



WEDBUSH SECURITIES INC. FORM ADV PART 2A ("Brochure")

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September 30, 2020

This Brochure provides information about the qualifications and business practices of Wedbush Securities Inc. ("WS" or the "Adviser") If you have any questions about the contents of this Brochure, please contact us at (213) 688-8000. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority. Investment adviser registration with the SEC does not imply a certain level of skill or training.

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

Item 2: Material Changes

The following describes the material changes that Wedbush Securities Inc. ("WS") has made to sections of the Brochure since our last annual update on September 30, 2019:

- Item 4 (Advisory Business) has been updated to reflect that the Discretionary Managed Transactional Account is closed and no longer offered to any WS prospective or current clients. WS is in the process of notifying all of the Discretionary Managed Transactional Account clients, and is offering the clients several options.

Additional information about Wedbush Securities Inc. is also available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by using a unique identifying number which is known as a CRD number. The firm's CRD number is 877.

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Item 4: Advisory Business

WEDBUSH SECURITIES' ADVISORY BUSINESS

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

Through its Asset Management division, WS provides investment advice and management services on discretionary and non-discretionary basis to institutional and individual clients. This brochure provides description of its investment advisory services. Additionally, WS offers a wrap fee program to its clients. More details about the wrap fee program can be found in the WS Wrap Fee Program Brochure. A description of our non-wrap fee discretionary program, Discretionary Managed Transactional Account (DMT) program, is found in this Brochure.

Discretionary Advisory Account Program - Discretionary Managed Transactional Account (DMT)

Under the Discretionary Advisory Account program, clients have the option of paying transaction-based fee in our DMT program. Under the DMT arrangement, clients will pay transaction-based fees, which are different from WS' standard commission rates. When WS uses itself as broker to effect a transaction for the account on an exchange of which WS is a member, WS shall retain all commissions paid by client for effecting such transactions and out of those commissions WS shall pay all the Adviser's other services. WS will clear and settle the transaction. WS may not retain brokerage compensation which client pays for effecting transactions unless WS has client's written authorization to do so, signed by all authorized to transact for the account.

Your Financial Advisor will act as a portfolio manager, and will manage your accounts on a discretionary basis, which allows your Financial Advisor to make the investment decision regarding the purchase or sale of investments in your account, however, you may inform your Financial Advisor to not invest in certain securities or types of securities, or to invest only in certain securities or types of securities. Before managing your account under a discretionary authority, your Financial Advisor must obtain approval from you, as well as from his or her Office Manager. The approval from an Office Manager will be based upon your Financial Advisor's:

- Past experience managing client accounts
- Registrations (licensing)
- Compliance records
- Other relevant certifications or qualifications

WS is no longer offering the DMT program to any WS' prospective or current clients. The Adviser is in the process of notifying all of the DMT clients, and is offering the clients several options, which include transitioning client accounts to a WS wrap fee program or brokerage account. Clients may also close and liquidate their DMT account if disagree with the options.

Financial Planning Services

The services of Financial Planning ("Plan") are available to clients who seek a personalized written financial plan that assesses a client's current and projected financial situation and investment goals and establishes an investment strategy to seek to meet those goals and objectives. These goals and objectives are based on an analysis which generally will include the following: investment objectives, financial goals and needs, risk tolerance, age, current asset allocation, value of assets, and complexity of your current financial situation.

The Plan may include an analysis of the following: investment planning, education planning, insurance planning, cash flow management, and asset allocation strategies. However, the Plan generally does not recommend specific securities or investments but is intended to serve as a basis for further analysis and discussion between the client and his/her financial, legal and tax advisers in helping the client achieve his/her investment objective and goal.

WS provides analytical and advisory services in creating the Plan. WS does not provide legal, tax, or accounting advice or services.

You are not required to engage WS or its affiliates to implement the Plan. If you choose to engage WS to implement the Plan, a separate agreement and fee will apply depending upon the nature of the relationship and the type of services to be provided.

For Financial Planning Services, clients pay a fee for the advisory services that WS provides. The fee may be a combination of a flat fee and/or annual basis point fee that is charged directly for the Plan. In addition to the fees which are generally negotiable, clients pay commissions or other execution fees for each transaction.

Advisory Wrap Fee Programs

WS is also the sponsor of wrap fee programs, which are offered through the following arrangement: *Managed Account Program, Discretionary Advisory Account Program, Non-Discretionary Advisory Account Program, and Strategist Advisory Account Program*. WS manages certain wrap fee programs that it offers to its clients. A wrap fee is an all-inclusive fee assessed annually and typically charged quarterly to cover investment advice, execution, clearing, settlement services, custody of assets, and administrative services. Please refer to the WS Wrap Fee Program Brochure for a complete description of the programs.

