



## **Form ADV Part 2A – Firm Brochure**

### **Item 1 – Cover Page**

**Phillips and Company Advisors, LLC**

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This brochure ("Brochure") provides information about the qualifications and business practices of Phillips and Company Advisors, LLC ("Phillips Advisors" or the "Firm"). If you have any questions about the contents of this Brochure, please contact us at 503-224-0858.

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 Phillips Advisors is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration as an investment adviser does not imply a certain level of skill or training.

## **Item 2 – Material Changes**

There have been no material changes since our last annual update on September 2019.

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#### Item 4 – Advisory Business

Phillips Advisors is an investment adviser with its principal place of business in Portland, Oregon. The Firm is structured as a limited liability company (LLC) formed under the laws of the State of Delaware.

Timothy C. Phillips is the Chief Executive Officer (CEO) and majority owner of Phillips Advisors.

Phillips Advisors has been registered with the SEC as an investment adviser since October 2011. Prior to that time, beginning in 2004, the investment advisory business was conducted through Phillips & Company Securities, Inc. ("Phillips Securities").

##### **Description of Advisory Services**

Phillips Advisors provides investment advisory services to clients through the Firm's investment adviser representatives. The Firm's primary advisory services are described below.

**Investor Advantage Program** - Phillips Advisors has developed and sponsors the Investor Advantage Program (also referred to as "Program"), which is a customized and individualized investment program for clients. Members of the Phillips Advisors' investment committee are the Investor Advantage Program's portfolio managers and provide clients with ongoing investment advice based on their individual needs. The program's investment strategies may involve, but are not necessarily limited to, exchange traded funds (ETFs), no-load mutual funds, load or no load waived, Lockwood mutual funds, equity positions, and fixed income positions.

The Investor Advantage Program is a wrap-fee program. The Program's annual management fee is negotiable with each client up to 2.2%. In addition to the Program's annual management fee, clients are also subject to a "platform fee" of 0.1 to 0.15% that is remitted to Pershing for custody, trading, reporting and billing services. Phillips Advisors will provide the exact percentage based fee to each client based on both the nature and total dollar asset value of that account(s). The fee will be stated in the fee schedule which must be signed by both Phillips Advisors and the client. Management fees for client accounts are calculated and billed in advance of each period (quarterly). The Program's management fee covers Phillips Advisors' advisory services and trade execution fees charged by the broker/dealer. Specifically, the fee will cover commissions, prime broker fees, and any other transaction fees relating to the execution of securities transactions within client accounts. Because Phillips Advisors is able to keep a larger percentage of the fees it charges for the Program, Phillips Advisors has a financial incentive for recommending the Program over other advisory programs that are offered through third-party sponsors.

**This section is intended as a brief summary of the Program. Clients contracting for the Program will receive the Investor Advantage Program Wrap Fee Brochure which provides detailed information regarding the Program.**

**Advisor Directed Investment Management Accounts Services** - Phillips Advisors offers asset management services through our Advisor Directed Investment Management Accounts Services, where we provide clients with active management over specified accounts. Pershing, LLC serves as qualified custodian for these accounts and, as such, maintains physical custody of these account's funds and securities.

Phillips Advisors manages these accounts based on our clients' financial situations, investment objectives and risk tolerance. We monitor these accounts and provide advice regarding buying, selling, reinvesting or holding securities, cash or other investments.

We will need to obtain certain information from you to determine your financial situation and investment objectives. You will be responsible for notifying us of any updates regarding your financial situation, risk tolerance or investment objective and whether you wish to impose or modify existing investment

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restrictions; however we will contact you at least annually to discuss any changes or updates regarding your financial situation, risk tolerance or investment objectives. We are always reasonably available to consult with you relative to the status of your Account. You have the ability to impose reasonable restrictions on the management of your accounts, including the ability to instruct us not to purchase certain securities.

Phillips Advisors' fees for its Advisor Directed Investment Management Accounts Service are based on a percentage of assets under management, billed in advance (at the start of the billing period) on a quarterly calendar basis and calculated based on the fair market value of your account as of the last business day of the previous billing period.

Fees charged for our asset management services are negotiable up to 2.00% based on the investment adviser representative providing the services, the type of client, the complexity of the client's situation, the relationship of the client with the investment adviser representative, and the total amount of assets under management for the client.

**Lockwood Program** - Phillips Advisors provides clients with access to products offered by Lockwood Capital Management, Inc. and Lockwood Advisors, Inc. (together, "Lockwood"). Our investment adviser representatives work with clients to select suitable asset allocation models and/or portfolio styles within the Lockwood Program. Lockwood's portfolio managers and/or fund managers perform the day-to-day management of Lockwood portfolios, including equity selection, market analysis and due diligence. Lockwood also rebalances client portfolios to maintain the selected asset allocation model

#### **Lockwood Investment Strategies Portfolio**

Phillips Advisors makes available to clients Lockwood's proprietary Lockwood Investment Strategies Portfolio ("LIS"), which is a discretionary, multi-discipline managed account product housed in a single portfolio. Lockwood, serving as the portfolio manager, determines asset allocation strategy and selects money managers/investment vehicles for each investment style component of the portfolios based on proprietary modeling strategies. There are five core models spanning the risk/return spectrum and the portfolios are managed with regard to the investor's tax status for tax-efficiency. This product is described more fully in Lockwood's Form ADV disclosure brochure..

