



# FIRST FINANCIAL EQUITY CORPORATION

Wealth Management Company

## WRAP FEE: Program Brochure

This brochure provides information about the qualifications and business practices of First Financial Equity Corporation. If you have any questions about the contents of this brochure, please contact us at 303-643-5953, or [compliancedept@ffec.com](mailto:compliancedept@ffec.com)

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.

Additional information about First Financial Equity Corporation is also available on the SEC's website, at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

You can view this information about First Financial Equity Corporation on this website by searching our name First Financial Equity Corporation

or by our

CRD number: 16507

*\*Registration as an investment advisor does not imply a certain level of skill or training.*

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## ITEM 2: MATERIAL CHANGES

On July 28, 2010, the United States Securities and Exchange Commission published "Amendments to Form ADV" which amends the disclosure document that we provide to clients as required by SEC rules. The amendment requires First Financial Equity Corporation (FFEC) to provide a summary of changes to you, our client, within 120 days of our year end, which is December 31st. This document includes the material changes that were made to FFEC's ADV 2A- Firm Brochure, throughout the 2018 calendar year. You can obtain a copy of our most current Disclosure Brochure at any time by contacting us at 480-951-0079 or by downloading it from our firm's website at [www.fffec.com](http://www.fffec.com).

- July 2019, Tammy Steffen was named as Chief Compliance Officer
- December 2019, Andrew Sitzman was named as Chief Financial Officer
- December 2019, FFEC Updated the annual maintenance fees
- FFEC Fees. Certain fees charged directly by FFEC are as follows:
  - Non-retirement accounts are subject to a \$140 annual maintenance fee with the exception of DVP, UTMA/UGMA and non-profit organizations.
  - Retirement accounts over \$5,000.00 market value are subject to a \$65.00 annual maintenance fee that includes IRA and ROTH individual, rollover and beneficiary accounts, Simple, SEP and qualified plans. Health Savings (HAS) and Coverdell accounts are exempt from the fee.
- December 19, 2019, FFEC agreed to an Acceptance, Waiver and Consent ("AWC") with FINRA including a \$200,000 penalty and censure. FINRA alleged that the firm: (a) failed to file certain U4 updates within the required 30-day period during the period between January 2015 and September 2017; (b) failed to maintain appropriate written procedure to ensure compliance with the filing requirement; and (c) failed to file the annual CEO certification for the 2014-2016 period. The relevant reports have since been filed and the relevant written procedures brought into compliance. Rules violations cited: Article V, Section 2 of FINRA's By-Laws; FINRA Rules 1122, 3110(a) and (b), 3120, 3130, and 2010

Attached: ADV Part 2B, Brochure Supplement for your Investment Advisory Representative will accompany this document.

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## ITEM 4: SERVICES, FEES, AND COMPENSATION

### ADVISORY BUSINESS

First Financial Equity Corporation (hereafter referred to as FFEC) is dually registered as a broker dealer, member of Financial Industry National Regulatory Association (FINRA) and Securities Investors Protection Corporation (SIPC). FFEC is also a SEC-registered investment adviser. The headquarters is in Scottsdale, Arizona. We began conducting our brokerage and advisory business in 1985.

On July 28, 2017, the Firm's ownership changed to Mr. Jeffrey Graves as CEO/President and Mr. Randy Sitzman as Chief Operating Officer. Mr. Graves and Mr. Sitzman are equal shareholders. Tammy Steffen was named Chief Compliance Officer on July 16, 2019.

FFEC and its Investment Adviser Representatives (IARs) provide a variety of Wrap Fee Programs which can be managed on a non-discretionary basis or a discretionary basis. Third party programs are also offered as described below. Clients and prospective clients should note that participation in any of FFEC's Wrap Fee Programs could cost the client more or less than purchasing services separately. Factors which influence cost include the negotiated fee for the program, the frequency of trading in the account, the type of management sought, as well as other factors intrinsic to specific accounts.

### DESCRIPTION OF SERVICES

FFEC offers a Wrap Fee Program that features various levels of reports, ticket charges, and platform fees. FFEC and its IARs establish an agreed upon fee (described further below) based on Assets Under Management (AUM) for its services. Each program begins with the IAR helping a client identify investment and financial objectives. The IAR and the client develop strategies based on various criteria including but not limited to current resources, level of income, net worth, risk tolerance, time horizon, investment objectives, present and deferred employee benefits, self-employed income and benefits, tax situation, insurance programs and estate planning considerations. FFEC relies on the information provided by the client in providing this advice. The scope of the asset management service depends on the client's specifications. FFEC and the IAR do not guarantee the results of any recommendation.

