



Form ADV: Part 2A

as of **10/01/2020**

Part 2A: The Brochure: This brochure discloses information about the qualifications and business practices of Midwestern Securities Trading Company, LLC for the benefit of its clients and prospective clients. Please note that the terms “registered investment advisor” or “registered” do not imply a certain level of skill or training. For our wrap fee program, “MSTC Lighthouse Portfolios™,” please see our Appendix 1. If you have any questions about the contents of this brochure, please contact us at the contacts given below.

Part 2B: the Brochure Supplement discloses information about persons providing advice.

2A: Brochure: Item 1: Cover Page: for

Midwestern Securities Trading Company, LLC

["MSTC"]

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Please note that this brochure has not been approved by the Securities & Exchange Commission or by any state securities authority. This firm is registered with one or more states. With the exception of Illinois, which reviews the ADV 2 for verification, registration does not necessarily mean approval or verification by the SEC or the state regulators. More information about the firm is available at Investment Advisor Public Disclosure website below.

www.adviserinfo.sec.gov.

2A: Brochure: Item 2: Material Changes: *If we amend this disclosure brochure, we are to send you either a new copy of the brochure or at least this item 2 describing the changes made so you can decide if you want us to send you a complete, new copy. A summary of material changes is :*

- ☐ attached as an exhibit to or
- ☐ included here as part of this updated brochure

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2A: Brochure: Item 3: Table of Contents: Information that investment advisors must provide to prospective clients initially and to existing clients annually: 18 disclosure items that describe this firm’s advisory business. And (if applicable) Appendix 1 with disclosures required for a “wrap fee” program brochure [*a specialized brochure*].

| | | |
|--|---|-------------------|
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2A: Brochure: Items 4 – 18:

Item 4. : This advisory firm's business

4. A. **Midwestern Securities Trading Company, LLC** (or "MSTC," "the firm" or "the advisor") is an ILLINOIS Limited Liability Company [IRS EIN 37-1392167] that is registered to do business as an investment advisory firm as of 9.27.1999. The firm is also registered as a broker/dealer. Note: The use of the phrase "registered investment advisor" or the term "registered" do not imply a certain level of skill or training.

Our firm's principal owners are :

- Michael John Graham, Managing Member, President, general and main securities principal/municipal securities principal (primary), and investment advisory representative (50.49% owner)
- Nathan William White, Member, Chief Financial Officer, general securities principal/financial operations principal (primary), and investment advisory representative (8.77% owner)
- Cassie Lee Taraboletti, Member, Chief Operations Officer, general securities principal/financial operations principal/municipal securities principal (primary), and investment advisory representative (1.03% owner)
- There are 21 other part owners of the firm, all are passive owners whom own less than 7% of the firm, none of whom are control persons, and none of whom are involved in the day to day operations of the firm

Required qualifications

Midwestern Securities Trading Company, LLC requires all Advisory Affiliates to pass a Series 65 or 66 exam and any other examinations required by any state in which they perform investment advisory functions. Further, they must maintain a curriculum of continuing education in areas related to investment and financial planning. Advisory representatives are FINRA registered representatives and affiliated with MSTC. All representatives must comply with the individual state requirements regarding registration and licensing qualifications. MSTC and all representatives do not have minimum net worth or other criteria for performing investment advisory services and/or financial planning.

Business hours are from 8 a.m. to 4:30 p.m., Monday through Friday.

4. B. **Midwestern Securities Trading Company, LLC**, the Investment Advisor, provides both financial planning and account supervisory management services to clients.

Portfolio management is the firm's primary advisory activity; it may include referrals to third party advisors who manage investment platforms they have designed. Advisory representatives review accounts and positions quarterly. They utilize independent, third party software and research reports to support their reviews, and they communicate with their clients based on these findings and all material information the client has disclosed to them through their professional relationship a buy, hold, or sell action in an attempt to help the clients meet their goals and objectives. If a position has material changes it may be placed on a watch status to see if it should remain in the portfolio or if it should be solicited as a sell due to not meeting the client's suitability and objectives. Trades are non-discretionary and require client confirmation prior to execution except for third party advisors with discretion.

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MSTC Lighthouse Portfolios™ MSTC has created a discretionary model portfolio, “MSTC Lighthouse Portfolios™”, that will be offered/the adviser offers to suitable clients. The MSTC Lighthouse Portfolio Program is a total return portfolio and will invest in, but not be limited to, stocks, bonds, money market, ETF, mutual funds, notes, SMAs, UITs , and REITs with active secondary markets and indexes. The IA Committee will have the latitude to build a total return portfolio utilizing whatever avenues they think accomplish the goals of the portfolio. There may be times when securities selected for purchase by the IA Committee will not be reflected in all accounts. There are various reasons why this could occur. The IA Committee will utilize trading software with drift features and minimum purchase amounts to assist in this review and trading process. The goal is for all accounts to have the same securities but given that issues can arise limiting some accounts from purchasing securities it is disclosed in this manner so account holders are aware.

The base portfolio is predominantly made up of stocks that capture growth potential, providing both income and capital gains appreciation potential. There are thirteen (13) variations of this model portfolio for advisors to recommend to their clients based on the clients’ short-term liquidity and tax needs. The Base Portfolio has 5% invested in cash. Adjustments will be made to the cash and bonds investment to account for the client’s specific liquidity and income needs. The portfolio variations are as follows:

- MSTC Lighthouse Portfolios™ Base Model
- MSTC Lighthouse Portfolios™ 90/10 Base/Fixed Income Blend Taxable
- MSTC Lighthouse Portfolios™ 90/10 Base/Fixed Income Blend Tax Advantaged
- MSTC Lighthouse Portfolios™ 80/20 Base/Fixed Income Blend Taxable
- MSTC Lighthouse Portfolios™ 80/20 Base/Fixed Income Blend Tax Advantaged
- MSTC Lighthouse Portfolios™ 70/30 Base/Fixed Income Blend Taxable
- MSTC Lighthouse Portfolios™ 70/30 Base/Fixed Income Blend Tax Advantaged
- MSTC Lighthouse Portfolios™ 50/50 Base/Fixed Income Blend Taxable
- MSTC Lighthouse Portfolios™ 50/50 Base/Fixed Income Blend Tax Advantaged
- MSTC Lighthouse Portfolios™ Income Focus
- MSTC Lighthouse Portfolios™ Diversified Growth
- MSTC Lighthouse Portfolios™ 80/20 Base/Diversified Growth Blend
- MSTC Lighthouse Portfolios™ 50/50 Base/Diversified Growth Blend

All distributions from these portfolios will be cash to the core account position. The cash distributions will be available to be invested into new positions at the IA Committee’s discretion when the opportunity arises or withdrawn by the client. These portfolios will be discretionary.

In order to have a more transparent pricing structure, there won’t be commissions, annual maintenance fees or IRA maintenance fees. Other fees such as but not limited to closing fees and transfer fees still apply which are listed in the MSTC “Welcome Letter.” The MSTC Wrap Program brochure contains the same list of fees. MSTC will charge a platform fee of 0.10% - 0.30% for these accounts, which it will deduct from the advisory fees agreed to in the Investment Advisory Agreement. These investments are subject to loss, including loss of the principal invested. Past performance does not guarantee future results.

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401(K) Investment Management Services. Clients may appoint MSTC to be the investment manager (as defined in Section 3(38) of Employee Retirement Income Security Act of 1974 (ERISA) rules) for their 401(K) retirement plans. The agreement for these services allows MSTC discretionary authority over the “Core Funds” to include mutual funds, collective investment funds and managed model portfolios, within the parameters of the Investment Policy Statement. MSTC will be responsible for fund selection, monitoring, and replacement. MSTC will not have discretion with regard to other assets, notably any self-directed brokerage account (“SDBA”) or life insurance policy.

Clients may appoint MSTC and its IARs to provide general services for their retirement plan not encompassing Section 3(38) services for a fee as well. The separate fee schedule is below and noted as non-3(38). The fee schedule is higher than the 3(38) due to the facts this is a more time intensive and comprehensive service. The IAR would be providing services such as but not limited to enrollment meetings, education for participants, and working with the plan administrator.

ERISA 3(38) Investment Fiduciary Services:

MSTC provides 3(38) Investment Fiduciary services for ERISA Plans.