#### **Lockwood Asset Allocation Portfolios**

Phillips Advisors also offers clients access to Lockwood's proprietary Lockwood Asset Allocation Portfolios ("LAAP") which is a mutual fund wrap product, which is a discretionary mutual fund product in which Lockwood serves as portfolio manager a discretionary mutual fund and ETF wrap account product. Lockwood, serving as the Portfolio Manager, determines asset allocation strategy and selects investment vehicles for the portfolios, based on its proprietary approach to asset allocation, macroeconomic outlook and investment discipline. These portfolios may consist of open and closed-end mutual funds, exchange-traded funds and other types of securities, as determined by Lockwood, in its sole discretion. The securities currently used in the LAAP portfolios are subject to change at Lockwood's sole discretion. . This product is described more fully in Lockwood's Form ADV disclosure brochure.

#### **Lockwood – AdvisorFlex Portfolios**

Phillips Advisors provides clients with access to Lockwood's AdvisorFlex Portfolio ("AFP"), which is a flexible mutual fund and ETF wrap account product available in the Program. Lockwood is both the sponsor of the Program and the Portfolio Manager of the AFP product. As Portfolio Manager, Lockwood makes investment decisions regarding asset allocation and investment selections. The AFP product includes multiple objectives-based strategies (such as appreciation, income and preservation), with multiple models within each strategy. The AFP models are described in detail in the Lockwood's Form ADV disclosure brochure.

Lockwood's **Separately Managed Account Program** - Phillips Advisors provides client with access to Lockwood's Separately Managed Account Program ("SMA"). The SMA program provides access to third party managers who manage separately managed accounts on a discretionary basis.

### **Lockwood Fees**

Lockwood charges fees on accounts that utilize their platform that are based on a percentage of assets under management. Phillips Advisors does not collect fees from client accounts with Lockwood. All fees are collected by Lockwood. Lockwood then disperses the appropriate portion of the fees to Phillips Advisors, the portfolio managers, and the clearing and custody providers. Unless clients instruct otherwise, Lockwood generally debits the client's account for the fees charged by Lockwood, its clearing agent, the selected manager(s) and Phillips Advisors and remits the fees to the respective parties accordingly.

Some clients may pay more or less than others depending on certain factors, including the type and size of the account(s), the range of additional services provided to the account, and the managed account program in which the client participates. Based on the assets under management and the type of portfolio selected, fees may be in excess of industry norm and other companies may offer the same or similar services at a lower fee.

Through contractual arrangements with certain broker/dealers and investment advisers, Lockwood may, where it deems appropriate, delegate some of its responsibilities to the broker/dealers and investment advisers pursuant to Rule 3a-4 of the Investment Company Act of 1940. When such delegations are made, Lockwood may pay the administrative portion of its fee indicated herein to the other broker dealer or investment adviser.

The total fee assessed will vary depending on the program and services you select as detailed below. Typically, fees include the Lockwood advisory or program fee, manager(s) fee, execution fee, clearing and custody fee, billing and reporting fee, Phillips Advisors' fee, and for separately managed account, the separate manager's fee, as described below. Fees are calculated as an annual percentage of assets based on the value of the account. Fees are billed prorated at inception of the account for the remainder of the calendar quarter and quarterly thereafter.

Lockwood total account fees are negotiated using the following ranges as guidelines:

Assets Under Management	Equity Portfolio Fee	Fixed Income Portfolio Fee
\$499,999 or less	2.11% - 2.35%	1.66 - 1.80%
\$500,000 - \$749,999	1.91% - 2.10%	1.41% - 1.65%
\$750,000 - \$999,999	1.76% - 1.90%	1.26% - 1.40%
\$1,000,000 - \$1,500,000	1.51% - 1.75%	1.10% - 1.25%
Over \$1,500,000	Negotiated	Negotiated

Clients are also advised that they may pay more or less for services at Lockwood than they would if they purchased similar services separately from other providers. Clients should refer to their agreement with Lockwood for more about information about Lockwood's fees and expenses.

Clients may direct Lockwood to execute securities transactions through broker-dealers other than Lockwood. In such cases, if the client negotiates applicable commission rates or fees with such broker-dealers, the client may pay higher or lower transaction costs or fees than if the transactions were effected through Lockwood. Clients may also elect to pay Lockwood transaction costs rather than the assetbased fee below. For certain institutional accounts in excess of \$5,000,000, a ticket charge of \$14 per transaction may be applicable.

### *Billing Periods*

At inception, fees are billed from the date the account is opened through the end of that calendar quarter in advance. Thereafter, fees are billed in advance for the next calendar quarter based upon the value of the assets at the end of the prior calendar quarter. A prorated fee will be charged on each post- inception deposit in excess of \$5,000.

#### *Termination*

Clients may terminate their account agreement, without penalty, within five (5) days of Lockwood's execution of the investment advisory agreement. Thereafter, Clients may terminate the accounts at any time in which case fees will be prorated through the termination date. Lockwood charges a termination fee of \$300 during the first year of an account. Since Lockwood typically charges quarterly in advance based on the assets as of the close of business the prior quarter, the daily proration upon termination after the first year may result in a rebate to the Client of the unused portion of the quarterly fee. If a refund is due, the appropriate amount will be credited to the client's account and mailed to client.

In addition to the aforementioned, there may be other costs assessed which are not included in a variable rate bundled or wrap fee arrangement, such as dealer mark- ups, costs associated with the purchase and sale of certain mutual funds, odd- lot differentials, exchange or auction fees, transfer taxes, costs for transactions executed other than at Lockwood, electronic fund and wire transfers, fees imposed on cash management accounts, trust services charges and other charges mandated by law. Further, interest will normally be charged on a debit balance in a client account. If Pershing has custody of the assets, it will credit interest and dividends to the account.

Please refer to Item 12 – Brokerage Practices for information regarding our brokerage practices.

