



**Waterway Wealth Management, L.L.C.**  
***ADV 2A (Firm Brochure for financial planning)***

***Please see our Wrap Brochure for information about our  
investment advisory services.***

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(Item 1)

This brochure provides information about the qualifications and business practices of Waterway Wealth Management, L.L.C. If you have any questions about the contents of this brochure, please contact us at 281-363-0000. 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 Waterway Wealth Management, L.L.C. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Material Changes (Item 2)**

The last annual update of this brochure was in March 2019. Since that update, the following material changes have occurred to our business:

### **April 2019**

We moved our Woodlands office to a new floor in our same building. Our new address is:

21 Waterway, Suite 500  
The Woodlands, TX 77380

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## ADVISORY BUSINESS (ITEM 4)

### Advisory Firm Description

Waterway Wealth Management, L.L.C. ("WWM", "we" or the "Firm") has been in business since July 2012. Daniel Paul Michalk is the sole owner.

### Types of Advisory Services

We believe financial planning is an integral part of wealth management for individuals and families.

#### *Financial Planning Services*

In analyzing each client's individual needs, we provide a variety of financial planning services. We first conduct a complimentary initial consultation when we collect pertinent information about the client's financial circumstances and objectives. The information normally covers, but is not limited to, present and anticipated assets and liabilities, retirement goals, investment horizon, financial needs and cost of living needs. Once we have reviewed and analyzed this information, we produce and present the client with a customized written financial plan designed to achieve the client's stated financial goals and objectives.

#### *Investment Advisory Services*

We also offer investment advisory services, which are separately disclosed in our Wrap Fee brochure. The WWM Wrap Fee Program (the "Program") is a fee-only investment management program we sponsor, and in which we pay for all transaction expenses the custodian charges accounts we manage. *Please see the Wrap Fee brochure for particulars of this Program.*

### Client Assets Under Management

As of December 31, 2019, we had \$373,630,241.94 of discretionary assets under management.

## FEES AND COMPENSATION (ITEM 5)

We charge financial planning fees as follows, subject to negotiation depending on the nature, complexity and time involved in providing the client with requested services:

#### *Fixed Fees*

We will charge a fixed fee, which typically ranges between \$3,500 and \$10,000 for comprehensive financial planning services. This fee may be negotiated, is determined at the onset of the engagement and depends upon the complexity of the client's needs and the scope of the financial planning services required to meet those needs. This fee is charged one-half up front and one-half upon completion of the plan, with plans generally being completed within 90 days. *In limited circumstances*, the total cost could potentially exceed this fixed amount, which is directly dependent upon the complexity of the contracted service. In such cases, we will notify the client and may request that the client pay an additional fee.

#### *Hourly Fees*

In circumstances where discrete financial planning advice is needed, we occasionally will charge an hourly consultation fee, which ranges between \$100 and \$300, depending on the nature of

the contracted services. These consultation fees are due immediately upon completion of the consultation.

#### *Wrap Program Fees*

Clients in the Program pay a single annualized fee for participation in the Program (the "Program Fee") as shown in the table below. The Program Fee is negotiable and may be adjusted based on the complexity of each client's individual situation. For existing clients, our fee for investment advisory services is assessed at the annual rate shown on the client's agreement. Accounts owned by members of the same family (often extended family) are usually aggregated in order to grant the lowest fee rate to all family members, generally with a family minimum of \$1,000,000 of assets under management. Fees are deducted from each member's account on a pro rata basis and clients may direct us to deduct fees from a different account. WWM's fee structure for new clients follows:

| <b>Assets Under Management</b> | <b>Annual Wrap Program Fee</b> |
|--------------------------------|--------------------------------|
| \$1,000,000 to \$3,000,000     | 1.00%                          |
| \$3,000,001 to \$5,000,000     | 0.90%                          |
| Greater than \$5,000,000       | 0.75%                          |

We bill quarterly in advance at the rate of one fourth of the annual fee shown above, with the rate based on the aggregate value of all accounts belonging to a family. Fees charged to each account for the next quarter are calculated based on the portfolio valuation, including cash and accrued interest, as of the close of market on the last business day of the previous quarter. Additional deposits and withdrawals of funds and/or securities to the Program may be made to the account at any time, and do not result in fee adjustments retroactively. Program Fees are calculated pro rata for partial billing periods (for new or closed accounts) based upon the initial (or ending) value of the assets in the account and the number of days those assets were under management over the actual number of days in the quarter. All investment management fee calculations are computed by Black Diamond, our portfolio management software, which receives a daily valuation of securities from Fidelity Investments or an independent pricing service.

Because we have a long history of serving our clients and pride ourselves on serving clients' needs individually, different clients are on different fee schedules, paying different rates on the same amount of assets. This means some clients pay more (or less) than other clients with the same amount of assets under management. We do not differentiate our investment management service we provide to clients based on each client's fee schedule or structure.

