

ITEM 1: PART 2A FOR FORM ADV (FIRM BROCHURE)



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This brochure provides information about the qualifications and business practices of Watts Gwilliam & Co., LLC. If you have any questions about the contents of this brochure, please contact us at 888-324-8998 or email [jeff@wattsgwilliam.com](mailto:jeff@wattsgwilliam.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Watts Gwilliam & Co. also is available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

NOTE: While Watts Gwilliam may refer to itself as a "registered investment advisor" or "RIA", Clients should be aware that registration itself does not imply any level or skill or training.

## ITEM 2: MATERIAL CHANGES

Watts Gwilliam & Company LLC has made the following material changes to this disclosure brochure since our last annual update in January 2021:

- We have added a new management strategy (Full Throttle) that involves options trading. This strategy is suitable only for a small portion of a client's investable portfolio and with high risk tolerance, short-term goals, and a speculative investment objective. We charge for this strategy using performance-based fees rather than asset-based fees. See Items 5, 6 and 8 for complete details of this management strategy, including our fees, conflicts of interest inherent with performance-based fees, and investment risks.

### ITEM 3: TABLE OF CONTENTS

<b>ITEM 2: MATERIAL CHANGES.....</b>	<b>2</b>
<b>ITEM 4: ADVISORY BUSINESS .....</b>	<b>4</b>
Types of Securities .....	4
<b>ITEM 5: FEES AND COMPENSATION.....</b>	<b>4</b>
<b>ITEM 6: PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT.....</b>	<b>7</b>
<b>ITEM 7: TYPES OF CLIENTS.....</b>	<b>8</b>
<b>ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....</b>	<b>9</b>
Investment Strategies.....	9
Income Producing Option Model (OPTIC).....	9
Vista Capital Fund II, LLC .....	10
Vista Capital Fund III, LLC .....	10
Vista Capital Fund IV: AK Courtyard, LLC .....	11
Watts Gwilliam PATH Program .....	11
Methods of Analysis .....	12
<b>ITEM 9: DISCIPLINARY INFORMATION .....</b>	<b>12</b>
<b>ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....</b>	<b>12</b>
<b>ITEM 11: CODE OF ETHICS .....</b>	<b>12</b>
Client Related Securities .....	13
<b>ITEM 12: BROKERAGE PRACTICES.....</b>	<b>13</b>
Order Aggregation .....	13
<b>ITEM 13: REVIEW OF ACCOUNTS .....</b>	<b>14</b>
<b>ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION.....</b>	<b>15</b>
Separate Accounts and Solicitor Agreements.....	16
<b>ITEM 15: CUSTODY .....</b>	<b>16</b>
<b>ITEM 16: INVESTMENT DISCRETION .....</b>	<b>17</b>
<b>ITEM 17: PROXY VOTING.....</b>	<b>17</b>
<b>ITEM 18: FINANCIAL INFORMATION .....</b>	<b>17</b>

#### ITEM 4: ADVISORY BUSINESS

Watts Gwilliam & Company LLC was established in May of 2004. The founding members include Jeffrey Stephen Watts, D. Bradford Gwilliam and David Bruce Watts. As of July 2021, the firm has total assets under management of approximately \$380 Million, managed on a discretionary basis.

##### **Ongoing Asset Management**

The principle business of Watts Gwilliam & Co., LLC, consists of furnishing “investment supervisory services” to clients. This activity includes the providing of ongoing advice concerning investment of monies consistent with each client’s circumstances, objectives, and preferences. Through individual consultations, our investment management process includes an assessment of each client’s individual needs, goals, risk appetite, time horizon, restrictions and account holdings. We attempt to structure each client’s investment allocation in the context of these considerations.

##### **Types of Securities**

Watts Gwilliam & Co. provides investment advice on the following types of securities: Equity securities (exchange listed, over-the-counter, and foreign-issuer securities), corporate debt securities, commercial paper, certificates of deposit, municipal securities, United States government securities, option contracts on securities and interests in partnerships. We also invest in mutual fund shares, and exchange traded funds (ETFs). We offer an Options Strategy for Qualified Clients, as that term is defined in SEC Rule 205-3, and which is invested primarily using options trading strategies with only limited potential use of stocks and/or ETFs. Our options strategy is suitable only for clients who can and wish to invest a small portion of their portfolio in a speculative investment strategy; we recommend no more than 2-3% of a client’s overall liquid, investable assets in this strategy. This is a complicated trading strategy, and we limit client contributions and withdrawals into and out of this strategy to manage the complexity and costs of trading. See Item 5, Item 6, and Item 7 for additional details related to fees and account minimums. See Item 8 for details of this strategy and risks of loss.