Our IARs can provide advisory services in the form of investment management services. Investment management services involve providing clients with continuous and ongoing supervision over client accounts.

This means that IARs continuously monitor a client's account and make trades in client accounts when deemed necessary. These accounts can be managed on a non-discretionary or a discretionary basis.

**Non-Discretionary Accounts:** Clients that engage the Adviser on a non-discretionary investment advisory basis must understand that FFEC cannot affect any transactions without obtaining prior consent from the client. Thus, in the event of a market correction during which the client is unavailable, FFEC will be unable to affect any account transactions (as it would for its discretionary accounts) without first obtaining the client's consent.

You are advised and are expected to understand that our past performance is not a guarantee of future results. Certain market and economic risks exist that adversely affect an account's performance. This could result in capital losses in your account.

**Discretionary Accounts:** In having a discretionary account, a client gives the IAR and FFEC the authority to execute which securities are bought and sold, as well as the total amount to be bought and sold, without obtaining the clients consent prior to each transaction. Clients grant this authorization by executing a discretionary trading power of attorney. The client can, at any time, impose reasonable restrictions on our discretion which will only be accepted in writing and signed by the client or appropriate agent.

Advisory account assets could be held at Hilltop Securities, LLC (Hilltop), or TD Ameritrade, Inc., both qualified custodians with which FFEC maintains custodial relationships. These qualified custodians will send account statements directly to Clients on at least a quarterly basis. FFEC and IARs could also generate quarterly or annual

investment reports. Clients are urged to compare statements that are received from the qualified custodian to statements received from IARs.

## **WRAP PROGRAM**

FFEC offers asset management services through a wrap fee management program. Through our Program, advisory services and transaction costs (including ticket charges) are provided for one fee. Whenever a fee is charged for services described in this Wrap Fee Program Brochure, we will receive all or a portion of the fee charged.

As FFEC absorbs certain transaction costs in wrap fee accounts, it could have a financial incentive not to place transaction orders in those accounts since doing so increases its transaction costs. Thus, an incentive exists to place trades less frequently in wrap fee arrangement. However, FFEC does not charge clients higher advisory fees based on their trading activity, but you should be aware that FFEC could have an incentive to limit its trading activities in client account(s) because FFEC is charged for executed trades.

FFEC participates in wrap fee programs; which is an investment program where the investor pays one stated fee that includes management fees, transaction costs, fund expenses, and any other administrative fees. FFEC does manage the investments in the wrap fee program. FFEC does not manage those wrap fee accounts any differently than non-wrap fee accounts. A portion of the fees paid to the wrap account program will be given to FFEC as a management fee.

## **THIRD PARTY MANAGER: WRAP PROGRAM**

FFEC could determine that it is in the interest of the client to have an unaffiliated Third-Party Manager (TPM) provide portfolio management services for the client although it has entered into various agreements with Third Party Manager platforms. In order to facilitate account reporting when utilizing TPMs, account assets are usually held at a custodian designated by the TPM and will also generally require that all securities transactions for the client's account be executed by the custodian. Once a client has selected a TPM, FFEC will supply the TPM with information regarding the financial background and investment objectives of the client to the extent such information is provided by the client. The client then enters an advisory agreement with the TPM whereby the TPM agrees to accept and manage the client account on a discretionary basis in accordance with objectives of the client. The TPM will charge the client investment advisory fees and could also charge commissions. The TPM will rebate a portion of the advisory fee to FFEC. FFEC will provide the client with the TPM's disclosure documents and fee schedule.

The TPM provides reports to clients at the frequency specified in the advisory agreements with clients. FFEC will provide periodic assistance in evaluating the manager(s) performance and, if necessary, recommend replacing a manager selected. FFEC is available to discuss reports and to assist the client with other matters associated with the Third-Party account.

## **FEES AND COMPENSATION**

FFEC and its IARs offer clients a range of payment options which compensate FFEC and its IARs on wrap fee programs. In most cases, when the client wishes an ongoing investment advisory relationship, compensation is calculated as a percentage of AUM. Since the IAR receives fees as a result of the client's participation in the program, the IAR has a financial incentive to recommend a wrap fee program over other services. This constitutes a potential conflict of interest for FFEC and the IAR which must be disclosed to the client, along with a comparison of the cost of the wrap fee program with other potential arrangements. The client is free after such disclosure to choose the wrap fee program or any other program FFEC offers, including a brokerage account charging transaction- based compensation.

The actual fee charged is based on factors such as, but not necessarily limited to, the amount of assets under management, totality of services provided to you and your overall financial complexity. The specific services to be provided and fee charged will be mutually agreed upon and described in the FFEC Wrap Agreement before commencing services.