The Program Fee includes transaction fees charged by the custodian on client accounts we manage. The client is responsible to pay deferred sales charges, odd-lot differentials, transfer taxes and other fees the custodian charges the accounts. Any additional charges (which would be at the client's request) to the account by the custodian are paid by the client. These additional fees would be for items such as requesting paper certificates.

When we recommend a mutual fund, ETF or money market fund for a client's account, two separate fees may be charged to the client, either directly or indirectly. The first fee, which is direct, is our investment management fee where the fund is included in the asset base for the quarterly fee calculation. The second fee, which is indirect, is the set of internal fees charged by the investment company for the fund's investment management, marketing, administration and marketing assistance. These internal expenses are disclosed in each fund's prospectus, which is provided to each client by the custodian.

## Termination

The typical financial planning agreement we enter into with clients allows for either party to terminate the agreement immediately upon receipt of written notice. The client may terminate a financial planning agreement without penalty within five (5) business days after entering the agreement. Otherwise, at the date of termination, the client agrees to pay fees due the Firm based on time expended to date on the plan or the Firm will refund any prepaid fees which have not yet been earned.

## PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT (ITEM 6)

We do not charge any performance-based fees or engage in side-by-side management.

## TYPES OF CLIENTS (ITEM 7)

We provide investment advisory services to:

- Individuals
- High net worth individuals
- Pension and profit sharing plans
- Trusts and estates

## METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS (ITEM 8)

We do not invest for clients in our financial planning role. *Please see our Wrap Brochure for particulars about our investment advisory services.*

The financial planning process involves the collection, organization and assessment of all relevant client data, as well as identification of the client's financial concerns, goals and objectives. The primary objective of this process is to allow us to assist the client in developing a strategy for the successful management of income, assets and liabilities in meeting the client's long-term financial goals and objectives.

Financial plans are based on the client's financial situation at the time the plan is presented and are based on financial information disclosed by the client. We cannot offer any guarantees or promises that the client's financial goals and objectives will be met. As the client's financial situation, goals, objectives or needs change, the client must notify us promptly.

Clients are advised that financial plans do not guarantee investment results. Investment assumptions included in a financial plan are not guaranteed and should be monitored based on each client's individual risk tolerance, time horizon and portfolio allocation.

## DISCIPLINARY INFORMATION (ITEM 9)

There have been no disciplinary actions against the Firm, our employees or Daniel Michalk.

## OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS (ITEM 10)

We have no other financial industry activities or affiliations.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING (ITEM 11)**

### **Code of Ethics**

We have adopted a Code of Ethics, which describes the general standards of conduct that we expect of all personnel (collectively referred to as “employees”) and focuses on three specific areas where employee conduct has the potential to adversely affect the client:

- Misuse of nonpublic information
- Personal securities trading
- Outside business activities

Failure to uphold the Code of Ethics may result in disciplinary sanctions, including termination of employment. Any client or prospective client may request a copy of our Code of Ethics, which will be provided at no cost.

The following basic principles guide all aspects of our business and represent the minimum requirements to which we expect employees to adhere:

- Clients’ interests come before employees’ personal interests and before our interests.
- We must fully disclose all material facts about conflicts of interest of which we are aware between clients and us as well as between our employees and clients.
- Employees must operate consistently with our disclosures and manage the impacts of those conflicts.
- We, including our employees, must not take inappropriate advantage of our positions of trust with or responsibility to clients.
- We, including our employees, must always comply with all applicable securities laws.

### *Misuse of Nonpublic Information*

The Code of Ethics contains a policy against the use of nonpublic information in conducting our business. Employees may not convey nonpublic information nor depend upon it in placing personal or recommending clients’ securities trades.

### *Personal Securities Trading*

Our employees may buy, sell or hold in their personal accounts the same securities we recommend to clients. This creates a potential conflict of interest with the possibility of our personnel obtaining a better price than clients obtain. To mitigate this conflict, such trades may occur on the same day at the same time receiving average pricing or after the client with the client receiving the same or better pricing. The purchase of IPOs or private placements is allowed with prior permission from Daniel Michalk, our Chief Compliance Officer. We do not allow front-running client trades.

Employees are required to submit reports of personal securities trades on a quarterly basis, and securities holdings annually. These are reviewed by the Chief Compliance Officer to ensure compliance with our policies.

### *Outside Business Activities*

Employees are required to report any outside business activities generating revenue. If any are deemed to be in conflict with clients, such conflicts will be fully disclosed, or the employee will be directed to cease this activity.

## **BROKERAGE PRACTICES (ITEM 12)**

In its financial planning role, we do not recommend brokers for clients.