**Pension Consulting Services** – Phillips Advisors offers pension consulting services to retirement plan sponsors and to individual participants in retirement plans. For a corporate sponsor of a retirement plan, our pension consulting services can include, but are not limited to, qualified plan development, investment selection services, educational presentations, periodic due diligence reviews and creating investment policy statements.

For retirement plan sponsors, we normally charge an annual fee of 0.25% - 0.50% on the assets held in the plan, but other fee arrangements may be negotiated. This fee is negotiable based upon the size of the plan assets and the actual services requested to be provided, such as whether or not ongoing monitoring is required and the number of employee education meetings requested.

For retirement plan sponsors and participants, fees are billed in advance or in arrears (at the start of the billing period) on a quarterly calendar basis and calculated based on either the average daily balance of your account or the quarter end balance during the previous billing period. Fees are prorated (based on the number of days service is provided during the initial billing period) for your account opened at any time other than the beginning of the billing period. Retirement plan sponsors may also elect to pay all or a portion of fees for the individualized services provided by us to the plan participants.

Fees will be sent directly to the client and due upon receipt of the billing notice.

Services can be terminated by either party by providing written notice to the other and termination is effective 30 days from the date notice is received. During that 30 day period, we will complete any activities that were in progress when notice of termination was received but will not begin any new services without express instruction from the client. If services are terminated within five business days of signing the client agreement, services are terminated without penalty. Any prepaid but unearned fees are promptly refunded to the client at the effective date of termination.

Pension consulting services are not management services, and Phillips Advisors does not serve as administrator or trustee of the plan. Phillips Advisors does not act as custodian for any client account or have access to client funds or securities (with the exception of, some accounts, having written authorization from the client to deduct our fees). In addition, we do not implement any transactions in a

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retirement plan or participant's account. For pension consulting services, the retirement plan or the plan participant who elects to implement any recommendations made by us is solely responsible for implementing all transactions.

**Account and Portfolio Consultations** - Phillips Advisors may provide financial and investment consultations on accounts not managed or maintained by us. This service involves consultations on a quarterly or more frequent basis.

The typical fee charged for account and portfolio consultations will range between .05% and 1.75% annually on the total assets being reviewed. Fees are billed quarterly, in advance. Initial fees are prorated based on the number of days services are remaining in the first quarter. If you have a managed account through one of the other programs offered by Phillips Advisors, you may elect to have the fees for account and portfolio consultations billed from the managed account. Otherwise fees will be due upon receipt of a billing statement from us. The exact fee charged each client is contingent upon the nature and complexity of the client's financial circumstances and will be stated in the agreement for services with the client.

Either party may terminate the agreement by providing notice to the other party. Termination will be effective upon receipt of notification. The final fee will be pro-rated and billed to the client. In the event a client terminates services, termination shall be effective from the time we receive notification or such other time as may be mutually agreed upon. There will be no penalty charge upon termination. In the event we terminate the relationship, the agreement will be terminated after written notification is delivered to the client or such time as may be mutually agreed upon.

In addition to fees charged by Phillips Advisors, clients may incur certain charges imposed by third parties other than Phillips Advisors in connection with investments made through your account including, but not limited to, mutual fund sales loads, 12b-1 fees and surrender charges, variable annuity fees and surrender charges when liquidating such investments to be transferred to an account, IRA and qualified retirement plan fees, and charges imposed by the qualified custodian(s) of your account. Management fees charged by Phillips Advisors are separate and distinct from the fees and expenses charged by investment company securities that may be recommended to you. A description of these fees and expenses are available in each investment company security's prospectus. We do not share in or receive any portion of the other fees and expenses charged to your account. The only fee we receive for this service is our standard advisory fee described in the first paragraph of this section.

#### **Advice to Certain Types of Investments**

Phillips Advisors provides investment advice to its clients on the following types of investments:

- Mutual Funds
- Exchange Traded Funds (ETFs)
- Exchange-listed Securities
- Certificates of Deposit
- Municipal Securities
- US Government Securities
- Foreign Issues
- Warrants
- Corporate debt securities
- Commercial paper, Variable annuities
- Variable life insurance
- Options
- Interests in partnerships investing in real estate, partnerships investing in oil and gas interests, securities properly exempted from registration, and hedge funds. Such investments are often illiquid, which means that the investments can be difficult to trade and consequently limits a



client's ability to dispose of such investments in a timely manner and at an advantageous price. Additionally, such investments may not have been registered pursuant to the Securities Act of 1933, and therefore the client will need to complete a subscription agreement showing the client is an "accredited" investor (as defined by applicable law and rules and regulations) and acknowledge that he or she has read and understands the private placement memorandum and is aware of the various risk factors associated with such an investment.

It is not our typical investment strategy to attempt to time the market, but we may increase cash holdings modestly as deemed appropriate based on your risk tolerance and our expectations of market behavior. We may modify our investment strategy to accommodate special situations involving, among other things, market conditions or special tax situations.

Please refer to Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss for more information.

**Participation in Wrap Fee Programs**

Phillips Advisors offer services through both wrap fee programs and non wrap fee programs. A wrap fee program is defined as any advisory program under which a specified fee or fees not based directly upon transactions in a client's account is charged for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and the execution of client transactions. Phillips Advisors receives all or a portion of the fees charged to its clients whether the services are through a wrap fee or non-wrap fee arrangement.

**Tailor Advisory Services to Individual Needs of Clients**

Phillips Advisors' advisory services are provided based on our clients' individual needs. Thus, you have the ability to impose investment guidelines or restrictions on the accounts that we manage for you, including

specific investment selections and sectors.

