

# **INDEPENDENT FINANCIAL GROUP, LLC**

## **WRAP FEE PROGRAM BROCHURE**

### **ADV PART 2A APPENDIX 1**

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**Dated March 21, 2011**

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**This Wrap Fee Program Brochure provides information about the qualifications and business practices of Independent Financial Group, LLC. Independent Financial Group, LLC is a Registered Investment Adviser. Registration of an investment adviser does not imply any level of skill or training. If you have any questions about the contents of this brochure, please contact us at 858-436-3180 or email us at [disclosures@ifgsd.com](mailto:disclosures@ifgsd.com).**

**Additional information about Independent Financial Group, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**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.**

## ITEM 2 – MATERIAL CHANGES

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In 2010, the SEC amended the format of the disclosure document that we provide to prospective clients and clients engaging Independent Financial Group, LLC for advisory services. This brochure dated March 21, 2011 is a new disclosure document that has been prepared using the new format and its requirements. Therefore, this brochure is different in structure and requires additional information than our previous disclosure document. In the future, this section, Item 2 – Material Changes, will point out changes that have been made to our brochure since the date of our last brochure and provide you with a summary of the changes.

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## **ITEM 4 – SERVICES, FEES AND COMPENSATION**

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### **Adviser Background**

Independent Financial Group, LLC (**Adviser**) is a privately owned Registered Investment Adviser (**RIA**) registered with the Securities and Exchange Commission (**SEC**) since 2004. Independent Financial Group, LLC (**IFG**) also operates as a broker-dealer member of the Financial Industry Regulatory Authority (**FINRA**). Independent Financial Group, Inc, a domestic entity, is the principal owner of the Adviser.

### **Services**

Adviser provides a variety of goal planning and advisory services through Investment Adviser Representatives (**IARs**) who are in most cases also registered representatives of IFG. These services include asset allocation within a portfolio, day-to-day investment decisions, third party adviser programs, financial planning and consulting services. In addition, IFG offers brokerage services to clients that may also participate in the advisory services described herein. Whether an IAR offers a client brokerage or advisory services or a combination of both depends on various factors including investment style and trading preferences of the client. There is no guarantee that the advisory services offered will result in the client's goals and objectives being met. Nor is there any guarantee of profit or protection from loss. No assumption can be made that any particular advisory service or strategy will provide better returns than other investment strategies.

The various wrap fee programs offered by Adviser are described in this Wrap Fee Program Brochure. These programs are offered through IARs, are available on a discretionary or non-discretionary basis, and are tailored to the needs of the client. The wrap fee is an asset based fee, which includes the advisory fee paid to the Adviser and shared with the IAR, as well as the costs associated with trade execution. In order to establish a program account, the client will be required to sign an investment advisory agreement with Adviser. Clients may impose restrictions on investing in certain securities or types of securities.

For information regarding other advisory programs available through Adviser, please refer to Adviser's Firm Brochure, which is available from your IAR.

### **Advisory Fees**

Clients pay an annual advisory fee based on a percentage of assets under management according to the fee schedules provided below. All advisory fees within Adviser's programs are negotiable. The IAR recommending a wrap program to the client receives compensation as a result of client's participation in the program. The amount of this compensation may be more than what the IAR would receive if the client participated in other programs offered by Adviser or paid separately for investment advice, brokerage and other services. Therefore, the IAR may have a financial incentive to recommend one program over other programs or services.

The advisory fee is payable quarterly, in advance or in arrears as selected on the advisory service agreement, and upon deposit of additional funds or securities. Fee billing is based upon the market value of the assets held in the account as of the last business day of the preceding quarter. If billing in advance- the initial fee is due upon the opening of an account and is based upon the opening value. The first payment will be assessed pro-rata in the event the account is established at any other time other than the first day of the calendar quarter. If billing in arrears, the first advisory fee will be charged after the end of the first quarter based on the value of the account on the last business day of the previous quarter. If account management is terminated mid quarter, the remaining advisory fee becomes immediately due and payable. If assets are deposited in the program account after the inception of the quarter, the advisory fee is pro-rated based on the number of days remaining in the quarter.

