



WEDBUSH SECURITIES INC.

FORM ADV PART 2A
WRAP FEE
DISCLOSURE BROCHURE

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This wrap fee program brochure provides information about the qualifications and business practices of Wedbush Securities Inc. and our wrap fee investment advisory programs. If you have any questions about the contents of this brochure, please contact us at (213) 688-8090.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Investment adviser registration with the SEC does not imply a certain level of skill or training.

Additional information about Wedbush Securities Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

The advisory services described herein are not insured by the Federal Deposit Insurance Corporation or any other government agency and involve risk, including the potential loss of principal.

Item 2: Material Changes

Wedbush Securities filed its brochure in accordance with new regulatory requirements. The brochure is different in structure and content from the previous Form ADV Part II.

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Item 4: Services, Fees and Compensation

Wedbush Securities' Advisory Business

Wedbush Securities Inc. ("WS") was originally founded in 1955 by its current President, Edward W. Wedbush, as Wedbush & Company. Through the acquisitions of Noble, Cooke & Co. (1969), William R. Staats Co., Inc. (1975), and Morgan, Olmstead, Kennedy & Gardner (1988), as well as internal growth, WS continues to expand on its rich heritage by introducing innovative products and providing financial and investment services to individuals, institutions and issuing clients. Headquartered in Los Angeles, California, with over 100 offices and more than 125 correspondent offices, WS is the largest holding of parent company WEDBUSH, Inc. WS provides innovative financial solutions through our Private Client Services, Capital Markets, and Clearing & Execution divisions. WS is a broker dealer and investment adviser registered with the Securities and Exchange Commission ("SEC").

Through its Wealth Management Services division, WS provides investment advice and management services on discretionary and non-discretionary basis to institutional and individual clients. This brochure provides description of its wrap fee program. A wrap fee is an all inclusive fee assessed annually to cover investment advice, execution, clearing, and settlement services, custody of assets, and administrative services. A description of our non-wrap fee program such as the Discretionary Managed Transaction (DMT) program is available upon request.

TYPES OF ADVISORY PROGRAMS

There are three different programs under the wrap fee arrangement: *Separately Managed Accounts (SMA) Programs, Discretionary Advisory Accounts Program, and Non-Discretionary Advisory Accounts Program.*

Separately Managed Accounts (SMA) Programs

- Guided Managed Assets Program (GMAP)
- Managed Assets Program (MAP)
- Independently Managed Assets Program (IMA)

Discretionary Advisory Accounts Program

- Discretionary Managed Assets (DMA)
- Discretionary Managed Account – Independent Contractor (DMI-IC)
- Discretionary Combined Asset Based and Transaction Account (DMC)

Non-Discretionary Advisory Accounts Program

- Self-Directed Investment Advisory Accounts (SDI)
- Self-Directed Investment Advisory Accounts – Independent Contractor (SDI-IC)
- Self-Directed Combined Asset Based and Transaction Account (SDC)

Separately Managed Accounts Program

Guided Managed Assets Program (GMAP)

The Guided Managed Assets Program (GMAP) is WS' dedicated separate account management service designed to deliver customized long-term investment solutions to institutional and private clients. The GMAP program, administered by the Wealth Management Services division of WS, recommends and assists clients in selecting appropriate third party investment managers to manage client assets on a discretionary basis. The services provided by WS under this program include performing due diligence on investment managers, monitoring investment managers for performance, style consistency and organizational stability, providing trade execution and custodial services, providing trade confirmations and periodic client account statements.

Managed Assets Program (MAP)

The Managed Assets Program (MAP) recommends and assists clients in selecting appropriate third party investment managers to manage client assets on a discretionary basis. Under this program, WS provides trade execution and custodial services, trade confirmations, and periodic client account statements. However, WS does not perform due diligence on investment managers or the monitoring of investment managers for performance, style consistency and organizational stability.

Independently Managed Assets (IMA)

Under this program, clients designate independent portfolio managers to manage their assets on a discretionary basis. Clients evaluate and select investment managers based on an independent evaluation of the money manager's disclosure documents and other information furnished by the manager. WS does not perform any due diligence on the managers in the IMA platform. WS relies upon the investment managers to provide accurate information, including performance data, and does not independently verify the accuracy of information provided. Transactions for IMA accounts are generally effected through or with WS.

Other Wrap Program Arrangements

Under this arrangement, clients designate an outside custodian and appoint a money manager to manage their clients' assets held by that custodian on a discretionary basis. Unlike the GMAP, MAP, and IMA programs, WS does not provide custodial services in this instance. WS relies upon the investment managers to provide accurate information, including performance data, and does not independently verify the accuracy of information provided.

Discretionary Advisory Accounts Program

WS' Discretionary Advisory Accounts Program is designed to serve the needs of institutional and individual clients. WS Financial Advisors manage and direct appropriate investment and reinvestment of the assets in client accounts consistent with the client's investment objective and risk profiles. The types of programs include Discretionary Managed Assets (DMA), Discretionary Managed Account – Independent Contractor (DMI-IC), and the Discretionary Combined Asset Based and Transaction Account (DMC) program.