The IAR may negotiate the management fee with the client. All agreements are subject to FFEC approval. Where the IAR uses commissioned products to implement an investment strategy, fees on the AUM may be waived for agreed periods after the sale which generated the commission. Any refund must be approved by FFEC. In most cases, the value of AUM is determined at account commencement or at the end of the first month or quarter after the account is established. FFEC and the IAR can be compensated by the client for advisory services on a monthly, quarterly or any other agreed upon schedule.

FFEC believes that its annual fee is reasonable in relation to: (1) services provided and (2) the fees charged by other investment advisers offering similar services/programs. However, our annual investment advisory fee could be higher than that charged by other investment advisers offering similar services/programs.

FFEC's fees are exclusive of brokerage commissions, transaction fees and other related costs and expenses incurred by the client unless otherwise noted. Clients could incur certain charges imposed by custodians, brokers, Third Party investment managers and other third-parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and ETFs also charge internal management fees, which are disclosed in the fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to FFEC's fee, and unless otherwise disclosed to clients, FFEC does not receive any portion of these associated fees and costs.

The Adviser's IARs could, from time to time, receive 12b-1 distribution fees from investment companies in connection with the placement of client's funds into investment companies. Therefore, the receipt of this compensation could affect the Adviser's judgment in recommending products to its Clients. Furthermore, compensation received could be more than what would have been received if client paid separately for investment advice, brokerage, and other services.

### **THIRD PARTY MANAGER: WRAP PROGRAM FEES**

Third Party Manager fee programs can range between 0.35% to 2.00% per annum. These can be higher or lower than those charged by other management services. FFEC and its IAR will provide periodic assistance in evaluating manager(s) performance and, if necessary, recommend replacing a manager. Under the terms of Third-Party Managers agreements, FFEC receives a fee for the referral of a FFEC client, calculated as a percentage of AUM or as a percentage of the advisory fee received by the investment manager from the client. Such fees continue to be paid as long as the account remains under management. A conflict of interest exists when FFEC recommends managers or a manager's platform and receives compensation from the manager for doing so. In all cases, the total management fees will be disclosed to the client and the client advised of the conflict of interest.

The client will be further advised that he or she is free to use other managers from whom FFEC does not receive compensation. The Third-Party Manager provides reports to client at the frequency specified in the investment management agreement entered into with the client. A client's IAR will discuss reports and assist the client with other matters associated with the TPM account. The annual fee does not include transaction or custodial fees and costs. Fees are generally payable quarterly in advance. Upon termination, any unearned prepaid fees will be returned to the client. Clients usually authorize both the manager and FFEC to debit the client's account for the amount of fees due.

## **ADDITIONAL FEES**

Clients who participate in the wrap fee program will not have to pay for ticket charges for equities, ETF's and mutual funds. Clients who participate in Level II or Level III will not have to pay for platform fees. However, clients are still responsible for all other account fees; such as annual IRA fees to the custodian or termination fees if the account is moved to another broker.

All fees paid to the Adviser for investment advisory services are separate and distinct from fees charged by the custodian and additional fees such as margin costs, charges imposed directly by a mutual fund or exchange traded fund, deferred sales charges, bonds, options, odd-lot differentials, distribution fees, transfer taxes, wire transfer, electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. These fees and expenses are described in each fund's prospectus.

### **Other Fees – FFEC Annual Maintenance Fees**

In December 2019, FFEC updated the Maintenance Fees for Tier 1 clients. The following fees are charged directly by FFEC are as follows –

- Non-retirement accounts are subject to a \$140 annual maintenance fee with the exception of DVP, UTMA, UGMA and non-profit organizations.

Retirement accounts over \$5,000.00 market value are subject to a \$65.00 annual maintenance fee that includes IRA and ROTH Individual, rollover and beneficiary accounts, Simple, SEP and qualified plans, Health Savings (HSA) and Coverdell accounts are exempt from the fee. Please refer to your Schedule A – Wrap Fee Addendum for more information on Tier fees.

## **ITEM 5: ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS**

FFEC IARs provide personal advisory services to individuals, pension and profit-sharing plans, trusts, estate or charitable organizations, corporations or other business entities. FFEC has set forth requirements for a minimum household account size of \$ 100,000. However, at the discretion of FFEC Advisors, accounts below these minimums may be accepted, on an individual basis, depending on the client circumstances and business considerations. FFEC offers its services and investment advice to entities, individuals, trusts, investment companies, investment advisors, pension and 401(k) plans and other tax-deferred vehicles like Individual Retirement Accounts, Single Employment Plans, high net worth individuals and others needing investment services and advice. Third Party Manager programs can have different account minimums depending on the manager.