ASSETS UNDER MANAGEMENT

As of June 30, 2020, Wedbush Securities had assets under management of \$2,353,207,645.16, of which \$1,748,916,475.81 was managed on a discretionary basis and \$604,291,169.35 was managed on a non-discretionary basis.

Item 5: Fees and Compensation

As previously discussed under Item 4 or Advisory Business, clients whose assets are managed under the DMT program will pay transaction-based fees, which are different from WS' standard commission rates. When WS uses itself as broker to effect a transaction for the account on an exchange of which WS is a member, WS shall retain all commissions paid by client for effecting such transactions and out of those commissions WS shall pay to all of its other services provided to the clients. These services

include clearing and settlement of the transaction.

For Financial Planning Services, clients pay a fee for the advisory services that WS provides. The fee may be a combination of a flat fee and/or annual basis point fee that is charged directly for the Plan. In addition to the fees which are generally negotiable, clients pay commissions or other execution fees for each transaction.

Item 6: Performance-Based Fee and Side-by-Side Management

Wedbush does not charge performance-based fees.

Item 7: Types of Clients

The Adviser provides advisory services to individuals, high net worth clients, trusts, pension and profit sharing plans. The minimum amount necessary to open an advisory account is typically \$100,000 in assets; however, the Financial Advisor can request an exception to accept lower minimum account size.

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

Method of Analysis and Investment Strategies

For the DMT program, your Financial Advisor, working together with a WS Money Manager, employs a variety of investment strategies based on your investment objectives, financial circumstances, risk tolerance, and financial needs. Such strategies typically include long term and short term purchase of securities. In addition to his or her training, skill and experience, your Financial Advisor will have access to various research services or publications to evaluate the performance of securities, as well as to make investment decisions on your behalf. Your Financial Advisor will purchase or sell securities in your account based on your:

- Investment objective
- Risk tolerance
- Liquidity needs
- Time horizon

Risk of Loss - General

Investing in securities involves risk of loss, including the possible loss of principle, that you should be prepared to bear. You must understand that we do not guarantee any returns on any investments or investment strategies. Your investments are not bank deposits, and are not guaranteed by any agency of the U.S. government. Additionally, frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

With respect to financial planning, the analyses provided through your plan, are based on the information you provide and, in certain cases, on static assumptions (e.g., fixed return rates, fixed life expectancies, fixed rates of income or cash flow, and so on). Despite certain assumptions and analytical adjustments made by WS, this type of deterministic projection of financial results fails to reflect the inherent uncertainty of future events, including market performance. In reality, these variable will not be static. The probability of success also varies based on differing assumptions and on changing circumstances and market information.

Risk of Loss - Other

The performance of your investments can also be affected by other risks such as:

- **Market Risk** – the risk of a security's market value declining, rapidly and unpredictably for short or extended periods. These fluctuations may cause a security to be worth less than the price the investor originally paid
- **Liquidity Risk** – the risk that a security is difficult or impossible to sell at the time and price the seller wishes. The seller may have to accept a lower price for the security, sell other securities instead, or forgo a more attractive investment opportunity
- **Credit Risk** – the risk that the issuer of a security will default or otherwise become unable to honor a financial obligation. Generally, the lower a security's credit rating, the higher its credit risks. If a security's credit rating is downgraded, its price tends to decline sharply, especially as it becomes more probable that the issuer will default
- **Interest Rate Risk** – the risk that debt prices overall will decline over short or long periods due to rising interest rates. Interest rate risk usually is modest for shorter-term securities, moderate for intermediate-term securities, and high for longer-term securities. A change in a central bank's monetary policy or improving economic conditions may result in an increase in interest rates. Rising interest rates could decrease liquidity in the fixed income securities markets, making it more difficult to sell fixed income securities. Additionally, decreased market liquidity also could make it more difficult to value a fixed income security
- **Reinvestment Risk** – the risk that the proceeds, dividends, or interest generated from an investment are reinvested in a security that offers a lower rate of return compared to the returns generated by the original investment
- **Non-diversification Risk** – the risk involved with excessive exposure to securities in any one issuer, industry, or sector
- **Management Risk** – the risk that a strategy or investment technique used by your Financial Advisor or WS may fail to produce the intended result or achieve its investment objective
- **Tax Risk** – the risk of unfavorable tax consequences to a client that could result from the administration of a client account pursuant to the advisory services described in this Brochure

Technology and Cyber Security Risks

WS and our clients rely heavily on telecommunication, information technology and other operational systems, whether WS or those of others. These systems may fail to operate properly or become disable as a result of events or circumstances wholly or partly beyond our or their control. Despite implement of a variety of risk management and security measures, our information technology, and other systems, and those of others, could be subject to physical or electronic breaches resulting in a failure to maintain the security, availability, integrity, and confidentiality of data assets. Technology failures or cyber security breaches, deliberate or unintentional, could delay or disrupt our ability to do business or service our clients, harm our reputation, result in a violation of applicable privacy and other

laws, require additional compliance costs, subject us to regulatory inquiries or proceeding and other claims, lead to a loss of clients and revenues or financial loss to our clients or otherwise adversely affect our business.