Under the Discretionary Advisory Accounts Program, you have the option of paying transaction based fee instead of a wrap fee in our *Discretionary Managed Transactional Account (DMT)* program. Under the DMT Account arrangement, clients will pay transaction-based fees in accordance with WS' applicable commission rate or based on such different rate as WS may subsequently declare to be its commission rate in accordance with client agreement for advisory and brokerage services. When WS uses itself as broker to effect a transaction for the account on an exchange of which WS is a member, WS shall retain all commissions paid by client for effecting such transactions and out of those commissions WS shall pay to all other member's services. WS will clear and settle the transaction. WS may not retain brokerage compensation which client pays for effecting transactions unless WS has client's written authorization to do so, signed by all authorized to transact business for the account.

Non-Discretionary Advisory Accounts Program

Self-Directed Investment Advisory account is a *non-discretionary program* in which the client has the sole authority to purchase and/or sell securities. The SDI program will assess clients an annual fee, charged in quarterly installments, in lieu of certain "per transaction" execution, custodial costs, and commissions. SDI is designed for investors who regularly make investment transactions in their portfolio and not for persons primarily interested in purchasing money market or mutual funds or in holding inactively traded securities. The types of programs include Self-Directed Investment Advisory Accounts (SDI), the Self-Directed Investment Advisory Accounts – Independent Contractor (SDI-IC), and Self-Directed Combined Asset Based and Transactions account (SDC).

FEES AND COMMISSIONS

Separately Managed Accounts Program

Guided Managed Assets Program (GMAP)

WS' fee schedule, as set forth below, is a sliding scale based on the size of the client assets under management. The fees charged for participation in GMAP may be higher than if the client were to purchase the individual securities without participation in GMAP. The fees listed in the schedule below are negotiable but will typically not exceed 3% per year. WS deducts management fees from client accounts quarterly, in advance, retains its portion of the fees, and forwards the appropriate portion of these fees (pre-negotiated with the underlying investment manager based on assets under management) to the investment manager within the first two weeks of each new quarter. The portfolio manager will generally receive up to 50 basis points (35 basis points of the fees for fixed income accounts) of the wrap fees. Of the remaining wrap fee, your Financial Advisor will generally receive up to 50% (and up to 90% for Financial Advisors on the Independent Contractor platform). The accounts are subject to a minimum quarterly fee of \$500 (\$2,000 annually) for equity and balanced accounts and \$225 (\$900 annually) for fixed income accounts. Account terminations result in a pro-rata return of fees billed but not yet incurred. There is a stated termination fee for \$400 per account if an account is terminated within one year of being established. Client Fee Schedule is as follows:

<u>Equity and Balanced Accounts</u>	<u>Annualized Fees (% of assets)</u>
Up to \$500,000	3.00%
\$ 500,001 to \$1,000,000	2.70%
\$1,000,001 to \$2,000,000	2.40%
\$2,000,001 to \$3,000,000	2.10%
\$3,000,001 to \$5,000,000	1.80%
\$5,000,001 and up	Negotiable

<u>Fixed Income Accounts</u>	<u>Annualized Fees (% of assets)</u>
Up to \$500,000	1.30%
\$ 500,001 to \$1,000,000	1.20%
\$1,000,001 to \$2,000,000	1.10%
\$2,000,001 to \$5,000,000	1.00%
\$5,000,001 and up	Negotiable

Managed Assets Program (MAP)

WS' fee schedule, as set forth below, is a sliding scale based on the size of the client assets under management. The fees charged for participation in MAP may be higher than if the client were to purchase the individual securities without participation in MAP. The fees listed in the schedule below are negotiable but will typically not exceed 3% per year. WS deducts management fees from client accounts quarterly, in advance, retains its portion of the fees, and forwards the appropriate portion of these fees (pre-negotiated with the underlying investment manager based on assets under management) to the investment manager within the first two weeks of each new quarter. The portfolio manager will generally receive up to 50 basis points (35 basis points of the fees for fixed income accounts) of the wrap fees. Of the remaining wrap fee, your Financial Advisor will generally receive up to 50% (and up to 90% for Financial Advisors on the Independent Contractor platform). The following table is the fee schedule for the Managed Assets Program (MAP). The accounts are subject to a minimum quarterly fee of \$500 (\$2,000 annually) for equity and balanced accounts and \$225 (\$900 annually) for fixed income accounts. Account terminations result in a pro-rata return of fees billed but not yet incurred. There is a stated termination fee for \$400 per account if an account is terminated within one year of being established. Client Fee Schedule is as follows:

<u>Equity and Balanced Accounts</u>	<u>Annualized Fees (% of assets)</u>
Up to \$500,000	3.00%
\$ 500,001 to \$1,000,000	2.70%
\$1,000,001 to \$2,000,000	2.40%
\$2,000,001 to \$3,000,000	2.10%
\$3,000,001 to \$5,000,000	1.80%
\$5,000,001 and up	Negotiable