As a 3(38) Investment Fiduciary, MSTC is responsible for the selection, monitoring and replacement of fund options for corporate retirement plans. The Plan Sponsor and/or Trustee is removed entirely from the selection, monitoring and replacement process and the Plan Sponsor’s sole responsibility is to monitor the 3(38) Investment Fiduciary. MSTC selects a balanced and diversified menu of plan investment options and monitors and if necessary replaces those investments in a defined timeframe. In addition, each plan receives a periodic fiduciary investment review that details fund metrics, rankings at a plan level and actionable items for the next period. As a fiduciary under the plan, MSTC’s primary responsibilities are:

1. Assist the Client in determining appropriate investment goals/constraints for the Plan (which, upon client request, may be consolidated into an Investment Policy Statement).
2. Prudently diversify the plan’s assets, namely the investment menu comprised primarily of mutual funds for participants not their actual allocation, to meet an agreed upon risk/return profile.
3. Prudently select investment options using consistent and repeatable process.
4. Avoid prohibited transactions and conflicts of interest.

Potential Additional Retirement Services Provided Outside of the Agreement

In providing Retirement Plan Services, MSTC and its Representatives may establish a client relationship with one or more plan participants or beneficiaries. Such client relationships develop in various ways, including, without limitation: 1) as a result of a decision by the participant or beneficiary to purchase services from MSTC not involving the use of plan assets; 2) as part of an individual or family financial plan for which any specific recommendations concerning the allocation of assets or investment recommendations relate exclusively to assets held outside of the plan; or 3) through an Individual Retirement Account rollover (“IRA Rollover”). MSTC Representatives will not, however, solicit services from plan participants or beneficiaries when providing Retirement Plan Services. If MSTC is providing Retirement Plan Services to a plan, Representatives may, when requested by a plan participant or beneficiary, arrange to provide services to that participant or beneficiary through a separate agreement that excludes any investment advice on plan assets (but may consider the participant’s or beneficiary’s interest in the plan in providing that service). If a plan participant or beneficiary desires to affect an IRA Rollover, MSTC may provide the participant or beneficiary with a written explanation of the options available to the plan participant or beneficiary. Any decision to

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affect the rollover or about what to do with the rollover an asset remains that of the participant or beneficiary alone.

Financial Plans and Consultation may include recommendations regarding insurance, real estate, charitable giving, asset allocation, investment research, or other specific needs of the client as well. Plans and Consultation are customized to the client so the length and cost varies from client to client.

Financial plans are stapled or bound and presented to the client. A copy is retained by the advisory representative as well.

The firm may hold **seminars** that cover topics such as the current economic times, retirement, and college planning. Seminars are conducted or hosted by advisory representatives and in some cases the presentation is made or assisted by a wholesaler from an insurance or investment company. Materials used as presentation pieces by our Investment Advisory Representatives should have FINRA letters if applicable to FINRA review. MSTC requires the Power Point slides, invitation, and other handouts be pre-approved pieces. Sign in sheets or follow up/referral cards may be created by the advisory representative but need MSTC pre-approval before use. Seminars are designed to be educational and soliciting of business may occur after the fact but not during. Seminars are targeted to specific topics but not specific clients or prospective clients. The advisory representative selects whom to invite and most seminars are 10-25 attendees.

4. C. Do we tailor our advisory services to a client's individual needs and how do we do so?
Can clients impose restrictions on investing in certain securities or types of securities?

Yes, we do tailor our advisory services. By their nature, financial planning services must be based on each client's individual needs to have any useful validity. As a fiduciary, an investment advisor is to make only those recommendations that are in the client's own best interests, which means that they, too, must be based on an individual's stated and/ or established individual needs, goals, risk tolerance and investment time horizon. The firm seeks to establish this personal dimension through a careful, fact-finding interview and discussions with each client.

MSTC may exercise discretion over the securities chosen, the amounts, or the action taken. This is only allowable within the MSTC Lighthouse Portfolios™ line up. MSTC's representative will contact the client with recommendations which the client must approve before any transaction occurs if the account is non-discretionary authority. If a third party asset manager is hired then the manager can rebalance and trade on discretion based on the objectives listed in the investment proposal that the client(s) signs, thus providing consent.

Through our Custodians' affiliation with a variety of external money managers, this firm may introduce clients to investment advisory programs. These models are normally discretionary, and the discretion is exercised by the external money managers, not Midwestern Securities Trading Company, LLC nor the investment advisor. Midwestern Securities Trading Company, LLC may seek other outside money managers to actively supervise or manage client investment portfolios, which may entail the money managers exercising discretion. The MSTC Lighthouse Portfolio program does allow for discretion but is a model program where the discretion is taken by the investment committee of Nathan White, John Graham, Mike Graham, Tate Hartman and Josh Miller, not the investment advisory representative directly working with the client(s).

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The fee for these services includes all fees for investment services but does not include the brokerage commissions charged by Custodians, initial clearing and custodian-subject to change, or the commissions paid on CD's and corporate notes as these commissions are automatically generated. The firm, and persons who are both advisory representatives and agents of the broker/dealer, when possible, will not receive 12b-1 fees as of 04/11/2016 from mutual fund investments recommended to clients per Midwestern Securities Trading Company, LLC internal policies. To avoid the inherent risk for a potential conflict of interest, 12b-1 fees will be rebated back to the client as is possible.

A client's ability to impose restrictions on the discretion exercised by an investment advisor representative or a third party platform occurs at the beginning of the process when a prospective client accepts or chooses not to invest in the recommended programs. Clients may withdraw from the programs at any time as well.

4. D. Do we participate in a wrap fee program providing portfolio management services?

MSTC sponsors and does act as the manager of a wrap fee program entitled MSTC Lighthouse Portfolios™. MSTC has portfolios that are created and managed by Nathan White, John Graham, Mike Graham, Tate Hartman and Josh Miller whom comprise the investment committee. They act as the research and selection committee of the MSTC wrap fee program and MSTC is classified as the manager. One or more of the platforms that Envestnet and other outside money managers provide are wrap fee programs as well. MSTC may refer its clients to these programs. MSTC's representatives attend to the wrap fee accounts and other investment portfolios in the same manner, using the same processes. Notice to clients: MSTC receives a portion of the wrap fee for our advisory services and absorbs operational expense of the platform.

4. E. As of 12/31/2019, this firm managed approximately \$699 million of fee-based assets in 5390 accounts in a continuous and regular manner. Of those assets, 1481 are discretionary model portfolio accounts holding approximately \$254.5 million; 7 are discretionary Envestnet accounts holding approximately \$8 million; and 41 are discretionary 3(38) service retirement plans holding approximately \$73 million. The discretionary platforms of Envestnet, 3(38) Services, and the MSTC Lighthouse Portfolios™ (discretionary model portfolio) are managed by MSTC or a third party, not the investment advisor representative. The remaining approximate 3861 managed accounts and \$363.5 million are non-discretionary only.

Item 5: Fees and Compensation — How our firm is compensated

5. A. Our fee schedule: Portfolio Management fees are negotiable. Hourly fees are negotiable regarding the amount of time the representative will spend. The factors used to determine a negotiated fee are primarily the size of the account and/or overall household relationship and the service expectations. The investment advisory representative and the client(s) start with the default schedule listed below and then engage in a conversation around service expectations and asset size to arrive at a rate both parties are comfortable with and then proceed accordingly. Other factors may be considered when rates are negotiated but primarily it is driven by asset size and service expectations. Portfolio management fees are debited by the custodian and paid to MSTC. The fees are then paid out pursuant to employment or brokerage arrangements if the investment advisor representative works within a bank or credit union.

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Midwestern Securities Trading Company, LLC, the **Investment Advisor**, provides both financial planning and account supervisory management services to clients. The basic fee schedules for managed accounts, assessed against assets under management, are:

Schedule of Fees (non-discretion & discretion)

| <u>Account size</u> | <u>Fee (% of assets under management)</u> |
|---------------------------------------|---|
| from \$0.00 to \$999,999.99 | 2.00% |
| from \$1,000,000.00 to \$4,999,999.99 | 1.75% |
| from \$5,000,000.00 to \$9,999,999.99 | 1.50% |
| from \$10,000,000.00 and over | 1.25% |

401(K) Investment Management Services (3/38)

| <u>Account size</u> | <u>Fee (% of assets under management)</u> |
|---|---|
| from \$0.00 to \$9,999,999.99 | 0.20% |
| from \$10,000,000.00 to \$19,999,999.99 | 0.15% |
| \$20,000,000.00 and over | 0.10% |

401(K) Investment Management Services non-(3/38)

| <u>Account size</u> | <u>Fee (% of assets under management)</u> |
|---------------------------------------|---|
| from \$0.00 to \$2,999,999.99 | 1.00% |
| from \$3,000,000.00 to \$9,999,999.99 | 0.60% |
| from \$10,000,000.00 and over | 0.40% |

Intentionally left blank – reserved for future use by MSTC

MSTC bills for its compensation quarterly in arrears. The firm calculates the fees at the end of the quarter based on the period ending balance of the quarter, debited the month following the quarter's end. By execution of the Agreement, the Client authorizes Advisor and National Financial Services, Inc. to debit directly and/or indirectly, the Investment Account known as or the elective Billing Account for the fees owed to the Advisor. A client may terminate the advisory contract before the termination date and receive a pro-rated refund. Cancellation must be made in writing and will be effective thirty (30) working days or sooner after receipt of written notice. Fees are negotiable.