Business, Terrorism, and Catastrophe Risks

These are the risks of loss that may be incurred, indirectly, due to the occurrence of various events, including hurricanes, earthquakes and other natural disasters, terrorism, and other catastrophic events such as a pandemic. These catastrophic risks of loss can be substantial and could have a material adverse effect on WS' business and on your portfolios.

Item 9: Disciplinary Information

Wedbush Securities is a registered investment adviser and a registered broker-dealer. The disciplinary information listed below is related to the activities of the broker-dealer and investment adviser.

In addition to the disciplinary events listed below, you can find additional information at <http://www.adviserinfo.sec.gov/>

In September 2019, without admitting or denying the findings therein, except as to the SEC's jurisdiction over it and the subject matter of those proceedings, the SEC accepted WS's offer of settlement, along with 94 other investment advisers, who voluntarily participated in the SEC's self-reporting Share Class Selection Disclosure Initiative ("SCSD"). The Order alleged that WS willfully violated Sections 206(2) of the Advisers Act in connection with inadequate disclosures on conflicts of interest related to (a) the receipt of 12b-1 fees, and/or (b) the selection of mutual fund share classes that pay such fees for the period from January 1, 2014 to June 26, 2018. Wedbush was censured and ordered to cease and desist from committing or causing any violations and any future violations of Sections 206(2) of the Advisers Act. Wedbush is ordered to pay disgorgement of \$1,703,194.38 along with prejudgment interest of \$149,346.59 to affected investors totaling \$1,852,540.97. Wedbush is also ordered to comply with several undertakings.

In February 2018, without admitting or denying the accusations, the SEC accepted WS's offer of settlement in which Wedbush willfully violated sections 15c3-3, known as the customer protection rule and 17a-1 of the Exchange Act and Rule 17a-5 thereunder, for the period from September 2014 through January 2015. Wedbush was censured and ordered to cease and desist from committing or causing any violations and any future violations of Sections 15c3 and 17a1 of the Exchange Act and Rules 15c3-3 and 17a-5(a) thereunder. Wedbush is ordered to pay disgorgement of \$275,851 along with prejudgment interest of \$28,346 and ordered to pay a civil money penalty in the amount of \$1,000,000 plus post-order interest to the Securities and Exchange Commission. Wedbush is also ordered to comply with an undertaking to retain a qualified independent consultant to conduct a comprehensive review of the firm's system and controls.

In February 2018, without admitting or denying the allegations, the firm consented to the sanctions and to the entry of findings from the Financial Industry Regulatory Authority, Inc. ("FINRA") that the firm created and/or increased deficits in its segregation requirement through deliveries or returns of securities. The findings also stated that firm improperly calculated its customer reserve formula which resulted in hindsight deficiencies between \$945,000 and \$77 million. The findings also included that the firm failed to establish and maintain a supervisory system, including written procedures reasonably designed to achieve compliance with both the possession or control requirement and the customer reserve account requirement of the customer protection rule. Under the terms of the offer, the firm has also consented, without admitting or denying the allegations and to the entry of findings and violations

arising out of examinations conducted by FINRA in 2014, 2015, and 2016, as described below, and to the imposition of the sanctions. The additional findings are as follows: from positions in certificates of deposit (CDs) issued by major financial institutions for which there was no “ready market,” for over five business days, but failed to deduct the value of each position exceeding 30% of the firm’s tentative net capital. The firm created and maintained inaccurate books and records that inaccurately reported the amounts the firm was required to maintain in its customer reserve account and inaccurately reported its net capital. Without admitting or denying the findings, the firm agreed to a censure and fine of \$1,500,000.

FINRA alleged that Mr. Edward Wedbush, as President of WS, failed to establish and maintain a supervisory system and establish, maintain, and enforce WS’s policies reasonably designed to achieve compliance with rules regarding regulatory filings. FINRA alleges that the firm had late and inaccurate filings of Forms RE-3/U4/U5. On October 11, 2016, Mr. Wedbush appealed the National Adjudicatory Council decision to the United States Court of Appeals for the Ninth Circuit. The U.S. Court of Appeals decision rendered April 20, 2018 denied Mr. Wedbush’s petition for review. The decision became final on July 19, 2018. Mr. Wedbush was suspended in any principal capacity for 31 days from August 20, 2018 through September 19, 2018 and paid a \$50,000 fine.