## **ITEM 6: PORTFOLIO MANAGER SELECTION AND EVALUATION**

Item 6 of the Form ADV Part 2 instructions is not applicable to FFEC's brochure because FFEC does not charge or accept performance-based fees which can be defined as fees based on a share of capital gains on or capital appreciation of the assets held within a client's account.

## **PORTFOLIO MANAGEMENT SERVICES**

Certain IARs provide asset management/wrap fee services. In these cases, IARs generally use fundamental or technical analysis. Each IAR may use his or her own analysis and investment strategy. None offer performance-based management or fees. When IARs provide such services, they are subject to certain conflicts of interest which are further discussed later in this Item.

Each Third-Party Manager uses different forms of analysis. The client, assisted by their IAR, determines which will best suit the client's situation. FFEC's selection and review of Third-Party Managers includes reviewing AUM, including mixes of assets, risk tolerance and client objectives matched against adviser's management style. FFEC also reviews financial stability, tenure and performance.

Some portfolio managers employ fundamental analysis seeking to understand the underlying value of securities based on financial and market fundamentals to determine whether securities are under- or over-valued. Fundamental analysis can be applied to most securities, including equities, bonds and fixed assets. It can also be applied to broader markets through economic analysis and investment strategy.

Other portfolio managers use technical information in providing investment services. Technical analysis focuses on information from the market itself, including but not limited to price levels, movement, volatility, trade volume and demand. Markets and securities develop trends, whether up, down or sideways, and technical analysis attempts to measure the characteristics of those trends. Momentum investing is a form of trend-following investing used by a variety of investors. Technical analysis is an important tool for momentum investors, especially in determining when trends change.

The types of analysis used by FFEC IARs all have inherent risk associated with them since investing in securities involves risk of total loss. Clients must be prepared to bear such risks when investing. Other risks include the following risks:

**Market Risk:** The price of a security, bond, or mutual fund could drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's underlying circumstances. For example, political, economic and social conditions could trigger market events. Either the stock market, or the value of an individual company, goes down resulting in a decrease in the value of client investments. This is also referred to as systemic risk.

**Company Risk:** When investing in stock positions, there is always a certain level of company industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives unfavorable media attention for its actions, the value of the company will be reduced.

**Fixed Income Risk:** When investing in bonds, there is the risk that the issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.

**Options Risk:** Options on securities could be subject to greater fluctuations in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks.

**Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.

**Cybersecurity Risk.** In addition to the Material Risks listed above, investing involves various operational and "cybersecurity" risks. These risks include both intentional and unintentional events at FFEC or one of its third-party counterparties or service providers, that may result in a loss or corruption of data, result in the unauthorized release or other misuse of confidential information, and generally compromise our Firm's ability to conduct its business. A cybersecurity breach could also result in a third-party obtaining unauthorized access to our clients' information, including social security numbers, home addresses, account numbers, account balances, and account holdings. Our Firm has established business continuity plans and risk management systems designed to reduce the risks associated with cybersecurity breaches. However, there are inherent limitations in these plans and systems, including that certain risks may not have been identified, in large part because different or unknown threats could emerge in the future. As such, there is no guarantee that such efforts will succeed, especially because our Firm does not directly control the cybersecurity systems of our third-party service providers. There is also a risk that cybersecurity breaches could not be detected.



Clients must understand that past performance is not indicative of future results. Therefore, current and prospective clients should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities involves risk of loss. Further, depending on the difference types of investments there will be varying degrees of risk. Clients and prospective clients should be prepared to bear investment loss including loss of original principal.

### **THIRD PARTY MANAGER – WRAP FEE PROGRAMS**

FFEC has agreements with certain Third-Party Managers that use a variety of methods for analyzing stocks, bonds, mutual funds and other investments in client portfolios. These include but are not limited to the following: Sophisticated, analytical modeling techniques identifying intermediate to long-term market trends

- Macro-economic models which analyze economic data like gross domestic product, inflation, unemployment, money flows and overall market conditions. This analysis seeks to determine the current phase of the business cycle (expansion, peak, contraction or trough)
- Academic research modeling known as “Modern Portfolio Theory.”

FFEC’s criteria for replacing recommended managers in the program may be based on inactivity. Managers who have not received FFEC-client funds for two years or more may be replaced.

Criteria used to recommend third party management changes to a client include but are not limited to ongoing suitability of the manager’s style with the client objectives, client’s overall objective change, cost and/or change of cost of the program and performance.

FFEC does not calculate portfolio manager performance, nor does it review performance information to verify its accuracy or its compliance with presentation standards.