For financial planning and consultation clients, the financial plan or consultation will be billed on an hourly basis or a flat dollar amount. Hourly charges are \$200 per hour. Advisors will charge \$200 per hour unless negotiated prior to entering the financial planning or consultation process. Negotiated are simply that, the client and the advisory representatives will discuss the approximate time needed to create the plan, areas the plan will cover, and the estimated cost of the plan. If that figure is not acceptable to the client MSTC provides the client the opportunity to provide their counteroffer and it can be accepted or denied by the advisory representative if such rate is unrealistic given the amount of time and effort needed to complete the proposed plan. MSTC reserves the right to allow its advisory representatives to counter that offer in an attempt to come to an economically reasonable figure where both parties can agree and move forward in the planning process. MSTC does impose a minimum rate of \$100 hour. The flat dollar amount per quarter for financial planning or consultation should not exceed the hourly rate if the time log was reviewed and multiplied by the max hourly rate. Fees for the financial plan and consultation are due 1/2 in advance of the plan, and 1/2 upon presentation of the plan or consultation scope of work; however, if the agreement calls for services to be performed over a period greater than 6 months, only ¼ of the estimated fee will be collected in advance. Hourly charges are broken into 6 minute intervals or 1/10 of an hour. Financial planning and portfolio management services that are offered include retirement planning, college planning, investment planning/asset allocation, estate planning, charitable giving, and insurance planning. Each section within a financial plan typically requires 1 hour or more for completion. Each client is unique and has varying degrees of

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complexity and thus may require additional time and research increasing the total planning charge. The standard financial plan encompassing each of the listed areas above, to some degree, is approximately 6 hours totaling \$1,200. If the rate was negotiated and the minimum rate was the accepted terms of the financial plan then \$600 would be the plan cost. Planning charges may vary upwards or downwards given the client's specific complexities and requests. The experience of the advisory representative does not justify him or her charging a higher rate for services rendered nor if he or she has earned designation(s) such as CFP®, CLU®, AIF®, etc. Each advisory representative will adhere to the \$200 hour rate, \$100 hour rate minimum, or a negotiated rate between those two figures. If the advisory representative employs his or her staff to assist in the planning process the staff's time will not be counted nor charged. The advisory representative can only charge for the time he or she spends reviewing, researching, and compiling the financial plan. Lastly, the advisory representative cannot charge additional fees due to the geographic area where the client resides. If the client resides outside of his or her typical geographical area of business increased costs due to distance are borne by the advisory representative. If a client chooses to terminate a financial planning agreement the fees paid in advance (1/2) are non-refundable. However, if the financial planning time log shows no logged time, planning software does not contain a file for the client, etc. all advance fees (1/2) are refunded as the investment advisory representative responsible for the plan has no evidence to support any work has occurred. In the event a client terminates after work has begun the advance fee (1/2) is nonrefundable and no additional charges will occur. Regardless what evidence the investment advisory representative responsible for the plan can provide those additional hours and time will not be billed to the client. Additional hours can only be billed and collected if the financial plan is completed and presented to the client and MSTC approves of additional fees.

Commissions will be charged in addition to the quarterly fee for fixed products such as CD's and corporate notes. The commissions are automatically generated for these types of products. However, the registered rep takes this into consideration when determining the annual rate at which he is charging the client.

Seminars

The firm may charge fixed fees for seminars that are given by the Firm. The fees would be to cover the cost of the seminar materials and the actual seminar itself. The fees to attend these seminars would not exceed \$100. The types of seminars the firm may hold cover topics such as current economic times, retirement, and college planning. The next section explains an ongoing, typically an annual commitment by a church or other nonprofit organization, seminar series around planned giving which does carry a higher fee which can be as high as \$5,000.

Charitable Giving Accounts: MSTC may be hired by one or more charitable foundations to provide general educational services to assist in attracting persons interested in creating charitable giving plans to those foundations. MSTC will provide general information about charitable giving programs. MSTC's services may include any or all of the following:

- Web content
- Brochure content
- Social media content
- Seminars
- One-on-one meetings with prospective donors

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Information provided by MSTC will be limited to instructing prospective donors on the potential benefits of setting up a charitable giving account and the mechanics required to do so. No advice will be given about a prospective donor's specific financial situation. Impersonal advice about securities may be provided in these seminars or materials; however, prospective donors may engage MSTC to provide advisory services if they so choose.

If a client chooses to contribute assets through a charitable foundation and also designates MSTC to manage that client's charitable foundation account, MSTC will receive typical compensation from the client for managing those assets. No client is obligated to use a foundation suggested by MSTC for charitable giving or to use MSTC to manage assets in a charitable foundation account.

Referral to third party advisors' investment programs

Through agreements with Custodians or other firms using a variety of external money managers, Midwestern Securities Trading Company, LLC also introduces clients to investment advisory model investment programs. The external money managers normally exercise discretion over the models. Our firm will supply interested clients with complete information on these programs. Midwestern Securities Trading Company, LLC may seek other outside money managers to actively supervise or manage client investment portfolios, which may entail the money managers exercising discretion.

The third party money manager's firm will pay Midwestern Securities Trading Company's investment advisory representative a portion of the fee a referred client pays to the third party firm to participate in its program(s), based on the type of portfolio(s) selected. Typically the investment advisory representative's gross fees range from 0.30% - 1.20%; the range can deviate from these parameters based on the portfolio selected and transactions fees which may be passed to the investor. All fees must adhere to the default schedule above or be less to be compliant and approved by MSTC. The total fee paid by the client quarterly for these third party money managers is disclosed in the initial paperwork to establish the account. The total fee is broken into two components. Part of the fee is retained by the third party manager for portfolio services. The other part of the fee is passed to MSTC via the custodian and clearing firm's monthly clearing statement. MSTC retains a percentage of the fee and the remainder is passed to the investment advisory representative. The advisor is not compensated more or less based on the manager he or she recommends. The fees are driven by MSTC default schedule and the third party manager's platform fee based on the portfolio selected. All fees are debited and paid out via the custodian and clearing firm and fees are disclosed on the client's quarterly statements.

Midwestern Securities Trading Company, LLC may use the services of Custodians as further outlined in Item 15 of this document. Where fees are present with respect to these services, the fee per trade charged to Midwestern Securities Trading Company, LLC by the Custodian or others will be charged in turn to the client's account.

401(K) Investment Management Services

The firm will provide services as outlined in 4.B. for retirement plans regarding 3(38) services for a percentage of assets under management style fee of 0.10% to 0.20%. These services are specifically focused on Multiple Employer Plans or "MEP" retirement plans. The two major offerings under a MEP are closed and open MEPs. A closed MEP is where there must be a common thread shared amongst the participating employers like all belonging to the same industry and a particular industry association. An open MEP is where employers from numerous industries can participate and need no common

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thread. They both operate in similar fashion simply one retirement plan is for any employer and the other has the ability to discriminate or pre-qualify each adopting employer. Both MEPs are governed by a board comprised of adopting employers so it is internally governed keeping interests aligned for employers and their employees while keeping MSTC and other vendors competitive in pricing and service.

Investment Advisory Representatives may provide services such as but not limited to administering participant enrollment, educational seminars, and other supporting roles to the employer and their employees. Such services are dependent on employer and employee expectations, the size of the plan both participants and asset size, and other pertinent variables. The IARs for these services can charge between 0.20% and 0.50% which is also negotiable similar to discretion and non-discretion fees above.

5. B. Disclosure : Does our firm bill its clients for the incurred advisory fees by :

- Sending an invoice to the client, OR Obtaining each client's signed permission to deduct the advisory fees from the client's account held by the custodian, OR
- May clients select either method of billing? No, fees are deducted from an account.

How often does the advisor assess fees (or bill clients)? MSTC bills for its compensation quarterly in arrears. However, third party money managers, to whom MSTC representatives may refer their clients, may charge their fees in advance. Fees and the calculation method are disclosed through the client's statement the month before the fee is deducted. This way the client has been disclosed the fee, how it is calculated, and are aware of this the month before it occurs. The section within the statement with this information is titled Debit Notification.