Advisory fees will be calculated by the custodian of assets as set forth in the investment advisory agreement and will be due the first day of each calendar quarter. Clients authorize the custodian to deduct all advisory from the program account. The fee schedule is in effect for and will continue until thirty (30) days after Adviser notifies the client in writing of any change in the amount of fees applicable to the client's account. The new fees will be effective unless the client notifies IAR in writing that the account management is to be terminated.

The advisory fee is an ongoing fee for advisory services and may cost the Client more than if the client maintained a traditional brokerage account. However, in a brokerage account there is no duty to give investment advice. If a Client intends to follow a buy-and-hold strategy or does not wish to pay for investment advice, Client should consider maintaining a brokerage account rather than establishing an advisory relationship.

### **Additional Fees and Charges**

In addition to the advisory fees, Client may pay some or all of the following fees and charges:

- If a program account invests in mutual funds, Client will pay an advisory fee to the fund manager and other expenses as a shareholder in the mutual fund, as well as the advisory fee paid to Adviser and IAR for account management. Many of the mutual funds available within the program may be purchased directly from the mutual fund sponsor. Therefore, client could avoid the additional layer of fees by not using the services of Adviser and making their own investment decisions.
- Client should be aware that some mutual funds pay asset based sales charges or service fees such as 12b-1 fees. Adviser receives these fees and shares a portion with the IAR for non-retirement accounts. The receipt of 12b-1 fees is a conflict of interest because it gives Adviser and its IAR an incentive to recommend mutual funds based on the compensation received rather than client needs.
- It is possible for a client to pay a commission on a security or insurance product and then move the investment into a managed account. In these cases, the investment will be ineligible for fee billing, with limited exceptions, for a one year period of time from the date of purchase if the IAR received a commission in his/her capacity as a registered representative.

- Advisory accounts where Pershing LLC (**Pershing**) serves as the custodian provide an automatic daily cash sweep program into client selected money market funds offered by Federated Financial Services Company and Dreyfus Funds. Adviser will receive compensation of up to 0.15 percent of the assets invest in Dreyfus Insured Deposits and up to 0.35 percent of assets invested in Federated money market funds for non-retirement accounts. IARs do not receive any portion of these fees.
- Clients may also incur charges posed by custodians, brokers, and other third parties such as custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund transfer fees and other fees on brokerage accounts and securities transactions. Adviser and IARs do not receive any portion of these fees.
- Adviser may receive distribution allowances, due diligence fees, platform expenses and other payments from certain third party money managers of up to 0.10% annually on assets placed with managers and custodians. These fees are retained by Adviser and are not paid to IARs. As a result, IARs do not receive a greater fee for selecting one adviser or program over another.

The fees and expenses in connection with a wrap program may be higher than the cost of similar services offered through other financial firms. They may also be higher than the cost of purchasing such services separately, depending upon the level of anticipated trading activity, type and size of the account, and the amount of additional advisory or client services provided to the client.

### **Program Specific Information**

The following describes the services and advisory fees applicable to each wrap program.

#### **a) Advisor Plus Wrap Program (Closed to new business with limited exceptions).**

The Advisor Plus Wrap Program offers participants advisory services, asset allocation, brokerage services, consolidated reporting and periodic recommendations based on stated investment objectives under an all-inclusive program fee. Pershing serves as the custodian for program account assets. Adviser does not maintain custody of client assets at any time. Clients may authorize IAR to manage accounts on a discretionary or non-discretionary basis. Eligible assets include stocks, bonds, mutual funds, ETFs, fixed income and other securities. Only no-load or load-waived mutual funds may be purchased within Program accounts. The use of margin, option transactions, mutual fund systematic investments or withdrawals are not permitted in the program.

#### **Fee Schedule**

Clients pay an annualized advisory fee as outlined below. There are no additional charges for execution of transactions. The maximum advisory fee is 2.50% per annum. The advisory fee is negotiable and can be reduced due to the unique circumstances of each client. The fee schedule is in effect for and will continue until thirty (30) days after IAR notifies the Client in writing of any change in the amount of fees applicable to the Client's account. The new fees will be effective unless the Client notifies IAR in writing that the account management is to be terminated.