**Client Assets Managed by Phillips Advisors**

The amount of clients' assets managed by Phillips Advisors totaled \$1,069,183,000 on December 31, 2019. Of that amount, \$121,364,000 is managed on a discretionary basis and \$947,819,000 is managed on a non- discretionary basis.

**Item 5 – Fees and Compensation**

This section provides additional details regarding Phillips Advisors' services, fees, and compensation. Specific fee information is detailed above along with descriptions of the services provided.

Phillips Advisors' investment adviser representatives set fees for clients within ranges provided by the Firm. As a result, Phillips Advisors' investment adviser representatives may charge clients more or less for the same service than the Firm's other investment adviser representatives charge their clients. It should also be noted that lower fees for comparable service may be available from other sources. Client fees and other terms are outlined in the applicable services agreement between Phillips Advisors and its clients. You should review your account statements received from the qualified custodian(s) and verify that appropriate investment advisory fees are being deducted. The qualified custodian(s) will not verify the accuracy of the investment advisory fees deducted.

If you choose to pay the fees after receiving a statement, fees are due upon your receipt of a billing notice sent directly to you. The billing notice will detail the formula used to calculate the fee, the assets under management and the time period covered. Fees for the services of our firm will be due immediately after your receipt of the billing notice.

Any rebillable brokerage commissions and/or transaction ticket fees charged by Pershing, LLC and Phillips Securities are billed directly to you by the qualified custodian. Specific to accounts established through Phillips Securities as the introducing broker/dealer, Phillips Securities may receive a portion of such fees. Pershing also provides compensation to Phillips Securities, through their clearing agreement, based upon the amount of assets held at Pershing. This creates an incentive to recommend Pershing over other qualified custodians.

In addition, clients may incur certain charges imposed by third parties other than Phillips Advisors in connection with investments made through their account including, but not limited to, mutual fund sales loads, 12(b)-1 fees and surrender charges, variable annuity fees and surrender charges when liquidating such investments to be transferred to an account, IRA and qualified retirement plan fees, and charges imposed by the qualified custodian(s) of your account. Management fees charged by Phillips Advisors are separate and distinct from the fees and expenses charged by investment company securities that may be recommended to you. Specific to accounts established through Phillips Securities as the introducing broker/dealer, Phillips Securities and our investment advisor representative will retain a portion of 12b1 fees paid in their separate capacities as broker/dealer and registered representatives. A description of these fees and expenses are available in each investment company security's prospectus.

**Item 6 – Performance-Based Fees**

- Performance Fee: In addition to the Advisory Fee, some accounts will be charged ten percent (10%) of the growth in the account balance.
- The initial quarter end Performance Fee will be based upon the growth from the initial amount deposited.
- Any subsequent Performance Fee will be measured from and paid only on the growth from the highest historical quarter-end balance (the value upon which the prior performance fee was based (high-water mark)).

- If any quarter end balance is less than the highest historical quarter-end balance (high-water mark), there will be no performance fee assessed for that period.
- If the quarter end balance exceeds the existing high-water mark, the performance fee is 10% of the gain over the existing high-water mark. This will also establish a new high-water mark.
- In performing the calculation to determine the growth in the account, the high-water mark balance will be adjusted for any Client contributions or withdrawals but will not be adjusted down by any advisory or performance fees charged.

Unless the Client instructs otherwise, Pershing debits the Client's account for the fees and costs, including the fees to the Advisor, and remits the fees to the respective parties accordingly. In addition to the aforementioned, there may be other costs assessed which are not included in the advisory fee arrangement, such as dealer management and operating expenses of ETF's and mutual funds, costs associated with the purchase and sale of certain mutual funds, electronic fund and wire transfers, fees imposed on cash management accounts, trust services charges, and other charges mandated by law. Further, interest will normally be charged on a debit balance in a Client account. If Pershing has custody of the assets, it will credit interest and dividends to the account.

## **Item 7 – Types of Clients**

Phillips Advisors generally provides investment advice to the following types of clients:

- Individuals
- High net worth individuals
- Trusts, estates, or charitable organizations
- Corporations or business entities other than those listed above

Minimum Investment Amounts Required: Phillips Advisors does not have minimum investment amounts or conditions required for establishing an account managed by Phillips Advisors.

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

### **Methods of Analysis**

Phillips Advisors uses the following methods of analysis in formulating investment advice:

Cyclical – This method analyzes the investments sensitive to business cycles and whose performance is strongly tied to the overall economy. For example, cyclical companies tend to make products or provide services that are in lower demand during downturns in the economy and in higher demand during upswings. The stock price of a cyclical company will often rise just before an economic upturn begins, and fall just before a downturn begins. Investors in cyclical stocks try to make the largest gains by buying the stock at the bottom of a business cycle, just before a turnaround begins.

While most economists and investors agree that there are cycles in the economy that need to be respected, the duration of such cycles is generally unknown. An investment decision to buy at the bottom of a business cycle may actually turn out to be a trade that occurs before or after the bottom of the cycle. If done before the bottom, then downside price action can result prior to any gains. If done after the bottom, then some upside price action may be missed. Similarly, a sell decision meant to occur at the top of a cycle may result in missed opportunity or unrealized losses.

Fundamental – This is a method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individually specific factors (like the financial condition and management of a company). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out

what sort of position to take with that security (underpriced = buy, overpriced = sell or short). Fundamental analysis is considered to be the opposite of technical analysis. Fundamental analysis is about using real data to evaluate a security's value. Although most analysts use fundamental analysis to value stocks, this method of valuation can be used for just about any type of security.

The risk associated with fundamental analysis is that it is somewhat subjective. While a quantitative approach is possible, fundamental analysis usually entails a qualitative assessment of how market forces interact with one another in their impact on the investment in question. It is possible for those market forces to point in different directions, thus necessitating an interpretation of which forces will be dominant. This interpretation may be wrong, and could therefore lead to an unfavorable investment decision.