MSTC does practice "direct billing" that requires us to obtain a client's written permission to deduct our fees directly from the client's account held by the custodian. [See the ADV Part 1B, Item 2. I] MSTC does not send an invoice to the client ourselves for payment of our advisory fees. If there is a correction to be made or a refund then MSTC manually bills the account. Notices of fees are within the client's statement from the clearing firm the month before the debit occurs. MSTC may create an invoice for its financial planning services.

5. C. Disclosure: Other types of fees or expenses clients may pay in connection with the advisory services. Clients should be aware that opening an investment account carries with it costs beyond the advisory fee(s) MSTC charges. When placing a transaction order to buy or sell securities, advisory clients may have to pay any or all of the following charges in addition to the advisory fees charged by this firm.

- | | |
|-------------------------|--|
| • Brokerage commissions | • Administrative fees for investments in mutual fund fees, and |
| • Custodian fees | • * 12b-1 fees in addition to administrative fees, and other marketing fees for mutual funds, paid to a broker/dealer; |
| • Postage charges | • Account maintenance fees charged by a broker dealer for an account, especially if inactive. |
| • Processing charges | |
| • Early surrender | |
| • Transfer fees | |

We direct clients to this brochure's Item 12 for further discussion of brokerage costs.

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* The broker/dealer (MSTC) may receive 12b-1 fees from mutual fund investments recommended to clients. To avoid the inherent risk for a potential conflict of interest, 12b-1 fees will be rebated back to the client as is possible.

5. D. Disclosure: Do clients pay fees in advance? How may a client obtain a refund of a pre-paid fee if the contract is terminated prior to a billed period's end? How will the amount of the refund be determined? MSTC clients pay fees in arrears.

A client may terminate the MSTC advisory contract before the termination date and receive a prorated refund of any fees that have been paid in advance for any reason. Cancellation must be made in writing and will be effective thirty (30) working days or sooner after receipt of written notice. For Midwestern Securities Trading Company's part, the firm would calculate the number of days it rendered investment advisory services during the current billing period for an agreed upon yearly or quarterly fee, retain a proportionate part of any fee a client may have prepaid. For fees paid in arrears, calculation of fees due for the quarter will be calculated and charged accordingly. For a fixed or hourly fee, Midwestern Securities Trading Company will calculate the actual service time rendered in hours, not to exceed an agreed fixed fee. In both cases, the firm will then return the unearned remainder of any pre-paid fees as a credit into the account in question. Fees for smartdonor are nonrefundable and disclosed within the engagement letter of agreement.

Third party money managers, to whom MSTC representatives may refer their clients, may charge their fees in advance. If a third party charges its fees in advance and a client terminates services prior to the end of a service billing period, that firm must arrange to repay any unearned fees; the calculation and timing of such repayments may vary from one third party to another. Third party managers must calculate and provide a refund of any unearned fees, prorated on the number of days they actually service an account. The money managers must disclose information regarding repayments in their brochures under this item; Midwestern Securities Trading Company will provide its clients with the disclosure brochure for each third party to whose investment platforms it refers its clients.

5. E. Disclosure: Does the firm or any of its supervised persons accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds? MSTC is dually registered as both an investment advisor and as a Broker/Dealer. Many of its advisory representatives are also registered as representatives of the Broker/Dealer. In that capacity they may earn commissions on trades affected for their clients. *They may also earn 12b-1 fees on purchases of mutual funds. An advisory client may be brokerage clients as well and it is also possible that an advisory client may seek to have the same person who makes investment recommendations also act as the broker/dealer agent to effect a desired transaction. The officers of Midwestern Securities Trading Company, LLC are actively engaged through the same Midwestern Securities Trading Company, LLC as Broker/Dealer agents.

*To avoid the inherent risk for a potential conflict of interest, as of 04/11/2016 12b-1 fees will be rebated back to the client per MSTC's internal policies, as is possible.

The principal business of **Midwestern Securities Trading Company, LLC** and its executive officers is as a Broker/Dealer within the same firm (the Broker/Dealer application was approved by FINRA in March of 2000 and by Illinois on 04/26/2000). Michael Graham, Nathan White, and Cassandra Taraboletti are

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the principals of and registered with a FINRA registered Broker/Dealer, also Midwestern Securities Trading Company, LLC. Clients of **Midwestern Securities Trading Company, LLC** may purchase securities products through the firm's Broker/Dealer agents for which the principal(s) or other registered representative agents will receive a commission.

If the advisory representative recommends himself or herself to the client to act in that capacity, it creates an inherent risk for a conflict of interest, due to the commissions he or she can earn.

Compensation arrangements with external money managers for referring client accounts to them generate fees which MSTC and the external money managers share.

Disclosure 5.E.1. Anytime an investment advisory firm's representatives may earn a commission or mutual fund management 12b-1 fees, or other forms of sales charges in their capacity as the registered representatives of a Broker/Dealer, that arrangement creates an incentive to recommend those sales. To avoid the inherent risk for a potential conflict of interest, as of 04/11/2016 12b-1 fees will be rebated back to the client per MSTC's internal policies as is possible. An advisor is a fiduciary who is required to make only those recommendations for a client that solely are in the client's own best interest, uninfluenced by any calculation of personal gain.

Our firm addresses this potential conflict of interest by informing clients of the potential conflict in this disclosure brochure. Institutional and Advisory share classes should be used when available to further mitigate this conflict of interest. Secondly, we limit our investment advisory representatives' ability to make such investments by not having full discretion over the account (MSTC may accept or reject the third party managers' proposed rebalancing). A principal of the firm also reviews all representatives' trading recommendations post- execution, date following the trade.

We do not normally reduce our advisory fees to offset the commissions or markups [or commissions to offset fees.]

Disclosure 5.E.2. Clients always have the option to purchase through unaffiliated Broker/Dealers and their agents those investment products our firm recommends.

Disclosure 5.E.3 Approximately 25%- 35% of MSTC's revenue comes from commission based investment business and insurance business.

Disclosure 5.E. 4. Do we charge advisory fees in addition to commissions or markups? We do charge advisory fees and the firm potentially receives compensation in revenue sharing from a platform fee. This platform fee is paid by the advisor as a reduction of the charged advisory fee.

Other disclosures for this section: Mutual fund recommendations may include "no-load" funds, institutional, and advisory shares classes which impose no commission or sales charge ("load") on the shareholder and are purchased through a broker within a brokerage account. MSTC does sponsor a wrap fee program, MSTC Lighthouse Portfolios™, and acts as a portfolio manager for the same wrap fee program as previously stated.

Midwestern Securities Trading Company, LLC ("MSTC") is both a registered investment adviser, as well as a registered broker-dealer with FINRA. As such, we may transact securities business through our

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own systems. Trades above an annual account level threshold incur a transaction fee born by the advisor or the firm. Accounts also have a minimum charged platform fee which is also paid by the advisor or the firm. This creates a conflict of interest wherein the advisor or the firm may be incentivized to engage in fewer trades in the account.

MSTC has policies and procedures in place to ensure that the firm and its related persons continue to engage in your best interest despite the above conflicts. Our advisors are required to document advisory accounts upon account opening and once per year going forward. The intent of the documentation is to attest to the account being appropriate as an advisory account, the level of service being provided, and if the charged fee is reasonable. MSTC has processes in place for review of our wrap fee program through the use of routine review of trade recommendations, account assets, and investment opportunities available that would meet the goals of the relevant model portfolio. Such reviews are performed by an advisory committee responsible for overseeing the model portfolios, as well as our internal compliance department.

Item 6. Performance-Based Fees and Side-By-Side Management.

Does our firm charge performance-based fees [fees based on a portfolio's increase in asset value]?

No, it does not. [See also: Form ADV Part 1A, Item 5. E. (6).

Does our firm have a supervised person who manages an account that pays performance fees?

No, it does not.

NOTE: Regulators have stated that performance fees can cause incentives for an advisor to manage a portfolio with an eye to short-term gains only, including investments that are more speculative or have a higher risk of loss. They may also tempt an advisor to allocate more time to them than to other clients' portfolios due to the possibility of a higher fee. As a fiduciary, an investment advisor is to provide equitable treatment to each client's managed portfolio as if it were the advisor's own portfolio - within the investment parameters agreed to with the client.

Envestnet, third party managers, have a wide array of portfolio offers but the range of fees is 0.40% - 1.20%. There can be other fees such as but not limited to transaction costs and annual custody/maintenance. MSTC Lighthouse Portfolios™ range from 0.20% - 0.30%. Costs of the program are custodian fees, trading and execution fees, etc. are absorbed by MSTC not passed back to the client as other programs may choose to do. Other fees such as but not limited to closing fees and transfer fees still apply which are listed in the MSTC "Welcome Letter."