ADVISOR PLUS FEE SCHEDULE	
Portfolio Value	Maximum Fee
First \$250,000	2.50%
Next \$250,000	2.25%
Next \$500,000	2.00%
Next \$1,000,000	1.75%
Next \$1,000,000	1.50%
Over \$3,000,000	1.00%

**\*Closed to New Business**

#### **b) I-Design Wrap Program**

The I-Design Program offers participants advisory services, asset allocation, brokerage services, consolidated reporting and periodic recommendations based on stated investment objectives under an all-inclusive program fee. Pershing serves as the custodian for program account assets. Adviser does not maintain custody of client assets at any time. Clients may authorize IAR to manage the account on a discretionary or non-discretionary basis. Eligible assets include stocks, bonds, mutual funds, ETFs, and other securities. Only no load or load-waived mutual funds may be purchased with a program account. Options (specifically covered call writing) may be permitted in Program accounts. Options transactions require the client to complete and sign an option account approval form. The client will also receive a copy of Characteristics and Risks of Standardized Options published by the Options Clearing Corporation. The client should review this brochure carefully to understand the risks associated with various options strategies. Margin and mutual fund systematic investment or withdrawals will not be permitted in the I-Design Wrap Program.

#### **Fee Schedule**

Clients pay an annualized advisory fee as outlined below. There are no additional charges for execution of transactions. The maximum advisory fee is 2.50% per annum. The advisory fee is negotiable and can be reduced due to the unique circumstances of each client. The fee schedule is in effect for and will continue until thirty (30) days after IAR notifies the Client in writing of any change in the amount of fees applicable to the Client's account. The new fees will be effective unless the Client notifies IAR in writing that the account management is to be terminated.

I-DESIGN WRAP FEE SCHEDULE	
Portfolio Value	Maximum Fee
First \$250,000	2.50%
Next \$250,000	2.25%
Next \$500,000	2.00%
Next \$1,000,000	1.75%
Next \$1,000,000	1.50%
Over \$3,000,000	1.00%

#### **c) I-Custom Wrap Program**

The I-Custom Wrap Program offers participants advisory services, asset allocation, brokerage services, consolidated reporting and periodic recommendations based on stated investment objectives under an all-inclusive Program fee. Pershing serves as the custodian for program account assets. Adviser does not maintain custody of client assets at any time.

Eligible assets include stocks, bonds, mutual funds, ETFs, fixed income and other securities. Only no load or load-waived mutual funds may be purchased within a program account. Margin and options (specifically covered call writing) may be permitted in Program accounts as indicated in the advisory services agreement. Options transactions require the client to complete and sign an option account approval form. The client will also receive a copy of Characteristics and Risks of Standardized Options published by the Options Clearing Corporation. The client should review this brochure carefully to understand the risks associated with various options strategies.

#### **Fee Schedule**

Clients pay an annualized Program fee as outlined below. The maximum advisory fee is 2.50% per annum. The advisory fee is negotiable and can be reduced depending on the unique circumstances of each client. The advisory fee permits a program account to have up to 100 trades per year; buy orders and sell orders are each considered trades. Any trades beyond 100 per year are subject to a transaction charge. The fee schedule is in effect for and will continue until thirty (30) days after IAR notifies the Client in writing of any change in the amount of fees applicable to the Client's account. The new fees will be effective unless the Client notifies IAR in writing that the account management is to be terminated.

I-CUSTOM WRAP FEE SCHEDULE	
Portfolio Value	Maximum Fee
First \$250,000	2.50%
Next \$250,000	2.25%
Next \$500,000	2.00%
Next \$1,000,000	1.75%
Next \$1,000,000	1.50%
Over \$3,000,000	1.00%

#### **d) I-Freedom-TD Wrap Program**

The I-Freedom-TD Wrap program offers participants advisory services, asset allocation, brokerage services, consolidated reporting and periodic recommendations based on stated investment objectives under an all-inclusive program fee. TD Ameritrade serves as the custodian for program account assets. Adviser does not maintain custody of client assets at any time. Clients may authorize IAR to make investment decisions on a discretionary or non-discretionary basis. Eligible assets include stocks, bonds, ETFs, equity options, index options, margin transactions, mutual funds and other securities. Only no load or load-waived mutual funds may be purchased within Program accounts. Mutual fund systematic investments or withdrawals are not permitted in the Program accounts.