<u>Fixed Income Accounts</u>	<u>Annualized Fees (% of assets)</u>
Up to \$500,000	1.30%
\$ 500,001 to \$1,000,000	1.20%
\$1,000,001 to \$2,000,000	1.10%
\$2,000,001 to \$5,000,000	1.00%
\$5,000,001 and up	Negotiable

Independently Managed Assets (IMA)

The following table is the fee schedule for the Independently Managed Assets (IMA). In exchange for services provided under this program, clients will pay a quarterly fee based on the amount of assets held in the account, which covers investment advisory services provided to the account by the independent portfolio manager(s), and to WS for Custodial services and trade execution through or with WS. The fees charged for participation in IMA may be higher than if the client were to purchase the individual securities without participation in IMA. There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred. Generally, the fees assessed by WS are negotiable. Fees charged by WS for their services and any performance based incentive fees would be described and disclosed in the WS' client agreement but typically would not exceed 3%. The portfolio manager will generally receive up to 50 basis points (35 basis points of the fees for fixed income accounts) of the wrap fees. Of the remaining wrap fee, your Financial Advisor will generally receive up to 50% (and up to 90% for Financial Advisors on the Independent Contractor platform). Fees charged by the independent money managers for their services and any

performance based incentive fees would be described and disclosed separately in the money manager's client agreement and disclosure statement.

Client Fee Schedule is as follows:

<u>Equity and Balanced Accounts</u>	<u>Annualized Fees (% of assets)</u>
Up to \$500,000	3.00%
\$ 500,001 to \$1,000,000	2.70%
\$1,000,001 to \$2,000,000	2.40%
\$2,000,001 to \$3,000,000	2.10%
\$3,000,001 to \$5,000,000	1.80%
\$5,000,001 and up	Negotiable

<u>Fixed Income Accounts</u>	<u>Annualized Fees (% of assets)</u>
Up to \$500,000	1.30%
\$ 500,001 to \$1,000,000	1.20%
\$1,000,001 to \$2,000,000	1.10%
\$2,000,001 to \$5,000,000	1.00%
\$5,000,001 and up	Negotiable

Other Wrap Program Arrangements

The fees charged for participation in the "other wrap program" may be higher than if the client were to purchase the individual securities without participation in the "other wrap program". In general, quarterly fees are payable to the independent money managers, the outside custodian, and WS for advisory services. Generally, the fees assessed by WS are negotiable and WS does not charge a termination fee. Fees charged by WS as sponsor for advisory services and any performance based incentive fees would be described and disclosed in the WS' client agreement but typically would not exceed 2%. The portfolio manager will generally receive up to 50 basis points (35 basis points of the fees for fixed income accounts) of the wrap fees. Of the remaining wrap fee, your Financial Advisor will generally receive up to 50% (and up to 90% for Financial Advisors on the Independent Contractor platform). Fees charged by outside money managers for their services and any performance based incentive fees would be separately described and disclosed in the money manager's client agreement and disclosure statement. Custodial fees and any other service fees charged by the outside custodian are contained in the custody agreement with the outside custodian.

Discretionary Advisory Accounts Program

Discretionary Managed Assets (DMA)

Full service asset fee, which is based on the amount of assets under management by WS, covers investment advisory discretionary services provided by WS Financial Advisor and commissions and markups charged for securities transactions effected through or with WS, provided that the number of transactions does not exceed certain amount as set forth in the account agreement. Clients will pay commissions, markups, markdowns or commission equivalent, at a discounted rate, for any transaction in excess of the maximum annual trades. The minimum amount necessary to open the account is \$100,000 in assets; however, the Financial Advisor can request an exception to accept lower minimum account size. The fees charged for participation in DMA may be higher than if the client were to purchase the individual securities without participation in DMA. Fees are negotiable, and billed in advance on a quarterly basis. The accounts are subject to a minimum quarterly fee of \$250 (\$1,000 annually). There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred. Following is the maximum fee schedule for discretionary full service asset accounts:

	<u>Annualized Fees (% of assets)</u>
\$ 100,000 but less than \$250,000	3.00%
\$ 250,000 but less than \$500,000	2.80%
\$ 500,000 but less than \$1,000,000	2.50%
\$1,000,000 but less than \$3,000,000	1.90%
\$3,000,000 but less than \$5,000,000	1.60%
\$5,000,001 and up	Negotiable

Discretionary Managed Account – Independent Contractor (DMI-IC)

Full service asset fee, which is based on the amount of assets under management, covers investment advisory discretionary services provided by independent contractor Financial Advisor and commissions and markups charged for securities transactions effected through or with WS, provided that the number of transactions does not exceed certain amount as set forth in the account agreement. Clients will pay commissions, markups, markdowns or commission equivalent, at a discounted rate, for any transaction in excess of the maximum annual trades. The minimum amount necessary to open the account is \$25,000 in assets; however, the Financial Advisor can request an exception to accept lower minimum account size. The fees charged for participation in DMI-IC may be higher than if the client were to purchase the individual securities without participation in DMI-IC. Fees are negotiable, and billed in advance on a quarterly basis. There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred. Following is the minimum range and maximum fee schedule for discretionary full service asset accounts:

	<u>Minimum Range</u> <u>Annualized Fees (% of assets)</u>	<u>Maximum</u> <u>Annualized Fees (% of assets)</u>
\$ 100,000 but less than \$175,000	1.00–2.00%	2.75%
\$ 175,000 but less than \$250,000	0.57–1.14%	2.75%
\$ 250,000 but less than \$500,000	0.40–0.80%	2.50%
\$ 500,000 but less than \$1,000,000	0.20–0.40%	2.50%
\$1,000,000 but less than \$3,000,000	0.10–0.20%	1.90%
\$3,000,000 but less than \$5,000,000	0.03–0.07%	1.60%
\$5,000,001 and up	0.02–0.04%	Negotiable

Discretionary Combined Asset Based and Transaction Account (DMC)

Under the combined asset based advisory fee and brokerage commission arrangement, clients will pay a separate investment advisory fee based on the amount of assets managed by WS, in addition to commissions, markups, markdowns, and commission equivalent for transactions effected for the client account. The fees charged for participation in DMC may be higher than if the client were to purchase the individual securities without participation in DMC. Asset based fees are negotiable, and billed in advance on a quarterly basis. The accounts are subject to a minimum quarterly fee of \$125 (\$500 annually). There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred. Commissions charged are subject to a minimum discount of 40% from the standard commission charges.

Following is the maximum fee schedules for the DMC account:

	<u>Annualized Fees (% of assets)</u>
\$ 100,000 but less than \$250,000	1.50%
\$ 250,000 but less than \$500,000	1.40%
\$ 500,000 but less than \$1,000,000	1.25%
\$1,000,000 but less than \$3,000,000	0.95%
\$3,000,000 but less than \$5,000,000	0.80%
\$5,000,001 and up	Negotiable

Non-Discretionary Advisory Accounts Program

Self-Directed Investment Advisory Accounts (SDI)

The SDI fee covers an annual maximum number of trades on eligible assets without brokerage commissions for all WS trades directed by the client in client's account as set forth in the account agreement. If client directs trades in excess of the maximum annual trades, such additional trades will be charged a commission at a 30% discount to WS' standard commission schedule. The fees charged for participation in SDI may be higher than if the client were to purchase the individual securities without participation in SDI. Fees are negotiable, and billed in advance on a quarterly basis. There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred.

SDI Fee

Should the SDI Account Value be less than the required minimum opening value on any Payment Date as the result of withdrawals by the Client, the minimum charge (agreed upon fee percentage x \$100,000) shall apply. Should the

SDI Account Value be less than the required Minimum Account Size on any Payment Date solely due to market fluctuations, the SDI Fee shall be the SDI Account Value x the agreed upon fee percentage. In all instances, the client understands and agrees that WS shall be entitled to a minimum quarterly fee of \$250 (\$1,000 annually) per account.

Following is the maximum fee schedule for the self-directed investment advisory accounts:

	<u>Annualized Fees (% of assets)</u>
\$ 100,000 but less than \$250,000	3.0%
\$ 250,000 but less than \$500,000	2.8%
\$ 500,000 but less than \$1,000,000	2.5%
\$1,000,000 but less than \$3,000,000	1.9%
\$3,000,000 but less than \$5,000,000	1.6%
\$5,000,001 and up	Negotiable

Self-Directed Investment Advisory Accounts – Independent Contractor (SDI-IC)

Self-Directed Investment Advisory account is a *non-discretionary program* offered by Independent Contractor Financial Advisors in which the client has the sole authority to purchase and/or sell securities. The SDI-IC program will assess clients an annual fee, charged in quarterly installments, in lieu of certain “per transaction” execution, custodial costs, and commissions. The SDI-IC is designed for investors who regularly make investment transactions in their portfolio and not for persons primarily interested in purchasing money market or mutual funds or in holding inactively traded securities.

Clients will pay an annual fee based on the value of the amount of eligible assets held in the account. The minimum amount necessary to open the SDI-IC account is \$100,000 in assets; however, the independent contractor Financial Advisor can request an exception to accept lower minimum account size. The fees charged for participation in SDI-IC may be higher than if the client were to purchase the individual securities without participation in SDI-IC. Fees are negotiable, and billed in advance on a quarterly basis. There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred.

SDI-IC Fee

Should the SDI-IC Account Value be less than the required minimum opening value on any Payment Date as the result of withdrawals by the Client, the minimum charge (agreed upon fee percentage x \$100,000) shall apply. Should the SDI-IC Account Value be less than the required Minimum Account Size on any Payment Date solely due to market fluctuations, the SDI-IC Fee shall be the SDI-IC Account Value x the agreed upon fee percentage. In all instances, the client understands and agrees that WS shall be entitled to a minimum quarterly fee range of \$250–\$333 (\$1,000–\$1,332 annually) per account.

Additional costs for the SDI-IC may include (1) transactional charges and (2) activity assessment fee. These costs are deducted from the account based upon the frequency stated above.

Specific fees and additional costs charged by WS would be described and disclosed in the WS’ client agreement.