Item 7. : Types of Clients.

Typically our clients include high net worth and other individuals, and pension and profit-sharing plans. We are prepared to provide services to banks and credit unions, corporations and other businesses, charitable organizations, estates, and trusts. Midwestern Securities Trading Company, LLC requires no minimum account size on accounts unless it is part of the MSTC Lighthouse Portfolios™ /wrap fee program. The account minimum is \$25,000.00 for qualified and non-qualified accounts. The account minimum is \$50,000.00 for the MSTC Lighthouse Portfolios™ 50/50 Base/Fixed Income Blend Taxable, the MSTC Lighthouse Portfolios™ 50/50 Base/Fixed Income Blend Tax Advantaged, the MSTC Lighthouse Portfolios™ 50/50 Base/Diversified Growth Blend and the MSTC Lighthouse Portfolios™ 80/20 Base/Diversified Growth Blend for both qualified and non-qualified accounts. Envestnet, third party managers, do require minimum account sizes and it varies based on the portfolio program

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selected which is extensive so please consult your investment advisory representative regarding specific account size requirements.

Item 8. : Methods of Analysis, Investment Strategies and Risk of Loss.

A. An advisor must describe its methods of analysis and investment strategies used in formulating its investment advice. It must explain in detail any unusual risks.

Caution: Investing in securities involves risk of loss that a client must be able to bear. Securities have price fluctuation and while markets and exchanges provide liquidity that price is not constant and can go to as low as \$0.00. Clients can lose all of their original investment and must be aware of this fact and able to bear that risk.

In formulating advice, the advisor may apply charting, cyclical, fundamental and/or technical analytical methods.

1. Charting – Charting includes a variety of means of analysis that correlate charts, graphs, and similar **market information** to detect patterns that are judged to be predictable, to reoccur in essentially the same way, given the same chartable factors or relationships among factors. It seeks to predict trends and notice variations in those trends, using various calculated averages.

Problems encountered using a charting analysis : Charting assumes

- 1) An accurate correspondence between real events and the factors charted as selected;
- 2) And that patterns can be detected in such charts such that
- 3) They are recognizable in advance, predictable as drawn from recurring and therefore essentially mechanistic financial events.

It is a complicated theory. It depends upon a basic assumption that the fundamental financial influences are not radically different in the time periods considered. That assumption is a concept that recently has been questioned on a number of levels.

Particular stocks may diverge from the market/sector averages radically. Charting may therefore need to be paired with another form of analysis such as fundamental or technical analyses in order to look more closely at particular securities.

The time period most suitable for use in charting analyses is dependent upon the investor's holding period, portfolio structure, and other factors. The choice of relevant segments of performance over time and the understanding of their place in mapping the forces within the larger time period framework is another consideration. Time spent using one analytical method will compete with other analytical methods which might have proven more useful and profitable.

Fundamental Analysis – Called the “bottom-up” approach to investing, a fundamental analysis seeks an in-depth understanding of a **specific firm/company** to evaluate its intrinsic value and its future prospects before investing in its stock. Such an analysis studies the firm's management, its debt, equity and cash flow, history of financial performance/growth, dividend payout percentages, its products, operating efficiency and marketing structures, among other factors. The firm's balance sheet and income statement are two key sources of information about the firm.

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Fundamental Analysis will compare a firm's stock price with its earnings per share and its net earnings to its gross revenues and compare both with the averages for that industry sector. The ratio of current liabilities to current assets is another important element of this form of evaluation. A central focus is deciding whether the stock is over-valued or undervalued.

As a term in large-scale economics, a fundamental analysis studies gross national product, inflation and interest rates, trade and unemployment trends, consumer confidence, savings and spending patterns and inventories in order to predict the larger movements of national and international economies. These larger concerns greatly influence the elements considered in a fundamental analysis of any given company.

Risks inherent in using a fundamental analysis: The factors involved can require time-consuming study that can fall behind the need to make decisions, if such factors begin to change rapidly. Few of the numbers are absolutes; many are relative to other factors or industry sector information. Most require intelligent judgment and experience to be applied meaningfully to stock values.

Fundamental analysis places value on the financial structure and health of the firm to be invested in. These factors at times are of little or no interest to the market place, such that the stock prices for very sound companies may wither when investors look to other reasons and areas for investing.

For a relatively short time period, a firm can falsify facts to hide poor performance or a fragile financial situation. The independence of balance sheets' and other reports' numerical information from such possible manipulation may not be readily verifiable.

Additionally, time spent using any one analytical method will compete with other analytical methods which might have proven more useful and profitable.

In formulating our investment advice, the firm uses research prepared by others, corporate rating services, annual reports, prospectuses, and filings with the SEC, and company press releases.

Technical – Technical Analysis is, together with fundamental analysis, one of the two major schools of stock market study. This form of value analysis focuses on patterns of **volume and price fluctuations** for a **given stock** as compared to the activity of the larger, general market(s) indicators. Securities are evaluated for purchase or sale based on an analysis of market statistics, such as volume and prices over time as seen on charts, etc., that are believed to establish relational patterns that can predict future movements in the markets.

This relative comparison has little or no concern for any company's fundamental structure, production or worth. Market indicators kept in view include volume and direction of market activity, as indicators of supply and demand for securities, often using one or more established index/indices, such as the NASDAQ, S&P 500, and the Dow Jones Industrial Average. Trends and Penetrations (e.g. of previous "highs") are another type of indicator used. The patterns discerned, often using charts for a quick grasp of the relationship of various factors, are used to predict future market moves and their effects on stocks in general and/or on particular sectors of the market.

Problems encountered using a technical analysis: Technical analysis purports to see patterns deemed repeatable in similar market conditions. Market conditions may consist of many factors, any one of which may alter the outcome of an otherwise very similar situation. No one indicator is absolutely

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reliable, and a multiple of indicators may just as likely complicate understanding and evaluation as much as or more than it allows deeper insight into the market's mechanics.

The understandings offered to clients in explanations tend to use generic Technical Analysis, while the working concepts that are derived from those basics and modified by experience and a firm's emphasis may well be hidden in part or completely as proprietary strategy/strategies that may let one advisor or market participant outperform another.

Technical analysis assumes that all the market factors are known to and considered by all the market's participants, although, in fact, the market can act in highly partial and even apparently irrational ways. A market termed "dynamic" indicates a sense that the underlying causal relationships may be shifting.

The advisor uses various sources of information for its analyses; these sources may include any or all of the following :

- Financial newspapers and magazines
- Research materials prepared by others
- Corporate rating services
- Annual reports, prospectuses, filings with the Securities and Exchange Commission
- Company press releases

Third Party Money Managers MSTC may introduce clients to third party investment advisors, such as but not limited to Envestnet, who provide discretionary management of individual portfolios of equity, mutual funds, and/or fixed income securities. In advising firm's retail clients investing in the programs of third party investment advisors, the firm uses model portfolios of mutual funds, uniform managed accounts, separately managed accounts, and Exchange Traded Funds (ETF's) sub-accounts provided by a number of institutional investment strategists and based on their information, research, asset allocation methodology and investment strategists.

Risks in using these methods and strategies: As the managers' strategies and methods may vary widely, they may include the risks noted above in a fundamental analysis or others specific to their methods. None is a proven, absolutely sure means of obtaining positive results. There is always a risk-return relationship: the greater the chance of a higher return on an investment, the higher will be the risk of loss as well. Investing in securities involves risk of loss that clients must be prepared to bear.

8. B. An advisor must explain the material risks involved in frequent trading if the client's strategy involves frequent trading of securities. An advisor must explain how frequent trading can affect performance.

The firm's trading strategies include holding for the long term (a year or more), short term purchases (sold within a year), and margin transactions. What may be regarded as "frequent trading" varies according to :

- The client and the strategy for that client's specific account – one client may have multiple accounts that apply different strategies
- The type of security or relative mix of securities involved
- The current nature of the market

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- Margin accounts require deposits by 10 a.m. of the morning following the margin call

All these tactics are intended to enhance the portfolio's value and ability to meet a client's stated goals. All trades will add some costs to be deducted from a client's account and could reduce the overall return or growth in a client's account, if carefully measured against what its value would have been had the advisor not placed the transactions.

The third party strategists review portfolios on a regular basis to rebalance them if needed in order to maintain the agreed-upon weighting of asset classes. All trading will add costs against an account's performance; frequent trading will increase those costs, potentially reducing overall performance. To ascertain the effect, it is necessary to factor in the losses or gains that would have proven true had the rebalancing not made the trades.