Margin and options (specifically covered call writing) will also be permitted in program accounts. Options transactions require the client to complete and sign an option account approval form. The Client will also receive a copy of Characteristics and Risks of Standardized Options published by the Options Clearing Corporation. The client should review this brochure carefully to understand the risks associated with various options strategies.

#### **Fee Schedule**

Clients pay an annualized advisory fee as outlined below. The maximum advisory fee is 2.50%. The advisory fee is negotiable and can be reduced due to the unique circumstances of each client. The fee schedule is in effect for and will continue until thirty (30) days after IAR notifies the Client in writing of any change in the amount of fees applicable to the Client's account. The new fees will be effective unless the Client notifies IAR in writing that the account management is to be terminated.

I-FREEDOM WRAP TD FEE SCHEDULE	
Portfolio Value	Maximum Fee
First \$250,000	2.50%
Next \$250,000	2.25%
Next \$500,000	2.00%
Next \$1,000,000	1.75%
Next \$1,000,000	1.50%
Over \$3,000,000	1.00%

## ITEM 5 – ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS

All programs require a minimum account size of \$50,000; however, IAR may choose to lower this minimum for certain Clients in house-holding situations.

Services are provided to the following types of clients including but not limited to: individuals, corporations, trusts, retirement plans, endowments and foundations.

## ITEM 6 – PORTFOLIO MANAGER SELECTION AND EVALUATION

The Adviser does not select or review third party managers with respect to its sponsored wrap programs. IARs of Adviser manage Client accounts. The Client selects the IAR and the IAR determines the investment strategy to follow when managing program accounts. IARs conduct initial meetings with each potential advisory client to obtain investor profile information and determine financial goals, risk tolerance and overall investment objectives. IARs will assist client to determine appropriate allocation models or investment strategies.

Investment strategies will be selected based on client needs. IARs may utilize strategies such as asset allocation, trend analysis, fundamental analysis, technical analysis or economic indicators. Each IAR may have their own strategies therefore clients should discuss their objectives with their IAR thoroughly. Short term trading strategies may impact performance when transaction costs are incurred. No assumption can be made that any particular strategy will provide better returns than other investment strategies. Investing in securities involves the risk of loss that clients should be prepared to bear.

Before participating in any program or investing in any asset class, Clients should discuss their tolerance for risk with their IARs and carefully consider the risks associated with the investment by reviewing the prospectus, offering memorandum or disclosure brochure prepared by the issuing company. Equity securities markets experience varying degrees of volatility. Investing in securities involves risk of loss that Clients should be prepared to bear. Short term trading strategies may impact performance when transaction costs are incurred. The following describes common characteristics of risk associated with specific types of investments that may be recommended in Client accounts.