**Technical** – This is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity. Technical analysts believe that the historical performance of stocks and markets are indications of future performance.

### **Investment Strategies**

Phillips Advisors uses the following investment strategies when managing client assets and/or providing investment advice:

**Long term purchases.** Investments held at least a year.

**Short term purchases.** Investments sold within a year.

**Frequent trading.** This strategy refers to the practice of selling investments within 30 days of purchase.

**Margin transactions.** When an investor buys a stock on margin, the investor pays for part of the purchase and borrows the rest of the purchase price from a brokerage firm. For example, an investor may buy \$5,000 worth of stock in a margin account by paying for \$2,500 and borrowing \$2,500 from a brokerage firm. Clients cannot borrow stock from Phillips Advisors.

### **Risk of Loss**

Past performance is not indicative of future results. Therefore, you should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities (including stocks, mutual funds, and bonds, etc.) involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk. You should be prepared to bear investment loss including loss of original principal.

Because of the inherent risk of loss associated with investing, our firm is unable to represent, guarantee, or even imply that our services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines. There are certain additional risks associated with investing in securities through our investment management program, as described below:

- **Market Risk** – Either the stock market as a whole, 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.
- **Equity (stock) market risk** – Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents,

of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.

- **Company Risk** - When investing in stock positions, there is always a certain level of company or 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 may 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. In addition, pricing risk

if not held to maturity and interest rate move.

- **Options Risk** - Options on securities may 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. Options can expire causing the entire amount to be invested in the option lost.
- **ETF and Mutual Fund Risk** – When investing in an ETF or mutual fund, you will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. You will also incur brokerage costs when purchasing ETFs.
- **Management Risk** – Your investment with our firm varies with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our investment strategies do not produce the expected returns, the value of the investment will decrease.
- **Margin Risk** - When you purchase securities, you may pay for the securities in full or borrow part of the purchase price from your account custodian or clearing firm. If you intended to borrow funds in connection with your Account, you will be required to open a margin account, which will be carried by the clearing firm. The securities purchased in such an account are the clearing firm's collateral for its loan to you.

If those securities in a margin account decline in value, the value of the collateral supporting this loan also declines, and as a result, the brokerage firm is required to take action in order to maintain the necessary level of equity in your account. The brokerage firm may issue a margin call and/or sell other assets in your account.

It is important that you fully understand the risks involved in trading securities on margin, which are applicable to any margin account that you may maintain, including any margin account that may be established as part of the agreement established between you and Phillips Advisors and held by the account custodian or clearing firm.

These risks include the following:

- You can lose more funds than you deposit in your margin account.
- The account custodian or clearing firm can force the sale of securities or other assets in your account.
- The account custodian or clearing firm can sell your securities or other assets without contacting you.

- You are not entitled to choose which securities or other assets in your margin account may be liquidated or sold to meet a margin call.
- The account custodian or clearing firm may move securities held in your cash account to your margin account and pledge the transferred securities.
- The account custodian or clearing firm can increase its "house" maintenance margin requirements at any time and they are not required to provide you advance written notice.
- You are not entitled to an extension of time on a margin call.
- **Cybersecurity Risk** - With the increased use of technologies such as the Internet to conduct business, Phillips Advisors and its clients are susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber incidents affecting Phillips Advisor and its service providers (including, but not limited to, accountants, law firms, custodians, and financial intermediaries) have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, impediments to trading and the inability of clients and/or investors to transact business. Similar adverse consequences could result from cyber incidents affecting issuers of securities in which a client invests, counterparties with which a client engages in transactions, exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions (including financial intermediaries and other service providers for clients) and other parties. Furthermore, the Adviser cannot control the cyber security plans and systems put in place by its service providers or any other third parties whose operations may affect a client. As a result, clients could be negatively impacted.

#### **Item 9 – Disciplinary Information**

There are no material legal or disciplinary events to disclose in this section.

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

Phillips Advisors is **not** and does **not** have a related person that is an investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund), another investment adviser or financial planner, a futures commission merchant, commodity pool operator, or commodity trading advisor, a banking or thrift institution, an accountant or accounting firm, a lawyer or law firm, an insurance company or agency, a pension consultant, a real estate broker or dealer, and a sponsor or syndicator of limited partnerships.

Phillips Advisors is an independent registered investment adviser and only provides investment advisory services. We are not engaged in any other business activities and offer no other services except those described in this Brochure. However, while we do not sell products or services other than investment advice, our representatives may sell other products or provide services outside of their role as investment adviser representatives with us.

#### **Registered Representative of a Broker-Dealer**

Phillips Advisors is under common ownership with a full-service, introducing broker/dealer, Phillips Securities, member of FINRA and SIPC. Our representatives are also registered representatives of Phillips Securities. Clients may work with their investment adviser representative in his or her separate capacity as a registered representative of Phillips Securities. When acting in his or her separate capacity as a registered representative, Phillips Advisors' investment adviser representatives may sell, for commissions, general securities products such as stocks, bonds, mutual funds, exchange-traded funds, and insurance products to clients. As such, our client's investment adviser representatives may purchasing securities products through a commission-based brokerage account in addition to or in lieu of a fee-based investment-advisory account. This receipt of commissions creates an incentive to recommend those products for which the investment adviser representative will receive a commission

in his or her separate capacity as a registered representative of a securities broker-dealer. Consequently, the objectivity of the advice rendered could be biased.

