, risking that an option may expire out of the money resulting in minimal or no value. An uncovered option is a type of options contract that is not backed by an offsetting position that would help mitigate risk. The risk for a “naked” or uncovered put is not unlimited, whereas the potential loss for an uncovered call option is limitless. Spread option positions entail buying and selling multiple options on the same underlying security, but with different strike prices or

expiration dates, which helps limit the risk of other option trading strategies. Option transactions also involve risks including but not limited to economic risk, market risk, sector risk, idiosyncratic risk, political/regulatory risk, inflation (purchasing power) risk and interest rate risk.

**Past performance is not indicative of future results. Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

## **Item 9: Disciplinary Information**

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

There are no criminal or civil actions to report.

### **B. Administrative Proceedings**

There are no administrative proceedings to report.

### **C. Self-regulatory Organization (SRO) Proceedings**

There are no self-regulatory organization proceedings to report.

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

### **A. Registration as a Broker/Dealer or Broker/Dealer Representative**

Neither FW nor its representatives are registered as, or have pending applications to become, a broker/dealer or a representative of a broker/dealer.

### **B. Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor**

Neither FW nor its representatives are registered as or have pending applications to become either a Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Advisor or an associated person of the foregoing entities.

### **C. Registration Relationships Material to this Advisory Business and Possible Conflicts of Interests**

Euan Crompton Sinclair is an investment adviser representative with another investment advisory firm, Lloyd Park, and from time to time, may offer clients advice or products

from those activities and clients should be aware that these services may involve a conflict of interest. FW always acts in the best interest of the client and clients are in no way required to use the services of any representative of FW in connection with such individual's activities outside of FW.

Euan Crompton Sinclair on the advisory board of Lloyd Park, an Illinois RIA. Euan Crompton Sinclair as a quantitative consultant to Bluefin Trading, an option trading firm.

#### **D. Selection of Other Advisers or Managers and How This Adviser is Compensated for Those Selections**

FW does not utilize nor select third-party investment advisers. All assets are managed by FW management.

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

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

FW has a written Code of Ethics that covers the following areas: Prohibited Purchases and Sales, Insider Trading, Personal Securities Transactions, Exempted Transactions, Prohibited Activities, Conflicts of Interest, Gifts and Entertainment, Confidentiality, Service on a Board of Directors, Compliance Procedures, Compliance with Laws and Regulations, Procedures and Reporting, Certification of Compliance, Reporting Violations, Compliance Officer Duties, Training and Education, Recordkeeping, Annual Review, and Sanctions. FW's Code of Ethics is available free upon request to any client or prospective client.

#### **B. Recommendations Involving Material Financial Interests**

FW does not recommend that clients buy or sell any security in which a related person to FW or FW has a material financial interest.

#### **C. Investing Personal Money in the Same Securities as Clients**

From time to time, representatives of FW may buy or sell securities for themselves that they also recommend to clients. This may provide an opportunity for representatives of FW to buy or sell the same securities before or after recommending the same securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest. FW will always document any

transactions that could be construed as conflicts of interest and will never engage in trading that operates to the client's disadvantage when similar securities are being bought or sold.

#### **D. Trading Securities At/Around the Same Time as Clients' Securities**

From time to time, representatives of FW may buy or sell securities for themselves at or around the same time as clients. This may provide an opportunity for representatives of FW to buy or sell securities before or after recommending securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest; however, FW will never engage in trading that operates to the client's disadvantage if representatives of FW buy or sell securities at or around the same time as clients.

### **Item 12: Brokerage Practices**

#### **A. Factors Used to Select Custodians and/or Broker/Dealers**

FW does not recommend brokers/custodians.

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

While FW has no formal soft dollars program in which soft dollars are used to pay for third party services, FW may receive research, products, or other services from custodians and broker-dealers in connection with client securities transactions ("soft dollar benefits"). FW may enter into soft-dollar arrangements consistent with (and not outside of) the safe harbor contained in Section 28(e) of the Securities Exchange Act of 1934, as amended. There can be no assurance that any particular client will benefit from soft dollar research, whether or not the client's transactions paid for it, and FW does not seek to allocate benefits to client accounts proportionate to any soft dollar credits generated by the accounts. FW benefits by not having to produce or pay for the research, products or services, and FW will have an incentive to recommend a broker-dealer based on receiving research or services. Clients should be aware that FW's acceptance of soft dollar benefits may result in higher commissions charged to the client.