- **Mutual Funds:** Each mutual fund has different risks and rewards. Generally the higher the potential return, the higher the risk of loss. Investors may have to pay taxes on capital gains distributions received even if the fund goes on to perform poorly after the investor bought shares.
- **Money Market Funds:** Although Money Market Funds have relatively low risks, the NAV may fall below \$1.00 if the fund performs poorly therefore losses are possible.
- **Fixed Income Securities:** Fixed income investments tend to be more conservative than stocks however, Clients should be aware that bonds and bond funds do carry some degree of risk including but not limited to interest rate, credit, inflation, prepayment and reinvestment risks.
- **ETFs:** Exchange-Traded Funds (ETFs), like stocks and index funds can carry a significant amount of market risk. The innate appeal of an ETF is that it represents many assets or companies, like an indexed mutual fund, but unlike a mutual fund that prices Net Asset Value on a daily basis, ETFs can be traded at any time during trading hours, like a stock. Investing in ETFs involves volatility and risk of losses that Clients should be prepared to withstand.
- **ETNs:** Exchange Traded Notes (ETNs) are senior, unsecured debt securities issued by an underwriting bank. Similar to other debt securities, ETNs have a maturity date and are backed only by the credit of the issuer. ETNs are designed to provide investors access to the returns of various market benchmarks. The returns of ETNs are usually linked to the performance of a market benchmark or strategy, less fees. When a Client buys an ETN, the underwriting bank promises to pay the amount reflected in the index, minus fees upon maturity. Thus ETN has an additional risk compared to an ETF, upon any reduction of credit ratings or if the underwriting bank goes bankrupt, the value of the ETN will be eroded.
- **Structured Products:** Structured products are securities derived from or based on a single security, a basket of securities, an index, a commodity, a debt issuance and/or a foreign currency. Structured products have a fixed maturity, but typically contain two components – a note and a derivative (which may be an option). Structured products are issued by financial institutions, such as investment banks, and are senior, unsecured debt of the issuing institution. As such, structured products are subject to the credit worthiness of the issuer even if they are structured to offer principal protection, and any payments due at maturity are dependent on the issuer's ability to make payment. In addition to this credit risk, other risks of investing in structured products include, but are not

limited to, liquidity risk, limitations on upside participation, and the tax treatment may be different from other investments in a Program account.

- **DPPs/Private Placements:** Direct participation programs typically include limited partnerships, LLCs, and REITS which benefit the investor based on their partial tax shelter. However, these programs also have significant risks associated with them. Direct Participation Programs rely upon the general partner to manage the investment. This type of program is often a blind pool because the investment may not be specifically identified, and as a result you cannot evaluate the risks of, or potential returns from, the investment. DPP's are highly illiquid and there is no guarantee of a secondary market for the investment. All or a substantial portion of the distributions from this type of investment may be a return of capital and not a return on capital, which will not necessarily be indicative of performance. DPPs are speculative investments which could result in the loss of Client's entire investment.

Adviser does not charge performance-based fees in any of its program accounts.

Clients retain the right to vote all proxies solicited for securities held in program accounts. Adviser and IARs are precluded from voting proxies on behalf of the client. Clients will receive all proxy solicitation materials from the custodian for program assets or its authorized vendor. Clients should contact the party identified in the proxy material with any questions related to the proxy solicitation.

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## **ITEM 7 – CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS**

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IARs are responsible for account management and assist the client directly in determining appropriate financial goals, risk tolerance and overall investment objectives. The IAR collects the necessary information about the client through meetings with each potential advisory client. Clients are advised that changes in their financial status, or goals and objectives, should be brought to the attention of the IAR promptly.

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## **ITEM 8 – CLIENT CONTACT WITH PORTFOLIO MANAGERS**

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Clients are free to contact their IAR at any time.

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## **ITEM 9 – ADDITIONAL INFORMATION**

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### **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to Clients' or prospective clients' evaluation and/or selection of an adviser. Adviser has no disciplinary history applicable to this item.

### **Other Financial Industry Activities and Affiliations**

Adviser's principal business is as a full service general securities broker-dealer (IFG), and also engages in business as an insurance broker. The primary business of its executive officers is the day-to-day management of its broker-dealer activities. This principal business and other non-investment advisory services account for the majority of Adviser's time. Executive officers are licensed as registered representatives of IFG if required. IARs are also licensed as registered representatives of IFG.

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

Adviser has adopted a Code of Ethics that is designed to comply with the Investment Advisers Act of 1940, SEC Rule 204A-1 and federal securities laws. The Code of Ethics requires certain covered persons, including IARs, to adhere to the highest business standards and conduct their affairs with integrity and competence when dealing with the public, clients, prospects and employees. The Code of Ethics outlines acceptable and unacceptable activities for IARs. The Code of Ethics also requires IARs to report personal securities transactions to the Adviser on a quarterly basis and contains guidelines for how client transactions must be given preference over personal transactions by the IAR. A copy of the Code of Ethics is available to clients and prospects upon request.