FFEC does not charge or accept fees-based on a share of capital gains or capital appreciation of the assets held within a client’s account.

### **ADDITIONAL INFORMATION**

Accounts receiving management services within a wrap fee program are monitored by a client's IAR on a continuous basis and the frequency of client reviews are determined by the investment mix of the account and the desire of the client. Such reviews can also be triggered by economic news, news about a particular security, client requests, and change in client's personal or financial situation, securities research, deposits to or withdrawals from an account or other events.

IARs could conduct investment advisory activities under separate unaffiliated business names. All client funds must be made payable to the corresponding custodian, not the IAR or their unaffiliated business.

Registered investment advisers are required to provide certain financial information or disclosures about FFEC’s financial condition. FFEC 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.

For those clients purchasing or depositing mutual funds with FFEC, FFEC will choose or convert the share class of a mutual fund holding to a lower cost share class of the same mutual fund, if available, if this otherwise makes economic sense and is in the best interest of the client. Each mutual fund, as well as each clearing Firm custodian has minimum purchase amounts. A clearing Firm custodian may charge for a mutual fund share class conversion. A review will be conducted on these accounts to determine if a share class conversion makes sense for the client. IARs will consult with the client regarding share class conversions.

## **CLIENT TAILORED SERVICES AND CLIENT IMPOSED RESTRICTIONS**

Our IARs will work with clients to identify their investment goals and objectives as well as risk tolerance in order to create portfolios designed to complement their clients' educational, home ownership and retirement funding goals and objectives, etc. Each portfolio will be designed through the use of suitable investment models to meet a particular investment goal, which the IARs have determined to be suitable to the client's circumstances.

Clients can impose restrictions on investing in certain types of securities for reasons such as compliance reporting, religious beliefs or for other reasons disclosed to the advisor prior to portfolio implementation. These restrictions will be acknowledged and recorded by FFEC in the fee agreement signed with the client.

## **INFORMATION ABOUT CONFLICTS OF INTEREST**

FFEC and its IARs have a duty to disclose potential and actual conflicts of interest to their clients. IARs also have a duty to report potential and actual conflicts of interest to their advisory firms. IARs will not attempt to limit their liability for willful misconduct or gross negligence through the use of disclaimers. A copy of FFEC's Code of Ethics which elaborates on this is available upon request and is discussed further in Item 9 "Additional Information" below.

FFEC and its IARs receive 12b-1 fees from certain mutual fund companies as described in the fund's prospectus. 12b-1 fees typically are expenses of the mutual fund which reduce the overall return a client may receive on a mutual fund investment. The receipt of such fees by FFEC, its IARs and registered representatives also results in a conflict of interest for FFEC and its IARs since there is an incentive to recommend funds with 12b-1 fees over funds that have no fees or lower fees. Clients are free to choose funds which do not pay 12b-1 concessions. Such funds, often called an "advisory" fund or "institutional share" fund usually makes a better low-cost choice and offers the same or virtually the same product as funds which pay 12b-1 fees to FFEC and/or its representatives/advisers. Where it makes economic sense and like alternatives are available, FFEC will recommend products for clients that do not pay 12b-1 fees.

FFEC receives commissions and/or fees from other registered investment adviser firms and registered Third Party Managers programs which are fully disclosed in the appropriate selling agreements.

FFEC's IARs are often dually registered broker-dealer representatives with FFEC. This poses an inherent conflict of interest. Prior to transacting any securities or advisory business, the IAR must disclose the total fee and commission structure to the client so that he or she can evaluate the compensation arrangement and the total transaction cost of any recommendation. For example, all costs and other client consideration must be reviewed to determine whether an adviser account or a traditional broker-dealer based account in which transactions are assessed a commission is best for the client.

If there are 12b-1 trail commissions (commission generated by mutual funds and paid as "trailing" compensation to FFEC and its IARs) generated by a recommended product after purchase, this must also be disclosed to the client prior to investment. When FFEC and its IAR use commissioned products to implement an investment strategy, fees can be waived or offset in lieu of receipt of the commission(s). This will be disclosed in writing. An IAR who is managing an investment account positioned in mutual funds or variable contracts must also disclose all management fees and expenses as described in prospectus.

The broker-dealers with whom FFEC contracts to execute transactions and custody client assets can provide products and services that benefit FFEC but may not directly benefit clients' accounts. These benefits could include specific educational events organized and sponsored and paid for by the broker-dealer and occasional business entertainment of personnel of FFEC including meals, lodging and invitations to sporting events. Other product and services provided assist in managing and administering clients' accounts.