Investment Strategy – MSTC Lighthouse Portfolios™

Cash Distributions/No Reinvestment All distributions, capital gains and dividends, from these portfolios will be set to cash. The cash distributions will be available either for investment into new positions at the IA Committee's discretion when the opportunity arises, or else for the client to withdraw.

Problems and Positives with cash distributions: We request that clients notify us of any intended cash withdrawals; if withdrawals exceed the funds required to pay certain fees, the account may have to sell some holdings in order to meet timed deductions. The problem posed by no reinvestment is the potential for purchasing shares at a later date at a higher price per share. MSTC acknowledges this problem. However, automatic reinvestment does pose the opportunity to continue to purchase more shares which when dividends and capital gains are paid out would entitle the investor to potential greater rewards but also subjects more dollars to market fluctuation. This also reduces available cash for withdrawal, reinvestment into other securities, and may overweight a portfolio making it out of balance and assuming more risks than before. MSTC feels while there are problems with cash distributions there are also problems with reinvesting all dividends and capital gains. This aspect is outlined in the wrap brochure/investment policy statement so the investor knows the managers and their position on this aspect of the program.

Risks with non-systematic rebalancing are, the portfolio could drift from the original allocation. This could present the risks of moving along the continuum away from moderate risk in either direction. The IA committee views non-systematic rebalancing more active management and redistribution of cash. The IA committee also feels that while rebalancing keeps to the original allocation that could constitute continuing to own more shares in positions when other opportunities may be presenting themselves and not necessarily an appropriate strategy. Overweight within positions can occur from reinvestment. Regardless if dividends are paid as cash or reinvested the same tax consequences are present. In the event the IA committee feels rebalancing to the original percentages is needed within the portfolios based on the information at that time and their outlook they do reserve the right to do so as needed.

8. C. Do we recommend primarily a particular type of security? What is the material risks involved with that type of security? Are those risks unusual or significant?

The firm may place investment and/or insurance products for clients as deemed appropriate. Types of investments offered may include exchange listed securities, securities traded over the counter, corporate bonds, municipal bonds, unit investment trusts, mutual funds, US Government securities,

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certificates of deposit, real estate investment trusts, variable annuities, fixed annuities, long-term care insurance, disability income insurance and/or life insurance. If the account is being managed on a discretionary basis MSTC may exercise discretion only with a client's express, written permission in a limited power of attorney that allows MSTC to make such decisions on a client's behalf; that permission a client may revoke at any time.

We are prepared to provide advice on most types of securities, including :

| | |
|--------------------------------------|---|
| <u>Equity Securities</u> | Notable risks involved with this type of investment |
| Exchange-listed securities | Market fluctuations can bring losses, lower dividends |
| Over-the-counter securities | More susceptible to market fluctuations; higher risk |
| Corporate debt securities | Same as exchange-listed, corporate bonds involve credit risk |
| Commercial Paper | More susceptible to market fluctuations; higher risk of default |
| Certificates of deposit | Limited liquidity |
| Municipal securities | Same as exchange-listed; It is possible that they can default |
| <u>Investment company securities</u> | |
| Variable life insurance | Insurance company could go out of business; the value of the subaccounts are subject to market fluctuation and loss |
| Variable annuities | Same as variable life |
| Mutual fund shares | Market fluctuations can bring losses; various fees |
| Exchange-traded funds (ETFs) | Market fluctuations can bring losses; less fees than mutual funds |
| US government securities | Returns can be low or even, rarely, negative. As hedge against equity market risk, mirror them. |
| <u>Other Securities</u> | |
| Collective Investment Trust (CIT) | Market fluctuations can bring losses; various fees |
| Stable Value Funds | Insurance company could go out of business; the value of the underlying assets is subject to credit risk |
| Guaranteed Interest Contract (GIC) | Insurance company could go out of business |
| Money Market Funds | Market fluctuations can bring losses; not FDIC insured |

If the custodian/clearing company's alternative investments department allow for a client's requested private debt and/or private equity income to be held in the client's account, MSTC will comply with the client's request and transfer those assets into the account. Typically the custodian scrutinizes private debt and private equity carefully before allowing them on their platform. Please see Item 12 for further description of our brokerage practices.

Item 9: Disciplinary Information.

What facts about any legal or disciplinary event involving our firm or its personnel should you know of, because it is material to an evaluation of the integrity of our firm or its management persons? The SEC requires that we inform you, our client, if our firm or any of our management persons has been involved in any of the events listed below in 9. A, B, and C. and, beyond those points, if there is any material fact about any legal or disciplinary event that you should know about in order to evaluate

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our integrity. You may also see these same questions answered online at the investment advisor public disclosure site (IAPD), in Part 1A, Item 11.

MSTC has no disclosures to make under this section regarding legal, regulatory or disciplinary events.

Item 10: Other Financial Industry Activities and Affiliations.

What material relationships does our firm or any of our management persons have with related financial industry participants? What material conflicts of interest may arise from these relationships and how are these conflicts addressed?

A. Have we, or has any of our management persons, registered either as a broker/dealer or as the representative of a broker/dealer? OR, Do we or any management person have such a registration pending? YES. As noted above in items 4 & 5:

The officers of Midwestern Securities Trading Company, LLC are also actively engaged through the same Midwestern Securities Trading Co. as Broker/Dealer agents.

The principal business of **Midwestern Securities Trading Company, LLC** and its executive officers is as a Broker/Dealer within the same firm (the Broker/Dealer application was approved by FINRA in March of 2000 and by Illinois on 4.26.2000.). Michael Graham, Nathan White, and Cassie Taraboletti are the principals of and registered as a FINRA registered broker/dealer, also Midwestern Securities Trading Company, LLC. Clients of **Midwestern Securities Trading Company, LLC** may have occasion to purchase securities products through the firm's broker/dealer agents for which the principal(s) or other registered representative agents will receive a commission.

Michael Graham, Nathan White, and Cassie Taraboletti will have brokerage clients who are not clients of the investment advisory firm. An instance may arise where a client of this advisory firm may have an open order that is filled by an order of a non-advisory client customer who makes his/her own investment decisions, and vice-versa. Advisory affiliates may, from time to time, buy or sell, in their own accounts, securities that are recommended to clients. When applicable, the client is informed of the personal position or contemplated transaction prior to effecting a transaction on the client's behalf. The client's transactions are always completed before the advisory affiliate enters orders for their own account.

Michael Graham, Nathan White, and Cassie Taraboletti are all licensed insurance agents. Insurance may be recommended as part of the planning process and it is verbally disclosed before the application process that if a risk management product/insurance policy is purchased that commissions will be generated which is separate to and in addition to any investment advisory fees.

MSTC addresses the possible conflicts of interest in this relationship primarily by disclosing it to its advisory clients in this ADV Part 2, by monitoring its representatives' trading recommendations and activities, and through verbal disclosure during client meetings.

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B. Have we, or has any of our management persons, registered as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of any of these entities named here? OR, Do we or any management person have such a registration pending?

No, none of these items apply to our firm.

C. Do we have any “related person” – a person or a firm that we control or that controls us through ownership or as an officer – with whom we have a material relationship, any arrangement that may cause a conflict of interest when providing our clients with investment advice?

General clarification: Even though this ADV notes “Part Owner” or other titles for active in-house employees and managers, all parties are “Members” because the firm is an LLC.

- Reserved for future use/disclosure of other owners not previously noted in Item 4.

There is no form of compensation involved in these arrangements that should be seen as causing a conflict of interest in relation to the firm’s delivery of advisory (or brokerage) services to its clients.

The Limited Liability Company is dually registered as both an investment advisor and as a broker/dealer. Otherwise, there is no other entity to which MSTC or its owners are related through ownership that is a:

- | | |
|---|---|
| • Municipal Securities Dealer | • Another investment advisor/ financial planner |
| • Government Securities Dealer or Broker | • A futures commission merchant, commodity pool operator or commodity trading advisor |
| • An investment company or other pooled investment vehicle , including a mutual fund, | • An accountant or accounting firm |
| • A closed-end investment company | • An insurance company or agency |
| • A unit investment trust | • A pension consultant |
| • A private investment company | • A real estate broker or dealer |
| • Hedge fund | • A sponsor or syndicator of limited partnerships. |
| • Offshore fund | |

An advisor’s **related persons** are: (1) the advisor’s officers, partners, or directors (or any person performing similar functions); (2) all persons directly or indirectly controlling, controlled by, or under common control with the advisor; (3) all of the advisor’s current employees; and (4) any person providing investment advice on the advisor’s behalf.