Clients are under no obligation to use the services of our representatives in this separate capacity or to use Phillips Securities, Inc. and can select any broker/dealer you wish to implement securities transactions. If clients select our representatives to implement securities transactions in their separate capacity as registered representatives, they must use Phillips Securities, Inc. Prior to effecting any such transactions, clients are required to enter into a new account agreement with Phillips Securities. The commissions charged by Phillips Securities may be higher or lower than those charged by other broker/dealers. In addition, the registered representatives may also receive additional ongoing 12b-1 fees for mutual fund purchases from the mutual fund company during the period that you maintain the mutual fund investment.

### **Insurance Agent**

Clients may work with their investment adviser representative in his or her separate capacity as an insurance agent to review and/or purchase insurance products. As such, the Firm's investment adviser representatives in their separate capacity as insurance agent may suggest that clients implement recommendations of Phillips Advisors by purchasing insurance products. When clients choose to purchase a variable annuity through their investment adviser representative in his or her capacity as an insurance agent and registered representative, commissions will be earned by the investment adviser representative. The receipt of commissions creates an incentive for the Firm's investment adviser representatives to recommend those products for which they will receive a commission in their separate capacity as insurance agent. Consequently, the advice rendered to clients could be biased. The Firm's clients are under no obligation to implement any insurance or annuity transaction through your investment adviser representative.

## **Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading**

### **Code of Ethics Summary**

According to the *Investment Advisers Act of 1940*, an investment adviser is considered a fiduciary and has a fiduciary duty to all clients. Phillips Advisors has established a Code of Ethics to comply with the requirements of Section 204(A)-1 of the *Investment Advisers Act of 1940* that reflects its fiduciary obligations and those of its supervised persons. The Code of Ethics also requires compliance with federal securities laws. The Code of Ethics covers all individuals that are classified as "supervised persons". All employees, officers, directors and investment adviser representatives are classified as supervised persons. Phillips Advisors requires its supervised persons to consistently act in their clients best interest in all advisory activities. Phillips Advisors imposes certain requirements on its affiliates and supervised persons to ensure that they meet the Firm's fiduciary responsibilities to its clients. The standard of conduct required is higher than ordinarily required and encountered in commercial business.

This section is intended to provide a summary description of the Code of Ethics of Phillips Advisors. Clients or prospective clients may obtain a copy of the Firm's Code of Ethics upon written request.

### **Affiliate and Employee Personal Securities Transactions Disclosure**

Phillips Advisors or associated persons of the firm may buy or sell for their personal accounts, investment products identical to those recommended to clients. This creates a potential conflict of interest. It is the express policy of Phillips Advisors that all persons associated in any manner with our firm must place clients' interests ahead of their own when implementing personal investments. Phillips Advisors and its associated persons will not buy or sell securities for their personal account(s) where their decision is derived, in whole or in part, by information obtained as a result of employment or association with our firm unless the information is also available to the investing public upon reasonable inquiry.

To prevent conflicts of interest, we have developed written supervisory procedures that include personal investment and trading policies for our representatives, employees and their immediate family members (collectively, associated persons):

- Associated persons cannot prefer their own interests to that of the client.
- Associated persons cannot purchase or sell any security for their personal accounts prior to implementing transactions for client accounts.
- Associated persons cannot buy or sell securities for their personal accounts when those decisions are based on information obtained as a result of their employment, unless that information is also available to the investing public upon reasonable inquiry.
- Associated persons are prohibited from purchasing or selling securities of companies in which any client is deemed an “insider”.
- Associated persons are discouraged from conducting frequent personal trading.
- Associated persons are generally prohibited from serving as board members of publicly traded companies unless an exception has been granted by the Phillips Advisors’ Chief Compliance Officer.

Any associated person not observing our policies is subject to sanctions up to and including termination.

## **Item 12 – Brokerage Practices**

### **Arrangement with Phillips Securities and Pershing, LLC**

If clients wish to have our advisor representatives implement investment advice in their capacity as registered securities representatives for advisory accounts established prior to October 1, 2013, our affiliated broker-dealer, Phillips Securities, serves as the introducing broker-dealer. Our investment advisor representatives are also registered securities representatives of Phillips Securities and are required to use the services of Phillips Securities and Phillips Securities’ approved clearing broker-dealer when acting in their capacity as registered representatives. All accounts established through Phillips Securities will be cleared and held at Pershing, LLC, which acts as the qualified custodian and clearing broker-dealer for these accounts.

Advisory accounts established on or after October 1, 2013 are primarily held directly at Pershing LLC through the Pershing Advisor Solutions (PAS) platform. This is an investment advisor platform and therefore our affiliated company, Phillips Securities, does **not** serve as an introducing broker/dealer or have any other involvement in the servicing of managed accounts. For advisory accounts opened prior to October 1, 2013, Phillips Securities has a wide range of approved securities products for which Phillips Securities performs due diligence prior to selection. Phillips Securities’ registered representatives are required to adhere to these products when implementing securities transactions through Phillips Securities.

The requirement to use Phillips Securities is based on our decision that we can provide efficient and cost-effective services through our affiliated broker-dealer. However, the use of an affiliated broker-dealer is an inherent conflict of interest between Phillips Advisors and its clients because requiring our clients to use Phillips Securities as the broker-dealer allows Phillips Securities to retain brokerage revenue that would otherwise be retained by an unaffiliated broker-dealer. Clients should understand that not all investment advisors require the use of a particular broker/dealer or require the use of a broker/dealer that is affiliated with the investment advisor.