For the Program, we recommend various qualified custodians for clients. We have an arrangement with National Financial Services LLC and Fidelity Brokerage Services LLC (collectively, and together with all affiliates, "Fidelity") in which we recommend clients use their custodial services. WWM may also recommend that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. We prefer that clients in need of brokerage and custodial services use either Fidelity or Schwab, as they provide a number of resources and services which are helpful both to us and to our clients.

### *Fidelity*

Fidelity provides us with "institutional platform services." These include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of fees from its clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Fidelity also offers other services intended to help us manage and further develop our advisory practice. Such services include, but are not limited to, performance reporting, contact management systems, third party research, publications, access to educational conferences, roundtables and webinars, practice management resources, access to consultants and other third party service providers who provide a wide array of business related services and technology with whom we may contract directly. We receive these benefits because of our clients' relationships with Fidelity, but have no formal soft dollar arrangements and receive no compensation from Fidelity. These benefits provided by Fidelity might assist us with the administration of client accounts, and thus slightly help our profitability, creating a potential conflict of interest with clients. We believe this is not a material conflict.

### *Schwab*

Schwab provides us with access to institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge so long as a total of at least \$10 million of our clients' assets are maintained in accounts at Schwab Advisor Services. Schwab's services include brokerage services that are related to the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For our client accounts maintained at Schwab, there is not a separate custody fee, but rather Schwab is compensated through commissions or other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab also makes available to us other products and services that benefit us but may not benefit our clients' accounts. These benefits may include national, regional or specific educational events organized and/or sponsored by Schwab Advisor Services. Other potential benefits may include occasional business entertainment of our personnel by Schwab Advisor Services personnel, including meals, some of which may accompany educational opportunities. Other products and



services that assist us in managing and administering clients' accounts include software and other technology (and related technological training) that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (such as allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of our fees from our clients' accounts, and assist with back-office training, support functions, recordkeeping and client reporting. Many of these services may be used to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab Advisor Services. Schwab Advisor Services also makes available other services intended to help us manage and further develop our business enterprise. These services may include professional compliance, legal and business consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, employee benefits providers, human capital consultants, insurance and marketing. In addition, Schwab may make available, arrange and/or pay vendors for these types of services rendered to us by independent third parties. Schwab Advisor Services may, but currently does not, discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to WWM. While, as a fiduciary, we endeavor to act in our clients' best interests, our recommendation/requirement that clients maintain their assets in accounts at Schwab may be based in part on the benefit to us of the availability of some of the foregoing products and services and other arrangements and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

The final decision to custody assets with Schwab or Fidelity is at the discretion of our clients, including those accounts under ERISA or IRA rules and regulations, in which case the client is acting as either the plan sponsor or IRA accountholder. We are independently operated and owned and are not affiliated with Fidelity or Schwab.

We recommend Fidelity or Schwab as "qualified custodians" for clients' accounts, with each client signing a separate agreement with Fidelity or Schwab. In recommending a custodian, we consider the range and quality of the products the custodian offers, the technical support provided, execution quality, commission rates, the financial responsibility and responsiveness of the custodian to us and our clients. We recognize our responsibility to attain best execution and recognize that limiting our custodial relationships may affect our ability to provide best execution on a trade-by-trade basis. However, we evaluate each entire custodial relationship in assessing best execution on a client-by-client basis.

### **REVIEW OF ACCOUNTS (ITEM 13)**

We attempt to meet with clients on at least an annual basis, with the meeting covering both financial plan and investment management aspects. Daniel Michalk, Managing Member, Robert Dwyer, Sr. Financial Planner, and Jack Cowling, Portfolio Manager, conduct all financial plan reviews for The Woodlands office. David Michalk, Investment Advisor Representative, reviews financial plans for the Albuquerque branch office. A customized written financial plan is produced and presented to each client, with the exception of hourly consultations, which may or may not result in a written document.

### **CLIENT REFERRALS AND OTHER COMPENSATION (ITEM 14)**

The Firm does not pay outside individuals or entities for referring clients.

#### **CUSTODY (ITEM 15)**

Custody is defined as having access to the assets in a client's account. Because our clients allow us to direct the account custodians to deduct our management fees from their accounts, we are deemed to have a form of custody of those accounts. Additionally, several clients have established written standing instructions with Schwab or Fidelity which allow clients to direct us to send funds from their account to other accounts without obtaining the client's signature before each transfer. Therefore, we have a form of custody over these accounts since the amount and/or timing of these transfers are not pre-defined. However, these accounts are not required to be surprise examined by a public accounting firm.

#### **INVESTMENT DISCRETION (ITEM 16)**

We do not manage accounts in its financial planning role so does not have investment discretion.

#### **VOTING CLIENT SECURITIES (ITEM 17)**

In its financial planning role, we do not vote proxies for clients.

#### **FINANCIAL INFORMATION (ITEM 18)**

There is no financial condition that is reasonably likely to impair our ability to meet our contractual commitments to its clients.