Following is the maximum fee schedule for the SDI-IC account:

	<u>Annualized Fees (% of assets)</u>
\$ 25,000 but less than \$175,000	3.00%
\$ 175,000 but less than \$250,000	2.75%
\$ 250,000 but less than \$500,000	2.50%
\$ 500,000 but less than \$1,000,000	2.25%
\$1,000,000 but less than \$3,000,000	2.00%
\$3,000,000 but less than \$5,000,000	1.50%
\$5,000,001 and up	Negotiable

Self-Directed Combined Asset Based and Transaction Account (SDC)

The fees charged for participation in SDC may be higher than if the client were to purchase the individual securities without participation in SDC. Fees are negotiable and billed in advance on a quarterly basis. In addition to the quarterly asset-based fee, each transaction will be charged a stated commission rate that is a reduction from the standard commission charge. The minimum reduced commission rate is 40% and the maximum reduced commission rate is 60% from standard commission charges. There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred.

Following is the maximum fee schedule for the asset-based portion of the Self-Directed Combined Asset Based and Transaction Account. The minimum quarterly asset based fee will not be less than \$125 (\$500 annually) per account.

	<u>Annualized Fees (% of assets)</u>
\$ 100,000 but less than \$250,000	1.50%
\$ 250,000 but less than \$500,000	1.40%
\$ 500,000 but less than \$1,000,000	1.25%
\$1,000,000 but less than \$3,000,000	0.95%
\$3,000,000 but less than \$5,000,000	0.80%
\$5,000,001 and up	Negotiable

The wrap fee for all the advisory programs includes the investment advisory services, execution, custodial, administrative, as well as activity assessment and exchange fees.

The wrap fee does not include commissions or other charges incurred due to transactions effected through a broker or dealer other than Wedbush Securities Inc.

The wrap fees charged may be higher than if the client were to purchase the individual securities without participation in the advisory programs. A non-advisory brokerage account based on commissions instead of an advisory wrap fee based account could be used to effect few transactions in which case the amount of revenue earned by the firm and the Financial Advisor would be less than if a wrap fee were assessed on the account's asset base. This may pose a conflict of interest in that the Financial Advisor may have an incentive to recommend a wrap fee program instead of a brokerage account. You are responsible for assessing whether a wrap fee program is appropriate for you based on your investment strategy and the frequency in which transactions are effected by your Financial Advisor or Portfolio Manager.

Additional Compensation Received by the Financial Advisor and Wedbush Securities

In addition to the wrap fee, you may be charged a mark-up, mark-down, or spreads on securities purchased or sold for your account. This may pose a conflict of interest in that it provides an incentive for the Financial Advisor to recommend those investments that result in higher compensation to the Financial Advisor and/or Wedbush Securities. The Financial Advisor and/or their respective supervisors periodically reviews accounts to determine that investments made in your account are in your best interest.

Wedbush Securities, as a registered broker dealer, may receive shareholder distribution fees from mutual fund companies under Rule 12b-1 of the Investment Company Act of 1940. Rule 12b-1 fees are assessed as a percentage of the value of total assets invested in the mutual fund. Generally, 12b-1 fees may be as high as 1.25% of the average annual dollar amount invested in a fund's shares. The specific amount assessed is found in a fund's prospectus and will be provided to you upon request. This may present a conflict of interest in that it provides a financial incentive for the Financial Advisor to recommend those funds that pay a higher 12b-1 fee.

Item 5: Account Requirements and Type of Clients

Wedbush Securities provides advisory services to high net worth clients, trusts, pension and profit sharing plans.

The minimum amount necessary to open an advisory account is \$100,000 in assets; however, the Financial Advisor can request an exception to accept lower minimum account size. The Discretionary Managed Account – Independent Contractor (DMI-IC) however requires a \$25,000 minimum.

Item 6: Portfolio Manager Selection and Evaluation

Separately Managed Accounts Program (GMAP, MAP and IMA)

Selection Criteria

Portfolio managers under the Separately Managed Accounts Program for GMAP and MAP are reviewed and selected based on a set of criteria which may include performance, assets under management, investment philosophy, years in business, education and business background. However, under the IMA program, you - and not the Financial Advisor – designate the independent portfolio managers to manage your assets on a discretionary basis.

Reviews of Portfolio Managers

Portfolio managers are reviewed on an annual basis and on an as needed basis. Portfolio managers may be replaced for the program or for the client if it does not meet certain criteria which include those mentioned above.

Performance information for portfolio managers are reviewed and compared to a relevant benchmark. Performance information may not be calculated on a uniform and consistent basis by the various portfolio managers. Wedbush Securities does not verify the accuracy of the performance information. Portfolio manager performance may or may not be based on the Global Investment Performance Standards (“GIPS”). The quarterly performance of your accounts is calculated quarterly and is time-weighted. Performance results are calculated on a total return basis inclusive of accrued dividends and income.

Selection of Portfolio Managers for Your Accounts

Your Financial Advisor will assist you in selecting your portfolio managers for the GMAP (Guided Managed Assets Program) and MAP (Managed Assets Program) based on your responses to a set of criteria such as investment objectives, risk tolerance, liquidity needs and time horizon. Your Financial Advisor will help you select your portfolio managers and determine the asset allocation and investment style based on your financial situation and needs. Your Financial Advisor will receive a portion of the wrap fee in connection with the introduction of accounts and for his/her client-related services.