Adviser and its IARs may invest in or otherwise own an interest in the same securities that are recommended to clients within program accounts. This creates a potential conflict of interest. All IARs are required to place the interests of clients ahead of their own when making personal investments. In addition, Adviser requires that client transactions be placed before IAR personal transactions. Personal trading by IARs is monitored by the Adviser. IARs may also buy or sell a specific security for their own account based on personal investment considerations, which the IAR does not deem appropriate to buy or sell for clients.

Adviser and IAR may perform advisory and brokerage services for other clients and may give advice or take actions for those clients that differ in timing and nature from the advice given to client.

Adviser does not make a market in any securities and does not buy or sell securities for its own account. No principal transactions with Adviser shall be effected in the accounts by Adviser. No agency-cross transactions (as such term is defined in Advisers Act Rule 206(3)-2(b) for Client transactions will be executed by Adviser.

### **Review of Accounts**

IARs are primarily responsible for reviewing client advisory accounts and do so on an intermittent or periodic (monthly, quarterly, etc) basis. Triggering events may include responses to client requests, market events or specific target dates.

Clients will receive trade confirmations and periodic account statements from the custodian of program accounts. In addition, clients will receive quarterly portfolio performance reports from the custodian on behalf of the Adviser. IAR may also provide additional reporting services to clients. Clients are encouraged to review and compare the account information (e.g., market values, transactions, and advisory fees) in the performance reports and additional IAR reporting to the account statements received from the custodian.

#### **Client Referrals and Other Compensation**

Adviser does not pay direct or indirect compensation to any persons for Client referrals.

Certain investment advisers and product sponsors may pay Adviser to support Adviser's conference program. These sponsors have greater access to IARs to provide educational and training opportunities. For example, sponsors may host events for individual IARs and their clients such as seminars and client appreciation events. The amount contributed ranges from \$2,500 to \$40,000, and may also include reimbursement of up to 100% of the cost of due diligence, training and education/joint marketing meetings for IARs, as permitted by industry rules. Not all investment advisers participate at the same level and participation is voluntary. The payment of this additional compensation to Adviser may pose a financial incentive to promote certain products over other products. However, IARs are under no obligation to use the programs of these product sponsors.

#### **Brokerage Practices**

Adviser is also a registered broker-dealer, and in such capacity clears its securities business as an introducing broker-dealer through Pershing, LLC (Pershing). Pershing is a subsidiary of The Bank of New York Mellon.

For the Advisor Plus Wrap Program, I-Design Wrap Program, and I-Custom Wrap Program, Adviser requires that client appoint IFG as the broker-dealer for execution of program transactions. Client should understand that not all advisers require their clients to direct brokerage. This presents a conflict of interest because of the clearing relationship between IFG and Pershing. By directing brokerage to IFG, Adviser may be unable to achieve most favorable execution of client transactions, and this practice may cost clients more money.

Client should consider whether the appointment of IFG as the exclusive broker-dealer and Adviser's clearing relationship with Pershing results in certain costs or disadvantages to the client as a result of possibly less favorable executions. Adviser reviews Pershing's abilities to execute, clear and settle transactions. While Adviser attempts to obtain the best execution possible, there is no assurance that best execution will be obtained.

For the I-Freedom TD Wrap Program, Adviser requires that client appoint TD Ameritrade as the broker-dealer for execution of program transactions. As stated above, client should understand that not all advisers require their clients to direct brokerage. By directing brokerage to TD Ameritrade, Adviser may be unable to achieve most favorable execution of client transactions, and this practice may cost clients more money.

Adviser may aggregate transactions for a client with other clients where possible and advantageous for clients, and with client approval. When trades are aggregated, the actual prices applicable to the aggregated trades will be averaged, and the client's account will be deemed to have purchased or sold its proportionate share of the securities at the average price obtained. For orders that are only partially filled, Adviser will allocate trades pro-rata or on some other basis consistent with the goal of treating all clients fairly over time.

#### **Financial Information**

Investment Advisers are required to provide certain financial information or disclosures about their financial condition in this item. Adviser has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.