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

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

Item 10: Other Financial Industry Activities and Affiliations

WS is a registered investment adviser and a registered broker-dealer. Generally, Financial Advisors of WS are also registered representatives of Wedbush Securities Broker-Dealer (non-advisory). Therefore, the wrap fees charged may be higher than if the client were to purchase the individual securities without participation in the advisory programs. A non-advisory brokerage account based on commissions instead of an advisory wrap fee based account could be used to effect few transactions in which case the amount of revenue earned by the firm and the Financial Advisor would be less than if a wrap fee were assessed on the account’s asset base. This may pose a conflict of interest in that the Financial Advisor may have an incentive to recommend a wrap fee program instead of a brokerage account.

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

Code of Ethics

WS has adopted the Investment Adviser Code of Ethics (the “Code of Ethics”) pursuant to Rule 204A-1 under the Advisers Act expressing the Adviser’s commitment to ethical conduct. Access Persons, as defined by Rule 204A-1, must adhere to employee trading policies. Personal trades made by officers, employees, and associated persons, including Financial Advisors and Portfolio Managers, are reviewed by supervisory or designated Compliance Examiners in WS Compliance Department.

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

Clients and prospective clients may request a copy of the Code of Ethics by contacting the Compliance Department at (213) 688-8000 or by email to Compliance@wedbush.com.

Participation or Interest in Client Transactions

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

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

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

Personal Trading

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

To prevent insider trading and to comply with the Adviser's insider trading policy, WS maintains a Restricted List to monitor and restrict employee trades on equity securities and its respective options for any company placed on the list. The Restricted List is used when the Research Department issues a research report on a material event such as an opinion change or initiation of coverage. Although employees are restricted from buying or selling companies on the restricted list, clients are generally not prohibited from effecting transactions in those securities. Additionally, virtual "walls" may be put into place to prevent communications between different business departments regarding specific securities, as necessary. WS may recommend to advisory clients that they buy or sell securities or investment products in which WS or a related person has some financial interest.

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

Item 12: Brokerage Practices

In addition to execution services, WS also provides research, reporting, custodial, clearing, and/or other account services to clients. Unless clients specifically request WS to place their transactions with a broker-dealer other than WS, transactions are effected through WS as clearing broker under an obligation to obtain best execution. Transactions executed away from WS may incur additional fees. Please see the *Directed Brokerage* section below for additional information.

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

Soft Dollar Arrangements

WS does not presently engage in any soft dollar arrangements.

Brokerage for Client Referrals

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

Directed Brokerage

You may not direct us to place transactions for your accounts with another broker-dealer.

Trade Aggregation

In order to obtain best execution or to negotiate more favorable commission rates, WS may, to the extent permitted by law, combine or "batch" such orders. In general, aggregating trades may slightly decrease the overall costs of the transaction to you. In such circumstances, all client orders executed with a particular broker-dealer during a day generally will be average priced. Client orders partially filled will, as a general matter, be allocated pro-rata in proportion to each client's original order. Thus, the

effect of aggregation may operate on some occasions to a particular account's disadvantage. In addition, under certain circumstances, not all clients will be charged the same commission or commission-equivalent rates in connection with bunched or aggregated orders.

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

Item 13: Review of Accounts

Each new account is initially reviewed at account opening by the Financial Advisor and the designated supervisor in the respective offices to determine suitability level. Thereafter, the Financial Advisor and designated supervisors in the offices monitor performance of client accounts on an ongoing basis. Regional Executive and Wealth Management personnel may also monitor and review accounts on an ongoing basis.

Clients receive monthly account statements if there is activity; otherwise, WS provides quarterly statements to clients.

Item 14: Client Referrals and Other Compensation

From time to time, WS enters into arrangement with certain non-supervised persons, including entities or individuals, where the Adviser compensates them for introducing or referring clients to the Adviser.

Item 15: Custody

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

Item 16: Investment Discretion

When you grant WS' Financial Advisors discretionary trading authority over your account, such authorization will be subject to any limitations you may impose and will take into account your investment objective and risk tolerance. Such discretion will be delineated and granted by you when you sign the Advisory Agreement Forms.

When your assets are managed under the DMT program, you grant your Financial Advisor discretionary authority to direct execution of portfolio transactions consistent with your investment objective and risk tolerance.

Item 17: Voting Client Securities

WS does not vote client proxies. Although WS may provide investment advisory services relative to client investment assets, clients maintain exclusive responsibility for:

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

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

Item 18: Financial Information

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