D. Do we recommend or select other investment advisors for our clients?

As noted in Item 4, through affiliations with a variety of external money managers, MSTC may also introduce clients to investment advisory programs. These models are normally discretionary, and the discretion is exercised by the external money managers not Midwestern Securities Trading Company, LLC nor the investment advisor representative in this specific situation. Interested clients will be supplied with complete information on these programs. Midwestern Securities Trading Company, LLC

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may seek other outside money managers to actively supervise or manage client investment portfolios, which may entail the money managers exercising discretion.

Do we receive compensation from those other advisors for our referrals? YES, we do. MSTC receives a portion of the fee our referred client pays to EnvestNet. The compensation we will receive, clients should note, creates an incentive to make the recommendation and thereby an inherent risk for a conflict of interest. We address this possible conflict of interest by bringing it to our clients' attention in this disclosure brochure and obtaining signatures attesting to receipt of disclosure.

Do we have any other business relationships with these advisors that also could cause a conflict of interest and, if "yes," how do we address them? NO. MSTC has no other business relationship with these third party money managers.

Additional Activities Continued

Item 11. Code of Ethics / Advisory Persons' own trading and possible personal interest in our clients' trades.

A. As required by SEC rule 204A-1 or similar state rules our firm has adopted a Code of Ethics.

Our firm's Code of Ethics describes our policies and procedures to abide by the law's prohibition against insider trading, including our reviews of our own persons' trades, and other ethical considerations. We will provide you, our client or potential client, a copy of our Code of Ethics if you request one.

Please note that using any insider information, information that is not readily available to all participants in the securities markets (upon making a reasonable effort to obtain that information), for any person, ourselves or relatives or clients or any other person, is strictly illegal and punishable by fines and imprisonment.

How our firm controls sensitive information:

- Building security : visitor screening
- Building security: security/alarm system
- locked cabinet files
- password protected computer screens and databases
- office area under continual supervision during business hours
- safe for certain documents
- backup of data in house and by off-site third party

In order to prevent employees from misusing any insider information, MSTC has instituted the following:

- the employee agreement contains clauses regarding insider information and confidentiality
- similar clauses are used in the independent contractor agreements
- annual anti-money laundering education

11. B. [also in Form ADV Part 1A, Item 8. (1)(2) (3)]

Does our firm or a related person recommend to our clients, or do we buy or sell for our clients' accounts, securities in which we or a related person has a material interest?

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Our firm and/ or its associates **do**

- buy or sell for the firm or for themselves securities (other than shares of mutual funds) that we also recommend to our advisory clients;
- buy or sell for the firm or for themselves shares of mutual funds that we also recommend to our advisory clients;

Our firm and its associates **do not**

- buy securities for the firm or for themselves from advisory clients (principal transactions);
- sell securities the firm or its associates own to advisory clients (principal transactions);
- in their capacity as a broker/ dealer agent, transact purchases or sales of any client's securities directly to any other person (an "agency cross transaction" that side-steps using a securities marketplace)
- invest or are not permitted to invest in securities related to those we may recommend to clients, such as derivatives
- Recommend securities (or other investment products) to our advisory clients in whom our firm or any person or other firm related to our firm has some other proprietary (ownership) or other financial interest.
- Act as an investment advisor to an investment company that we recommend to our clients.

11. C. **Personal Trading** : investing in the same or related securities

Does our firm permit it, its personnel, or a person related to our firm (by ownership or other forms of control) to invest in the same securities that we recommend to our clients, or in securities that are related to those securities, such as options or other derivatives?

Yes, we do allow it. As noted above, advisory affiliates may, from time to time, buy or sell, in their own accounts, securities that are recommended to clients. When applicable, the client is informed of the personal position or contemplated transaction prior to effecting a transaction on the client's behalf. The client's transactions are always completed before the advisory affiliate enters orders for their own account. Orders may be bunched in order to possibly obtain equally advantageous, better priced trade executions. We address the potential conflict of interest by disclosing it as well as by placing clients' trades first.

We enforce these guidelines by our Written Supervisory Procedures and MSTC Policies and Procedures Manual.

The possible conflicts of interest that arise when we (MSTC and Registered Representatives) recommend, or, in our discretion, buy or sell for you (client(s)) a security that we may also buy or sell for ourselves are

- using your order's market effect to benefit ourselves ("front running");
- using your order as "inside information" that would give us an unfair advantage in the markets to benefit ourselves or any other person (which is an illegal act);
- Gaining a lower brokerage cost for ourselves in bunching orders, which can create an incentive to involve your account in that transaction?

Does any person in our firm participate in or have an interest in our clients' transactions? How does such a person participate or what is the interest and what conflicts of interest can that create? No; no

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one in the firm has a financial interest in any investment transaction the firm recommends to its clients. Examples of such interests would include an advisor recommending that clients invest in a pooled investment vehicle that the firm advises or for which the investment advisor serves as the general partner, or when an advisor with a material financial interest in a company recommends that a client buy shares of that company.

Michael Graham, Nathan White, and Cassie Taraboletti will have brokerage clients who are not clients of the investment advisory firm. An instance may arise where a client of this advisory firm may have an open order that is filled by an order of a non-advisory client customer who makes his/her own investment decisions, and vice-versa. Advisory affiliates may, from time to time, buy or sell, in their own accounts, securities that are recommended to clients. When applicable, MSTC informs the client of the personal position or contemplated transaction prior to effecting a transaction on the client's behalf. The firm always completes a client's transactions before the advisory affiliate enters orders for an associate's own account.

11. D. **Personal Trading**: investing in the same or related securities at the same time.

What specific conflicts do we have when our firm or a related person trades in the same securities at or about the *same time* as it places trades for a client's account? Our practice is to place clients' trades first.

"The SEC generally dislikes 'contemporaneous' trading," that is, that anyone in our firm might enter an order for her or his own account at the same time as an order in the same security for a client. Note that these restrictions are not applied to investments in mutual funds that are unaffiliated with our firm.

Unaffiliated means a mutual fund that we have not ourselves created or helped establish and/ or in some way act as the fund's managers.

The SEC has stated that "an advisor's ability to place its own trades before or after client trades in the same security may affect the objectivity of the advisor's recommendations" and therefore states further that the SEC believes disclosure *of this practice* is warranted. The SEC has not in that opinion stated a specific length of time before or after. In that respect it could also be noted conversely that clients might have reservations in employing an advisor who does not invest in the same securities the advisor recommends.

Item 12: Brokerage Practices.

12. A. Does our firm select a broker/ dealer for you? On what basis do we do so? How do we determine the reasonableness of the broker's compensation (commission charges)?

We do require the client to direct MSTC to be the broker/dealer for their advisory transactions in managed accounts. MSTC considers the following factors before suggesting a particular brokerage firm to clients: the products offered, the level of service, and the ability to meet client needs. The President and Chief Compliance Officer, per FINRA rules that are incumbent on the broker/dealer's activities, must perform a quarterly assessment of the firm's "best execution" status for its clients, vis-à-vis other brokerage available. In assessing the reasonableness of commissions, the firm compares various brokerage firm rates and advises clients of the best overall firm. In considering these parameters, this

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firm recommends use of **Midwestern Securities Trading Company, LLC as the Broker/Dealer for the firm's Investment Advisory clients.** Accounts introduced to third party money managers however do utilize other broker/dealers which is allowed by MSTC and disclosed to prospective account holders.

12. A. 1. We do not receive soft dollars.

12. A. 2. Brokerage for client referrals

Do we direct brokerage to a specific broker/dealer in return for client referrals either to our firm or to a related firm? No, we do not.

12. A. 3. [A] Do we "routinely recommend, request or require" our clients to direct brokerage? Yes. Clients should know that not all advisors do require directed brokerage. We have noted that the broker/dealer in question is our own firm and that all brokerage clients' effect through us will provide us with an economic benefit. We inform our clients here that such a relationship creates an inherent risk for a conflict of interest. By directing brokerage we may not be able to achieve the most favorable execution for client transactions, at an increased cost to our clients than they might have incurred with another broker/dealer.

12. B. When we place orders with a Broker/Dealer for our clients, do we aggregate or "bunch" your trade order with orders for other clients? Yes. Orders may be bunched in order to possibly obtain equally advantageous, better priced trade executions. As a matter of policy and practice, MSTC does not typically utilize block trading and, therefore, implements client transactions separately for each account. In certain when the same security is bought and sold for many accounts on the same day, clients will typically receive an average price for all trades in that securities executed on that date. MSTC's clients may not receive volume discounts available through advisers who utilize block trading.

Item 13: Review of Accounts.