These include software and technology that provide access to client account data, facilitate trade execution, provide research, and facilitate payment of advisory fees from its client's accounts. The broker-dealer can make available, arrange and/or pay vendors for these types of services rendered to FFEC by independent third parties.

The broker-dealer can also pay certain expenses of FFEC and/or its IARs or registered representatives. As a fiduciary, FFEC endeavors to act in its clients' best interests. The benefits FFEC and its IARs receive create a conflict of interest since FFEC may be incentivized to recommend broker-dealers or custodians providing such benefits. Before making a recommendation in such circumstances, FFEC will also inform a client of the nature of the conflict, the benefit received and inform the client he or she is free to designate other broker-dealers to provide them service who do not provide FFEC such benefits.

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

If FFEC and its IAR become aware of changes in a client's financial circumstances or objectives, it informs the client's manager. Updated financial information about a client is not collected by FFEC and IAR on a regular basis or given to a manager unless FFEC and IAR are made aware of changes by the client. Clients also communicate changes directly to the client's portfolio manager.

#### **ITEM 8: CLIENT CONTRACT WITH PORTFOLIO MANAGERS**

There are no restrictions placed by FFEC or its IARs on a client's ability to contact and consult with their portfolio.

#### **ITEM 9: ADDITIONAL INFORMATION**

##### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

FFEC's principal business is a full services general securities broker-dealer registered with the Securities Exchange Commission, FINRA, and various other regulatory bodies. FFEC is also an independent insurance agency that specializes in providing insurance solutions to the FFEC registered representatives and IARs.

In conducting this business, FFEC markets investment products to its customers on a commission basis. Some FFEC IARs could be Registered Representatives of FFEC and provide brokerage services to clients in that capacity. Approximately 50% of the Firm's time is spent providing investment advisory services.

##### **INSURANCE**

Some of our IARs are also licensed insurance agents and sell various life insurance products, long term care and fixed annuities. Our IARs receive compensation (commissions, trails, or other compensation from the respective product sponsors) as a result of effecting insurance transactions for clients. A portion of the time IARs spend (generally 50%) is in connection with these insurance activities and it represents 50% of the ongoing revenue for our IARs. The advisor has an incentive to recommend insurance and this incentive creates a conflict of interest between your interests and our Firm. Clients should note that they have the right to decide whether or not to engage the services of our IARs. Further, clients should note they have the right to decide whether to act on the recommendations and the right to choose any professional to execute the advice for any insurance products through our IAR or any licensed insurance agent not affiliated with our Firm. We recognize the fiduciary responsibility to place your interests first and have established policies in this regard to avoid any conflicts of interest.

##### **DISCIPLINARY ACTION AND OTHER FINANCIAL INDUSTRY ACTIVITIES**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

The following are disciplinary events relating to our Firm and/or the previous management personnel: On October 1, 2009, FFEC entered into an agreement with the Financial Industry Regulatory Authority (FINRA) regarding the on-time reporting of certain large institutional "block purchases" of auction rate products. The trades occurred between July 1, 2007 and December 31, 2007. Trading of auction rate products is governed by the Municipal Securities Rulemaking Board (MSRB) and the trades are reported to the MSRB by firms such as FFEC using the MSRB's electronic Real-Time Reporting System (RTRS). The inquiry revolved around the use of a special computer code by FFEC when it reported the auction rate product trades through the RTRS. Many municipal securities trades are completed during market hours and MSRB Rule G-14 requires the reporting of those trades within 15 minutes to help maintain market integrity.

However, because of the nature of the auction rate products at issue, MSRB Rules do not require the reporting of auction rate product trades within 15 minutes. The rules permit delayed reporting of the auction rate securities trades until the end of the RTRS business day on the day the trades were executed. Even though the auction rate products qualify for an extension of the reporting deadline, MSRB Rule G-14 requires that firms include a RTRS "special condition indicator" computer code informing MSRB that the Firm is reporting a trade that qualifies for an extension of time and end of business day reporting under Rule G-14. FFEC reported each trade by the end of the RTRS business day as required. However, FFEC claimed a reporting deadline extension for the auction rate product trades without using the proper special conditional indicator computer code, as prescribed by MSRB Rule G-14. Without admitting or denying the finding, FFEC consented to a censure and fine of \$15,000. The missing special conditional indicator had no effect on the market, and no clients were involved.