The requirement to use Pershing, LLC (“Pershing”) (which is not affiliated with Phillips Securities/Phillips Advisors) is based on the fact that Phillips Securities has established a clearing agreement with Pershing as its preferred clearing broker-dealer and qualified custodian. Because Phillips Advisors and Phillips Securities are under common ownership and have mutual executive officers and control persons, the decision to use Pershing was mutually determined by both Phillips Securities and Phillips Advisors. The decision to use Pershing is based on past experiences, minimizing brokerage expenses and other costs as well as offerings or services Pershing provides that Phillips Securities, Phillips Advisors or clients may require or find valuable. There are some investment advisors that permit the use of multiple broker-dealers and permit clients to select the broker-dealer. The Firm has considered the positive factors to this approach which include the ability to better negotiate brokerage costs such as transaction fees, the ability to better analyze speed of execution, and the ability to compare and negotiate services. However, we have determined that the use of one brokerage platform (Phillips Securities/Pershing) allows us to provide more streamlined operational and trading services. We consider the



fact that allowing multiple brokerage arrangements would increase the need for additional internal staff and technology which may increase the overall fees charged to Phillips Advisors clients. By selecting one brokerage platform, Phillips Advisors is able to avoid additional compliance, recordkeeping, staffing, and technological costs that may be associated with implementing procedures designed to work with multiple brokerage platforms. Considering all factors in relation to our structure and capacities, we have concluded that requiring one brokerage platform (Phillips Securities/Pershing) is a better policy than permitting multiple brokerage arrangements including client directed brokerage arrangements. However, we do have the ability to provide advisory services for assets held with other custodians.

Phillips Advisors may not necessarily obtain the lowest possible commission and brokerage rates for client account transactions. Therefore, the overall services provided by both Phillips Securities and Pershing are evaluated to determine the level of best execution provided to clients. However, considering Phillips Advisors requires its clients to use the brokerage services of Phillips Securities and Pershing, Phillips Advisors may not be able to achieve the *most* favorable execution of client transactions and therefore our practice of requiring the use of Phillips Securities and Pershing may cost clients more money compared to advisory programs offered by other investment advisors.

While clients may be able to attain brokerage services with lower costs and expenses, clients should be aware of some of the qualitative factors Phillips Advisors considers for selecting Phillips Securities and Pershing as its required brokerage platform. These factors include, but are not necessarily limited to, being able to rely on the internal staff of Phillips Securities to provide operations, trading, and other services. g is able to provide numerous specialized service groups and personnel dedicated to servicing our accounts. Their back-office system generates exception reports designed to monitor all aspects of brokerage accounts, including trading, money movement, transfers, and client account data. Client paperwork is processed through a secure electronic workflow and storage system. Pershing's electronic trading platform provides a real-time order matching system, ability to "block" client trades, investment research tools, automated rebalancing, account balance and position information, and access to mutual fund families, many of which have no transaction fees. Clients may access their account information over the internet, including balances, transactions, positions, statements, confirmations, and tax documents. Advisory fees can be calculated on aggregated account balances and are debited directly from client accounts. ***Pershing Advisor Solutions, LLC***

Pershing Advisor Solutions ("PAS") can best be described as an institutional registered investment adviser (RIA) platform. An institutional RIA platform allows a client to grant Phillips Advisors limited power of attorney to have trading authority over the client's account held by the broker/dealer, in this case Pershing, LLC. Phillips Advisors is independently owned and operated and not affiliated with Pershing, LLC or PAS.

Phillips Advisors' decision to use PAS is based on numerous factors. Institutional trading and custody services are typically not available to the same providers' retail investors. Institutional services generally are available to investment advisers on an unsolicited basis at no charge to them. Institutional services include brokerage, 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.

Phillips Securities, does not serve as an introducing broker/dealer or have any other involvement in the servicing of these managed accounts. Clients may speak with their investment advisor representative at Phillips Advisors regarding any differences between the two brokers as it may affect their account.

For client accounts maintained at PAS, PAS does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through or that settle into platform accounts. When evaluating institutional RIA platforms, Phillips Advisors considers other products and services that assist Phillips Advisors in managing and administering clients' accounts. While these products and services benefit Phillips Advisors and its advisor representatives, they may not necessarily benefit every Phillips Advisors client. Services and products that Phillips Advisors actively considers and evaluates include software and other technology that provide access to client account data (such as trade confirmation and account statements); facilitate trade execution (and allocation of aggregated trade

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orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of Phillips Advisors' fees from its clients' accounts; and assist with back-office functions; recordkeeping and client reporting.

Many of these services generally may be used to service all or a substantial number of Phillips Advisors accounts, including accounts not maintained on the institutional RIA platform that provides the services. Phillips Advisors will also evaluate services available that are intended to help Phillips Advisors and its advisor representatives manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, institutional RIA platforms may make available, arrange and/or pay for these types of services rendered to Phillips Advisors and its advisor representatives by an independent third party providing these services to Phillips Advisors. While as a fiduciary, Phillips Advisors endeavors to act in its clients' best interests, Phillips Advisors recommendations or requirements that clients maintain their assets in accounts at a particular institutional RIA platform like PAS may be based in part on the benefit to Phillips Advisors of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by the institutional RIA platform, which may create a potential conflict of interest.

#### **Aggregation of Client Orders**

For Investor Advantage and Lockwood accounts, transactions implemented are generally traded on an aggregated basis. This means the same securities for several clients are purchased or sold at approximately the same time. This process is also referred to as batch trading or block trading. When trades are aggregated, the allocation of securities among client accounts will be done on a fair and equitable basis. Typically, the process of aggregating client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among Phillips Advisors clients in proportion to the purchase and sale orders placed for each client account on any given day. When it is determined to aggregate client orders for the purchase or sale of securities, including securities in which an associated person of Phillips Advisors may invest, orders are processed in accordance with the parameters set forth in the SEC No-Action Letter, *SMC Capital, Inc.* It should be noted, Phillips Advisors does not receive any additional compensation or remuneration as a result of aggregation.