13. A. Does someone in our firm review your investment account portfolio and how often? All investment advisors are responsible for reviewing their accounts. It is a best practice for advisory representatives to review advisory accounts at least quarterly and file those records in their respective offices. An MSTC officer will audit their file once a year during their annual branch office audit. Clients are urged to compare all statements they receive regarding their accounts for accuracy and agreement.

13. B. What factors might trigger a review in addition to our periodic reviews? A daily variety of factors, such as market fluctuations or other economic events and their effects on a particular client's position in a given investment may trigger more frequent reviews. Reported changes in a client's personal or financial situation or personal goals are always grounds for a prompt review of a client's portfolio.

13. C. What regular reports do we or others provide you? Are they written reports? What do they contain?

Each client will receive printed or electronic, printable quarterly reports from the Custodian, on the status of her or his account(s). Additionally, clients will receive confirmations from the investment company and the broker/dealer executing any transaction for the account. Those firms will send such confirmations directly to clients. These firms also send reports to the Client on a monthly/quarterly

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basis showing dividends, portfolio purchases and sales transactions, and all charges and credits. Accounts not showing activity in a given month will not receive reports in that month, but only for the quarter. The reports produced by the Custodian will provide the Client with a statement of the assets under management, income and capital charges paid by the account for the period, and a summary of the account's performance for the period. MSTC utilizes Morningstar, an independent third party research provider, for their reviews which are performed internal by the advisory representative. Other research providers are utilized in addition to Morningstar as needed. MSTC does not require the reps to provide the clients a written report. If clients want a written report a Morningstar report should be utilized to review the portfolio as a whole and its individual holdings. Midwestern Securities Trading Company does not produce any reports of its own for clients.

Item 14: Client Referrals and Other Compensation.

A. Does someone other than a client of our firm pay our firm or related persons, or otherwise provide some economic benefit to our firm, for the investment advice we provide to our clients? Yes. Advisory representatives who are also registered representatives of the related broker/dealer will receive 12b-1 fees if they place an advisory client's investments in mutual funds. The payment creates an incentive to recommend such funds and thereby a potential conflict of interest. An investment advisor is to recommend to its clients only those investments that are in the client's own best interest, free of any taint of the influence that the prospect of additional income may exert. To avoid the inherent risk for a potential conflict of interest, as of 04/11/2016 12b-1 fees will be rebated back to the client per MSTC's internal policies, as is possible.

We address any further potential conflicts of interest for advisory representatives in this situation by disclosing it to our clients.

B. Does our firm or a firm related to us through some form of ownership pay someone, directly or indirectly, for client referrals?

Yes, the Investment Manager, or such entity as directed by the Investment Manager do pay solicitors for referrals, as the SEC and Illinois allow SEC registered investment advisors to do. The solicitor is to provide a prospective client with a copy of our form ADV Part 2 and a disclosure for the client to sign, stating that the solicitor is paid to make referrals.

Clients of Mike Graham and Nathan White may receive a \$20 gift certificate to a restaurant of their choice for referring a friend or family member who opens an account. Other investment advisors affiliated with MSTC may have a referral program in place as well. Introduction to an external money manager by an investment advisor representative creates accounts where fees are generated which are shared by the external money managers, MSTC, and the investment advisor representative. The sharing of fees generated by these assets under the external money managers' management could be viewed as a referral fee.

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Item 15: Custody.

Does our firm (MSTC) have custody of your assets?

MSTC does practice “direct billing.” The practice of “direct billing” has been defined by the SEC as a form of custody, but also as a “modern practice” that does not require annual audits. Direct billing also requires that the client receive at least quarterly statements from the account custodian, showing the advisory fee. Otherwise, MSTC does NOT have custody of clients’ funds or securities.

For custody of your assets, MSTC uses the services of unaffiliated third parties, National Financial Services (NFS) and Aspire Financial Services (AFS) (together, “Custodian”) as custodian providers, or other unaffiliated third parties, as specified by customers on a case-by-case basis, as the custodian of customer assets.

MSTC, in its capacity as a registered broker dealer maintains a fully disclosed clearing relationship with NFS.

AFS maintains its own custodial arrangements which clients can view at <https://www.aspireonline.com/partners-solutions/strategic-partners/custodial-partners>.

The custodian will send our clients at a minimum a quarterly account statement, monthly statements or confirmations for any month in which there was trade transaction activity in the account. NOTE: These statements should be reviewed carefully. It is not the custodian’s responsibility to ascertain the accuracy of the calculation for fees subtracted from your account.

Item 16: Investment Discretion.

A. Does our firm have discretionary authority over your assets? MSTC may exercise discretion over its clients’ accounts. This is applicable on a case by case basis across MSTC’s product platform. MSTC reviews several variables before approving a discretionary relationship such as but not limited to the clients’ suitability parameters in the initial interview, objectives of the account, the investment advisor’s experience and knowledge within the industry, assets the investment advisor representative currently has under management, and designations and education they have earned. MSTC does not have the discretion to require its potential or current clients to use MSTC for brokerage, but it does explain that its employees must use their employing broker/dealer, due in part to the FINRA rules that disallow “selling away” from one’s employing broker/dealer.

In MSTC’s opinion, keeping both functions “in house” makes the transmission of and follow-up on orders simpler and more efficient. MSTC may exercise discretion with regard to selecting the brokers or dealers as third party money managers may do so as needed and MSTC reserves that same right based on the goal of best execution for the client.

MSTC may exercise discretion when selecting the broker/dealer as listed in Part1A of the ADV filing Item 8C(3). This may arise when third party money managers (Envestnet) are used and/or the MSTC Wrap Fee Program entitled “MSTC Lighthouse Portfolios™.”

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B. What limitations are there, or can you place, on our discretionary authority? MSTC may exercise discretion only with a client's express, written permission in a limited power of attorney that allows MSTC to make such decisions on a client's behalf; that permission a client may revoke at any time, and there may be limitations if a client was to request a discretionary account. Limitations such as retention of certain positions regardless of stock, bond, ETF, etc. based on the client's preference. An example, family has owned a stock and passed it on from generation to generation and that position MSTC would classify as a legacy position and would allow it to be maintained. MSTC would not sell that position and reinvest the proceeds within the MSTC Lighthouse Portfolios™ as that was not the client's instructions. Suitability parameters, as the client and the advisor establish in the initial interview, are the over-riding limitation on any discretion. MSTC reserves the right to increase limitations or to terminate a discretionary relationship based on their supervision of the investment advisory representative if they determine that is more suitable for the clients' protection. Third party money managers gain discretionary authority over a client's account only if and when that client signs their required account paperwork consenting to the professional relationship and authorizing that allowance specifically or by signing the proposal thus providing consent to the third party money manager. A client may revoke that permission at any time. Please remember the third party money managers are not the only parties to have discretion authority, and MSTC may exercise discretion as well as their affiliated investment advisor representatives. Lastly, MSTC and the IA Committee whom is responsible for overseeing the MSTC Lighthouse Portfolios™ exercises discretion as well and for a full explanation see Item 4. B. MSTC Lighthouse Portfolios™.

Item 17 : Voting Client Securities.— proxy voting practices

A. Does our firm have or will it accept authority to vote client securities? NO. MSTC does not accept any responsibility to vote its clients' proxies. Clients may contact their adviser with questions regarding their voting solicitations.

B. This is our policy and our procedures: that we do not vote proxies. We state this here in these disclosures. Our firm urges our clients to read and participate in the voting process tied to the shares they own in various companies as an excellent means for our clients to become familiar with those companies in which they are invested. Clients will receive their proxy statements and votes directly from the custodian or transfer agent. Clients may contact MSTC with questions about a particular solicitation.

Item 18: Financial Information.

A. Custody situations: Does our firm have custody of your funds or your securities investments?

- Do we require prepayment of a fee of \$500 or more, six or more months in advance of services? We do not.
- Do we practice "Direct Billing" (charging our fees to your account)? We do practice "direct billing" as described above in Item 15 : "Custody"
- Do we or someone in our firm act as the trustee for an advisory client? No, we do not.

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18. B. Financial difficulties: If our firm has discretionary authority over your assets [see Item 16], then we must disclose if there is any financial condition reasonably likely to impair our firm's ability to meet its contractual commitments to its clients. MSTC does not have any financial condition that could reasonably seem likely to impair our ability to meet our contractual commitments to you, our client. This question is important, especially if an investment advisor has discretion, custody or both. If our financial condition were precarious, our clients would be exposed to increased risks that we might not manage their assets properly, according to the SEC. Prepaid fees might not be refunded if an advisory firm were to cease being able to do business due to insolvency.

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