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

FW receives no referrals from a broker-dealer or third party in exchange for using that broker-dealer or third party.

##### ***3. Clients Directing Which Broker/Dealer/Custodian to Use***

FW may permit clients to direct it to execute transactions through a specified broker-dealer. If a client directs brokerage, then the client will be required to acknowledge in writing that the client's direction with respect to the use of brokers supersedes any authority granted to FW to select brokers; this direction may result in higher commissions, which may result in a disparity between free and directed accounts; and trades for the client and other directed accounts may be executed after trades for free accounts, which may result in less favorable prices, particularly for illiquid securities or during volatile market conditions. Not all investment advisers allow their clients to direct brokerage.

#### **B. Aggregating (Block) Trading for Multiple Client Accounts**

FW does not aggregate or bunch the securities to be purchased or sold for multiple clients. This may result in less favorable prices, particularly for illiquid securities or during volatile market conditions.

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

#### **A. Frequency and Nature of Periodic Reviews and Who Makes Those Reviews**

Robo-advisory portfolio management accounts are not reviewed by FW, save for automated allocation revisions. Clients are encouraged to update Acorns of any change in their objectives, risk tolerance, or other pertinent information.

There is only one level of review for subscription services, which is FW's review prior to rendering the subscription advice.

#### **B. Factors That Will Trigger a Non-Periodic Review of Client Accounts**

Robo-advisory portfolio management accounts do not undergo non-periodic review by FW, allocations will change in accordance with the portfolio management software utilized by FW and changes to the client's profile.

#### **C. Content and Frequency of Regular Reports Provided to Clients**

Robo-advisory portfolio management clients will receive at least monthly a written report that details the client's account including assets held and asset value, which report will come from the custodian [and at least monthly a written report from FW.

FW does not provide reports relating to its subscription services.

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

### **A. Economic Benefits Provided by Third Parties for Advice Rendered to Clients (Includes Sales Awards or Other Prizes)**

FW does not receive any economic benefit, directly or indirectly from any third party for advice rendered to FW's clients.

### **B. Compensation to Non – Advisory Personnel for Client Referrals**

FW does not directly or indirectly compensate any person who is not advisory personnel for client referrals.

## **Item 15: Custody**

When advisory fees are deducted directly from client accounts at client's custodian, FW will be deemed to have limited custody of client's assets and must have written authorization from the client to do so. Clients will receive all account statements and billing invoices that are required in each jurisdiction, and they should carefully review those statements for accuracy.

## **Item 16: Investment Discretion**

FW provides discretionary and non-discretionary investment advisory services to clients. The Investment Advisory Contract established with each client sets forth the discretionary authority for trading. Where investment discretion has been granted, FW generally manages the client's account and makes investment decisions without consultation with the client as to when the securities are to be bought or sold for the account, the total amount of the securities to be bought/sold, what securities to buy or sell, or the price per share. In some instances, FW's discretionary authority in making these determinations may be limited by conditions imposed by a client (in investment guidelines or objectives, or client instructions otherwise provided to FW).

## **Item 17: Voting Client Securities (Proxy Voting)**

FW will not ask for, nor accept voting authority for client securities. Clients will receive proxies directly from the issuer of the security or the custodian. Clients should direct all proxy questions to the issuer of the security.

## **Item 18: Financial Information**

### **A. Balance Sheet**

FW neither requires nor solicits prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore is not required to include a balance sheet with this brochure.

### **B. Financial Conditions Reasonably Likely to Impair Ability to Meet Contractual Commitments to Clients**

Neither FW nor its management has any financial condition that is likely to reasonably impair FW's ability to meet contractual commitments to clients.

### **C. Bankruptcy Petitions in Previous Ten Years**

FW has not been the subject of a bankruptcy petition in the last ten years.