For our Advisor Directed Management Accounts, our trading policy is to implement all client orders on an individual basis. Therefore, we do not aggregate or "block" client transactions in Concentrated Management accounts. Considering the types of investments we hold in those client accounts, we do not believe clients are hindered in any way because we trade accounts individually. This is because we develop individualized investment strategies for clients and holdings will vary. Further, the investments we are responsible for trading in client accounts are typically limited to broadly traded positions and minor differences in price execution are not material to our overall investment strategy.

#### **Trade Error Policy**

Phillips has implemented procedures designed to prevent trade errors; however, trade errors in client accounts cannot always be avoided. It is the policy of Phillips Advisors to correct trade errors in a manner that is in the best interest of the client. In cases where the client causes the trade error, the client will be responsible for any loss resulting from the correction but will not receive any gains generated as a result of the error correction. In all situations where the client does not cause the trade error, the client will be made whole and any loss resulting from the trade error will be absorbed by Phillips Advisors. However, Phillips Advisors will maintain gains that may result from correcting a trade error and in some instances may use such gains to offset overall losses Phillips Advisors incurs from trading errors.

### **Item 13 – Review of Accounts**

### **Account Reviews and Reviewers**

Account reviews are made on a regular basis during a calendar year. Account reviews will include investment strategies and investment objectives. Adjustments to strategies are made if client objectives have changed.

The Firm's investment advisor representatives are primarily responsible for conducting reviews of their client accounts. For client accounts managed through the Lockwood Program, Lockwood is responsible for reviewing the account and the client's investment advisor representative also performs reviews.

### **Statements and Reports**

For our asset management services, clients are provided with transaction confirmation notices and regular quarterly account statements directly from the qualified custodian. Additionally, Phillips Advisors may provide position or performance reports to clients on a quarterly basis and upon request.

Clients are encouraged to always compare any reports or statements provided by Phillips Advisors, a sub-adviser or third-party money manager against the account statements delivered from the qualified custodian. Clients should contact our Firm or the qualified custodian with any questions about their account statement.

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

Phillips Advisors does not directly or indirectly compensate any person for client referrals.

The only compensation received from advisory services is the fees charged for providing investment advisory services as described in *Item 5* of this Brochure. Phillips Advisors receives no other forms of compensation in connection with providing investment advice. Please see Item 5, Fees and Compensation, Item 10, Other Financial Industry Activities and Affiliations and Item 12, Brokerage Practices, for additional discussion concerning other compensation.

We may from time to time receive expense reimbursement for travel and/or marketing expenses from distributors of investment and/or insurance products. Travel expense reimbursements are typically a result of attendance at due diligence and/or investment training events hosted by product sponsors. Marketing expense reimbursements are typically the result of informal expense sharing arrangements in which product sponsors may underwrite costs incurred for marketing such as client appreciation events, advertising, publishing, and seminar expenses. Although receipt of these travel and marketing expense reimbursements are not predicated upon specific sales quotas, the product sponsor reimbursements are typically made by those sponsors for which sales have been made or for which it is anticipated sales will be made. This creates a conflict of interest in that there is a potential incentive to recommend certain products and investments based on the receipt of this compensation instead of what is in the best interest of our clients. We attempt to control for this conflict by always basing investment decisions on the individual needs of our clients.

## **Item 15 – Custody**

Custody, as it applies to investment advisors, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding client funds and securities. If an investment adviser has the ability to access or control client funds or securities, the investment adviser is deemed to have custody and must ensure proper procedures are implemented. According to this definition, Phillips Advisors does **not** have custody of client funds or securities.

## **Item 16 – Investment Discretion**

When providing asset management services, Phillips Advisors maintains trading authorization over your account and can provide management services on a **discretionary** basis. When discretionary authority is granted, the Firm has the authority to determine the type of securities and the amount of securities that can be bought or sold for your portfolio without obtaining your consent for each transaction. However, it is the policy of Phillips Advisors

to consult with you prior to making significant changes in your account even when discretionary trading authority is granted.

The Firm will contact clients who have provided trading authorization on a **non-discretionary** basis prior to implementing changes to their accounts. These clients will be contacted and required to accept or reject our investment recommendations including:

- The security being recommended
- The number of shares or units
- Whether to buy or sell

Once the above factors are agreed upon, the Firm will be responsible for making decisions regarding the timing of buying or selling an investment and the price at which the investment is bought or sold. Clients whose accounts are managed on a non-discretionary basis can be adversely impacted by being unreachable or slow to respond to the Firm's authorization requests.

Clients have the ability to place reasonable restrictions on the types of investments that may be purchased in their account. Clients may also place reasonable limitations on the discretionary power granted to the Firm.

#### **Item 17 – Voting Client Securities**

Phillips Advisors does not vote proxies on behalf of clients. The Firm has determined that taking on the responsibilities for voting client securities does not add enough value to the services provided to you to justify the additional compliance and regulatory costs associated with voting client securities. Therefore, it is the Firm's clients' responsibility to vote all proxies for securities held in their accounts.

#### **Legal Actions**

Clients retain the right under the applicable securities laws to initiate individually a lawsuit or join a class- action lawsuit against the issuer of a security that was held, purchased or sold by or for them. Phillips Advisors will not initiate such legal proceedings on behalf of any of its clients and the Firm does not provide legal advice to clients regarding potential causes of action against such a security issuer and whether its clients should join a class- action lawsuit.

#### **Item 18 – Financial Information**

Phillips Advisors does not have any financial commitments that impair our ability to meet our contractual obligations to our clients.