On October 2, 2009, FFEC entered into an agreement with FINRA regarding its supervision of two registered representatives' personal participation in a private securities transaction, as prescribed in the NASD Rules 2110 and 3040. FFEC approved the private securities transaction proposed by the representatives in the stock of a small Arizona public company subject to a number of conditions: (1) that the stock certificates received by the two registered representatives did not bear any restrictive legend and were freely trading shares of the company; (2) that the registered representatives not receive any selling compensation; (3) that the entire matter be handled properly from a legal standpoint in consultation with counsel for the issuer; (4) that the stock be transferred to the registered representatives in exchange for non-recourse promissory notes; (5) that the stock not be sold to any customer of FFEC; and (6) that the stock sales be cleared by the issuer's transfer agent. The registered representatives reported to FFEC that all of these conditions were met; they proceeded to sell shares of the stock through open market transactions on several occasions in 2004 and 2005. FINRA discovered the matter during the course of its annual examination of FFEC in 2005 because FFEC's books and records reflected its approval of the proposed transactions. After investigating the matter, FINRA took the position that the registered representatives were statutory underwriters and that the stock sales at issue were not subject to any exemption from registration. The registered representatives contended that the stock sales were exempt from registration under the private offering exemption from registration. The stock sales were made through the registered representatives approved outside accounts at other brokerage firms and none of the stock sales involved any customers of FFEC. FINRA contended that FFEC did not reasonably supervise the representatives despite the conditions FFEC imposed on the transactions. FFEC contended that its supervision of the private securities transaction was reasonable under all of the circumstances. Without admitting or denying the findings, FFEC consented to a censure and fine of \$20,000, and George Fischer, then-President, was suspended for a period of fifteen days and paid a fine of \$20,000.

It should be noted that the incidents described below occurred during the period of 2011 through 2015 and were the results of routine FINRA audits in 2013 and 2015. It should be noted that disciplinary reporting requirements for broker-dealers and investment advisers differ. Since First Financial Equity Corporation (FFEC) is registered as both a broker-dealer and investment adviser, we file information as required by both sets of regulatory requirements.

- On November 17, 2016, without admitting or denying the allegations, FFEC entered into an agreement with FINRA regarding the Firm's best execution practices of fixed income securities that were executed

by the Firm's clearing Firm, Hilltop Securities. The allegations stated that the Firm's supervisory system did not adequately provide for the reasonable supervision designed to achieve compliance with current securities laws and regulations in relation to fixed income pricing. The Firm was censured and fined \$35,000. The Firm was required to revise its written supervisory procedures and ordered to pay \$15,839.39, plus interest, in restitution to customers. The fine was paid in full on December 6, 2016 and FFEC's written supervisory procedures were updated.

- On December 30, 2016, without admitting or denying the allegations, FFEC entered into an agreement with FINRA, consenting to sanctions and an entry of findings that it did not establish and maintain an adequate supervisory system. FINRA found that the Firm did not complete CEO certifications as required in 2012. In addition, FINRA alleged that the Firm did not enforce its supervisory control procedures relating to producing managers in 2011-2013. For the same time period, FINRA alleged that FFEC did not establish and maintain procedures regarding the appropriateness of fee-based accounts for Firm customers. In addition, it alleged the Firm did not implement a supervisory system to adequately supervise customer account activity, including monitoring for potential churning and excessive trading, options business, and monitoring discretionary accounts. The findings also alleged that the Firm's WSPs did not reflect its actual processes and procedures with respect to the review and/or supervision of customer accounts. Additionally, the Firm's procedures for conducting heightened supervision of registered representatives were allegedly inadequate. Similarly, the Firm allegedly had inadequate processes and procedures to ensure that requisite customer information was obtained prior to recommending securities and/or investment strategies involving securities to Firm customers after FINRA Rule 2111 was established in 2012. Although the Firm recommended and sold ETFs (including leveraged and inverse ETFs) to its customers, it did not have any written procedures for the supervision, approval, and sale of ETFs. FINRA found that after the Firm's risk manager identified certain commissions being charged by a registered representative to be excessive, it failed to take reasonable steps to supervise and address the same. The Firm had self-corrected many of the claims prior to FFEC's agreement by amending its Written Supervisory Procedures, hiring additional compliance personnel, and implementing a robust compliance program to address the above allegations.