Financial Advisors to Act as Portfolio Managers in the Discretionary Advisory Accounts Program (DMA, DMI-IC, and DMC)

You Financial Advisor may act as a portfolio manager for your accounts under the Discretionary Advisory Accounts Program (DMA, DMI-IC, and DMC). If your Financial Advisor will manage your accounts on a discretionary basis, he/she must obtain approval from his or her Branch Manager and the Wealth Management Department. The approval will be based upon such criteria as a Financial Advisor's past experience managing client accounts, registrations (licensing), compliance records, and relevant certifications or other qualifications.

Your Financial Advisor will purchase or sell securities in your portfolio on a discretionary basis based on a set of criteria such as investment objectives, risk tolerance, liquidity needs and time horizon. Clients may inform the Financial Advisor to not invest in certain securities or types of securities or to invest only in certain securities or types of securities. Your Financial Advisor will receive a portion of the wrap fee for his/her advisory services.

Performance-Based Fee and Side-by-Side Management

Wedbush generally does not charge performance-based fees. However, unaffiliated investment managers may. Performance-based fees are based on the capital appreciation of the assets of a client. An investment adviser charging performance based fees may have a conflict of interest in that the investment adviser can potentially direct the best investment ideas to the account that pays a performance fee since these fees may be higher than those fees received based on assets.

Methods of Analysis, Investment Strategies and Risk of Loss

For the Separately Managed Accounts Program (GMAP, MAP, and IMA), your portfolio manager for these programs employ methods of analysis that are described in each adviser's Disclosure Document. Each portfolio manager utilizes a variety of investment strategies based on your investment objectives, financial circumstances, risk tolerance, and financial needs. Such strategies typically include long term and short term purchase of securities.

Similarly, for the Discretionary Advisory Accounts Program (DMA, DMI-IC, and DMC), your Financial Advisor employs a variety of investment strategies based on your investment objectives, financial circumstances, risk tolerance, and financial needs. Such strategies typically include long term and short term purchase of securities.

Risk of Loss

Investing in securities involves risk of loss that you should be prepared to bear. You must understand that we do not guarantee any returns on any investments or investment strategies. Frequent trading can affect investment performance, particularly through increase brokerage and other transaction costs and taxes.

Voting Client Securities

For Discretionary and Non-Discretionary Advisory accounts, WS does not vote client proxies. Therefore, although WS may provide investment advisory services relative to client investment assets, clients maintain exclusive responsibility for:

- 1) Directing the manner in which proxies solicited by issuers of securities beneficially owned by client shall be voted; and
- 2) Making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to client's investment assets.

WS, as custodian of client assets, will forward to clients copies of all proxies and shareholder communications relating to clients' investment assets.

For Separately Managed accounts, respective third party money managers are responsible to vote proxies for clients. Each money manager has respectively adopted policies and procedures in an effort to ensure that votes are cast in the best interests of its clients. The proxy voting policies and procedures relating to third party money managers can generally be found in their respective Form ADV Brochure (or substitute brochure) and other documents prepared or information furnished by the money managers.

Item 7: Client Information provided to Portfolio Managers

For the Separately Managed Accounts, your portfolio manager(s) will receive a copy of the Client Agreement. Updated information will be provided to the portfolio manager(s).

Item 8: Client Contact with Portfolio Managers

For the Separately Managed Accounts, you may communicate directly with your portfolio manager(s) although you are encouraged to engage in such communication through your Financial Advisor.

Item 9: Disciplinary Information

In October 2010, WS consented to a finding by FINRA that the firm violated MSRB rules by selling municipal securities from its own account to customers at an aggregate price (including any markdown or markup) that was not fair and reasonable. Without admitting or denying the findings, the firm agreed to a censure and fine of \$12,500. The firm also made restitution totaling \$5,986.26 to customers.

In May 2010, WS consented to a finding by FINRA that the firm violated NASD rules by failing to execute orders fully and promptly; in transactions for or with customers, the firm failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price was as favorable as possible under prevailing market conditions. Without admitting or denying the findings, the firm agreed to a censure and fine of \$10,000, and made restitution totaling \$581.38.

In December 2006, WS consented to a finding by NASD that the firm permitted late trading in mutual funds. Without admitting or denying the findings, the firm agreed to a censure and fine of \$150,000.

In March 2006, WS consented to a finding by NASD that the firm violated NASD rules by failing to transmit though ACT last sale reports of transactions within 90 seconds after execution; and in 23 occasions, the firm failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price was as favorable as possible under prevailing market conditions. Without admitting or denying the

findings, the firm agreed to a censure and fine of \$27,500, and ordered to pay \$742.22, plus interest, in restitution to investors.

Item 10: Other Financial Industry Activities and Affiliations

Wedbush Securities is a registered investment adviser and a registered broker-dealer. Generally, Financial Advisors of Wedbush Securities Advisory Services are also registered representatives of Wedbush Securities Broker-Dealer (non-advisory).

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

Code of Ethics

Wedbush Securities has adopted the Investment Adviser Code of Ethics pursuant to SEC Rule 204A-1 expressing the firm's commitment to ethical conduct. Access Persons, as defined by Rule 204A-1 of the Investment Advisers Act, must adhere to employee trading policies. All personal trades made by officers, employees, and associated persons are reviewed by supervisory or Business Conduct personnel.

WS requires that all individuals must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices. WS' Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. Violators of the firm's Code of Ethics, policies and procedures may be subject to disciplinary action and sanctions, which may include termination of employment.

Clients and prospective clients may request a copy of the Code of Ethics by contacting the Business Conduct Department at (213) 688-8090 or by email to compliance@wedbush.com.

Participation or Interest in Client Transactions

Wedbush Securities provides full service investment banking, broker-dealer and asset management services. As a full service organization, WS and its directors, officers, and employees may have multiple advisory, transactional, financial and other interests in securities, instruments and companies that may be purchased or sold by its advisory clients and may buy or sell securities it also recommends to clients. As a broker or agent, WS effects securities transactions for compensation for any client. WS has established policies and procedures reasonably designed to address conflicts of interests arising between advisory accounts and the firm's businesses.

Financial Advisors are prohibited from engaging in principal transactions with you and from acting as a broker (or an affiliate of the adviser acting as a broker) for the counterparty to any client transaction as to which the adviser representative acted as an investment adviser (known as an "agency cross" transaction) unless, in each case, the Financial Advisor has given the client prior written notice of the capacity in which he is acting and has received the client's consent to the transaction. When acting as agent or principal, WS may charge client a commission, markup, markdown or other commission equivalent.

It is the policy of WS that no person employed by WS shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment recommendations and/or decisions of advisory clients.

Personal Trading

In order to prevent conflicts of interest by a Financial Advisor who buys or sells in his/her account the same security that he/she buys or sells for your account, the client's transactions must precede or be given priority over the Financial Advisor's transactions. Otherwise, the Financial Advisor's trade and your trade would be adjusted to receive the average price. However, if you received a better price on a buy or sell of the same security even if your trade occurred after the Financial Advisor's trade, you would be accorded the better price.

To prevent insider trading and to comply with the firm's insider trading policy, Wedbush Securities maintains a Restricted List to monitor and restrict employee trades on equity securities and its respective options for any company placed on the list. The Restricted List is used when the Research Department issues a research report on a material event such as an opinion change or initiation of coverage. Although employees are restricted from buying or selling companies on the restricted list, clients are generally not prohibited from effecting transactions in those securities.

WS may recommend to advisory clients that they buy or sell securities or investment products in which WS or a related person has some financial interest. WS may recommend to advisory clients private equity funds for which it or any of its affiliates serves as sponsor or investment adviser or in which it has an equity stake. In connection with such investment, unless otherwise provided in the client's account agreement, the client will pay all fees pertaining to the fund and no portion of such fees may be offset against fees payable in accordance with the advisory agreement.

From time to time, WS and its affiliates, directors, officers and employees, through such WS activities as research, corporate finance and investment banking, may become aware of non-public information concerning companies which could reasonably be expected to affect purchases or sales of those companies' securities. Various procedures are used to isolate inside information from trading activity. However, to comply with applicable law, from time to time WS may be required to restrict the purchase or sale of a security, which might otherwise be purchased or sold for the advisory accounts. In addition, the firm shall have no obligation to obtain any inside information about any issuer of securities, or to effect transactions for advisory accounts on the basis of any inside information as may come into its possession, or make any research or analysis prior to its public dissemination. The firm has adopted a Code of Ethics designed to address the potential conflict of interests involving personal securities trading by firm personnel. The firm shall have no obligation to recommend for purchase or sale by advisory accounts any instrument that the firm or its personnel may purchase or sell for themselves or for any other clients.

Item 12: Brokerage Practices

In addition to execution services, Wedbush Securities also provides research, reporting, custodial, clearing and/or other account services to clients. Generally, transactions are effected through Wedbush Securities as clearing broker under an obligation to obtain best execution. Wedbush Securities, your portfolio manager or sub-adviser may effect transactions using broker dealers other than Wedbush Securities when those transactions would provide better execution than those that would have been effected through Wedbush Securities.

Wedbush Securities may receive compensation from market centers for directing order flow. However, regardless of whether payment for order flow is received, Wedbush Securities transmits customer orders to various exchanges and other market centers for execution based on a number of factors which include; the ability of a market center to execute the orders at or better than the National Best Bid and National Best Offer, the ability of a market center to provide price improvements, the speed of execution, the availability of an efficient automated transaction processing, features of certain securities or types of orders which would make a particular market more suitable for different securities or types of orders. Accordingly, transactions will not always be executed at the lowest price or commission.

Soft Dollar Arrangements

WS does not presently engage in any soft dollar arrangements.

Brokerage for Client Referrals

In selecting or recommending broker dealers, Wedbush Securities does not consider whether it or any of its affiliates receive client referrals from such broker dealer or third party.