Under the terms of the offer, the Firm has also consented to, without admitting or denying the same, the entry of the following findings and violations arising out of a separate cycle examination of the Firm. The findings stated that for the time period 2013-2015, FFEC allegedly failed to establish, maintain, and enforce an adequate supervisory system, including written procedures, designed to ensure that the Firm's sales of leveraged and inverse exchange traded funds ("nontraditional" ETFs), complied with applicable securities laws and FINRA rules. The allegations also state that in 2013 the Firm failed to establish, maintain, and enforce an adequate supervisory system and written procedures related to the sale of multi-share class variable annuities and variable annuity exchanges. The Firm had self-corrected these procedures in 2014. FINRA alleged that the Firm failed to implement an adequate supervisory system and procedures relating to the parameters it established to identify mutual fund switches for supervisory reviews. FINRA also alleged that the Firm did not establish written procedures that: (1) addressed investment activity in the Firm's proprietary accounts, including monitoring those accounts for market risk exposure; (2) addressed the issue of concentration when conducting suitability reviews; and (3) addressed either the guidelines contained in FINRA Rule 2121 - fair prices and commissions, or how commissions would be reviewed to ensure against excessive commission. The Firm was censured, fined \$230,000, and is required to conduct a comprehensive review of its procedures and systems with respect to the areas described. The Firm entered into an installment agreement approved by FINRA to pay the fine on December 30, 2016.

- On December 19, 2019 FFEC agreed to an Acceptance, Waiver and Consent ("AWC") with FINRA including a \$200,000 penalty and censure. FINRA alleged that the firm: (a) failed to file certain U4 updates with the required 30-day period during the period between January 2015 and September 2017; (b) failed to maintain appropriate written procedures to ensure compliance with the filing requirement; and (c) failed to file the annual CEO certification for the 2014 – 2016 period. The relevant reports have

since been filed and the relevant written procedures brought into compliance. Rules violations cited: Article V, Section 2 of FINRA's By-Laws; FINRA Rules 1122, 3110(a) and (b), 3120, 3130 and 2010.

It should be noted that the Firm was sold to new owners, Randy Sitzman and Jeffrey Graves on July 28, 2017. In addition, the Firm hired a new Chief Compliance Officer on July 16, 2019, Tammy Steffen.

## **CODE OF ETHICS**

FFEC and investment advisory representatives (IAR) have a duty to exercise its authority and responsibility for the benefit of the client, to place the interests of the client first, and to refrain from having outside interests that conflict with the interests of the client. FFEC and IAR must avoid circumstances that might adversely affect or appear to affect its duty of complete loyalty to its clients.

It is unlawful for any adviser in connection with the purchase or sale, directly or indirectly, of a security held or to be acquired by the adviser:

- To employ any device, scheme or ploy to defraud;
- To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements, not misleading;
- To engage in any act, practice, or course of business that operates or would operate as a fraud or deceit; or
- To engage in any manipulative practice

Personal IAR transactions must be properly disclosed to client when the IAR and client hold common securities.

If entering personal and client orders for the same security, the client's order must always be entered before the IAR's order. If the same security is held by the IAR and client, it must be disclosed to the client. If selling a personal position in a common security, it must be disclosed to all clients that hold the security or have open orders to buy that security. The selling price also must be disclosed if setting limit orders. If buying a personal position in a common security, it must be disclosed to all clients that hold the security or have open order to buy that security. The buying price also must be disclosed if setting limit orders. Personal activity in a common security ahead of a client must be documented and provide a written explanation for the sequence.

Advisers have a duty to disclose potential and actual conflicts of interest to their clients. IARs and solicitors have a duty to report potential and actual conflicts of interest to their advisory firms. Advisers should not attempt to limit their liability for willful misconduct or gross negligence through the use of disclaimers.

\*A copy of the Code of Ethics is available upon request.\*

## **CLIENT REFERRALS AND OTHER COMPENSATION**

As indicated above in the discussion of Conflicts of Interest, there are relationships FFEC has entered into which provide economic benefit to FFEC and/or its IARs. Please refer to Item 6 above for a full discussion of such conflicts including situations regarding referrals both by FFEC and to FFEC and/or its IARs.

## **CUSTODY**

FFEC does not have custody of client funds or securities. Clients should receive at least quarterly statements from the broker-dealer or qualified custodian that holds and maintains client's investment assets. FFEC urges you to carefully review such statements.

#### **VOTING CLIENT SECURITIES**

FFEC does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. FFEC will not provide advice to clients regarding the client's voting of proxies.

A class action is a procedural device used in litigation to determine the rights of and remedies, if any, for large numbers of people whose cases involve common questions of law and/or fact. Class action suits frequently arise against companies that publicly issue securities, including securities recommended by investment advisors to clients. With respect to class action suits and claims, you (or your agent) will have the responsibility for class actions or bankruptcies, involving securities purchased for or held in your account. We do not provide such services and are not obligated to forward copies of class action notices we may receive to you or your agents.

#### **FINANCIAL INFORMATION**

Since FFEC does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance, it is not required to include a balance sheet for its most recent fiscal year. Neither FFEC nor its affiliates are subject to a financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Finally, we have never been the subject of a bankruptcy petition at any time.

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**\*\* END OF DOCUMENT \*\***