Directed Brokerage

You may direct us to place transactions for your accounts with a specified broker dealer. In such cases, WS may be unable to achieve most favorable execution of your transaction and you may pay more in execution fees than if WS were permitted to choose the executing broker dealer. WS may not be able to determine how an order will be handled with your selected broker dealer and may not be able to negotiate commission rates. Additionally, WS may not be able to aggregate your orders with other client orders in order to reduce transaction costs. Consequently, your direction to use a particular broker dealer may cause you to pay higher commissions or receive less favorable net prices than would have been the case if WS were given discretion to choose the broker dealer.

Trade Aggregation

In order to obtain best execution or to negotiate more favorable commission rates, Wedbush Securities may, to the extent permitted by law, combine or "batch" such orders. In general, aggregating trades may slightly decrease the overall costs of the transaction to you. In such circumstances, all client orders executed with a particular broker-dealer during a day generally will be average priced. Client orders partially filled will, as a general matter, be allocated pro-rata in proportion to each client's original order. Thus, the effect of aggregation may operate on some occasions to a particular account's disadvantage. In addition, under certain circumstances, not all clients will be charged the same commission or commission-equivalent rates in connection with bunched or aggregated orders.

Transactions in a specific security may not be accomplished for all client accounts at the same time or at the same price. Where there is a limited supply of a security, WS will use best efforts to allocate or rotate investment opportunities fairly and equitably among eligible client accounts; however, there is no assurance that equality will be achieved.

Custody

Your custodian, including Wedbush Securities, provides monthly statements to you reflecting your positions and trading activity for each month in which there was activity in your account. Otherwise, your account statements would be generated at least quarterly. You also may receive performance reports or customized account statements relating to your account. You are encouraged to review all your statements carefully and compare them with the account statements of the qualified custodian. If there are any discrepancies or errors in your account statement, you should contact your custodian.

Investment Discretion

When you grant Wedbush Securities' Financial Advisors or a portfolio manager discretionary trading authority over your account, such authorization will be subject to any limitations you may impose and will take into account your investment objective and risk tolerance. Such discretion will be delineated and granted by you when you sign the Client Agreement Form.

Generally, WS does not exercise investment or brokerage discretion with respect to assets held in the Separately Managed Accounts: Guided Managed Assets Program (GMAP), Managed Assets Program (MAP), and Independently Managed Assets (IMA) accounts. Generally, independent investment managers appointed by clients manage the assets held in such accounts on a discretionary basis and WS is authorized to execute portfolio transactions for the accounts in accordance with the investment manager's instructions.

With respect to the assets held in the Discretionary Advisory Accounts program (DMA, DMI-IC, and DMC), your Financial Advisor is retained on a discretionary basis and is authorized to direct execution of portfolio transactions consistent with the client's investment objective and risk tolerance.

Item 13: Review of Accounts

Each new account is initially reviewed at account opening by the Financial Advisor and the designated supervisor in the respective sales offices to determine suitability level. Thereafter, accounts are monitored on an ongoing basis by the Financial Advisor and designated supervisors in the sales offices. Division Managers, Wealth Management personnel, and the designated Compliance Officer in the Business Conduct Department may also monitor and review accounts on an ongoing basis.

Accounts are provided monthly account statements if there is activity; otherwise, quarterly statements are provided. Quarterly performance reports are provided for GMAP and MAP accounts.

Typically, under the Separately Managed Program, the Financial Advisors and/or designated supervisors may communicate with the portfolio manager in the following circumstances – but is not limited to – when there is a change in the client's financial situation, objective, or risk tolerance.

Privacy Policy

At WS, protection of client's privacy has been a long-standing policy. WS does not sell current or former customer's personal information to third parties. WS collects certain "nonpublic personal information" about you from:

- Information we receive from you on applications or other forms;
- Information about your transactions; and
- Information we receive from non-affiliated third parties, including consumer and industry reporting agencies.

Wedbush Securities does not disclose your nonpublic personal information to anyone except as described as follows. On a confidential basis, we may share the information we collect with companies that perform services to maintain your account information on our behalf. For example, we share information with third parties that assist us with data

processing, preparing monthly statements, or companies that help us service our products. With your approval, we may share information within the affiliated Wedbush companies to improve your experience with us and better serve your financial needs.

Wedbush Securities restricts access to your personal and account information to those employees who need to know that information to provide services to you. We maintain physical and electronic safeguards to protect your nonpublic personal information.

Our Privacy Policy Statement will be delivered to clients upon opening an account and annually thereafter.

Item 14: Client Referrals and Other Compensation

Solicitors introduce potential advisory clients to us in exchange for a pre-negotiated referral fee. We enter into a written agreement with the solicitors. At the time of solicitation, pursuant to Rule 206(4)-3 of the Advisors Act, Clients are required to sign a statement, acknowledging the receipt of the fee sharing and related disclosures.

Item 15: Financial Information

Wedbush Securities has never filed for bankruptcy and is not aware of any financial condition that is expected to impair its ability to meet its contractual obligation to client accounts.