##### **Financial Planning**

On certain occasions, we advise clients on matters not directly involving securities. This general guidance, commonly considered Financial Planning, may include advice related to issues such as retirement, education, and estate planning. Often, the results of this planning is used to better advise the client on issues related to the investment supervisory services discussed previously.

In addition to the services discussed above, we may be hired as a “sub-advisor” on other investment platforms. In these situations, advisors unaffiliated with Watts Gwilliam & Co. outsource the investment supervisory services of certain clients to our firm. Details of these arrangements are further discussed in the section entitled Other Financial Industry Activities and Affiliations.

#### ITEM 5: FEES AND COMPENSATION

Watts Gwilliam & Co. offers its services for a fee based on a percentage of assets under management, and for qualified clients using our options strategy, a performance fee assessed

ONLY on the value of the Full Throttle option trading account. At times, we may instead propose a fixed fee. Watts Gwilliam may charge a quarterly fee up to \$15 per account to cover technology costs for various platforms available for client use, which will be disclosed on the client agreement. Fees paid by the client are disclosed on the signed client agreement.

**Table 1** presents our asset-based fee schedule for investment accounts managed by Watts Gwilliam & Co. Fees are generally not negotiable, though we reserve the right to negotiate for unusually large accounts or based on other circumstances (range and extent of services, etc.).

Fixed fees for financial planning services are based on the complexity of the planning and agreed to by the client in advance. We project our fixed fees to range from \$500 to \$3,500 for the initial plan development. Update sessions and follow up work may require separate arrangements. At times, the advisor may decide to waive these fees, or, apply fees paid for financial planning services toward the client's annual assets under management fees.

**Table 1: Watts Gwilliam & Co. Fee Schedule**

Assets Under Management	Annual Fee
<\$500,000	1.50%
\$500,000-\$999,999	1.25%
\$1,000,000-\$1,999,999	.90%
>\$2,000,000	Negotiable

#### **Performance-Based Fees**

We charge a performance-based fee of 20% of profits in the account of qualified clients invested in Full Throttle, an aggressive options strategy. The performance-based fee is charged only on that portion of a client's assets invested in the options strategy and no asset-based fee is charged on these same assets.

For accounts invested in the options strategy, our performance-based fees are calculated monthly and then re-set. For example, if an account was funded with \$50,000 and increased to \$55,000, \$4,000 would be issued to the investor as a distribution and \$1,000 would be paid as a performance fee. Performance fees can only be earned on returns in excess of capital deposited to the strategy. If the account were to lose money, no incentive fee would be earned until the value of the account again exceeded the contribution amount. If the client were to choose to terminate the strategy while at a loss, any past money paid out as incentives would not be returned. Any money withdrawn from the strategy would be deducted from the contribution amount used to determine profits for performance fees. For example, if a client were to initiate the strategy with \$75,000, then later withdraw \$25,000, \$50,000 would be the new benchmark for profit sharing. In Item 6 and Item 7 we discuss limitations on client contributions and withdrawals from your account invested in this strategy.

Because we re-set the base value monthly, Clients may end up paying more in performance fees than they would under an asset-based fee, even if performance is down overall, including an overall loss based on initial and subsequent investments. This could occur if the account value is up significantly for one or more months, in which case we charge the 20% performance fee, but performance is down for quarter-ending balances.

All performance-based fees are calculated using the custodian's account valuations as reported on the client's month ending statement.

**Minimum Annual Fee**

We have established a minimum annual household fee of \$2,500. This account minimum may have the effect of making our services impractical for accounts with fewer assets. Watts Gwilliam & Co. may decide to waive this minimum based upon certain criteria such as anticipated future earning capacity, anticipated future additional assets, related accounts, account composition, pro bono activity, etc.

**Billing Process (Asset-Based - Quarterly)**

Watts Gwilliam & Co. bills client accounts for a given quarter on or around the first business day of that quarter by applying one-fourth of the applicable annual fee to the closing market value on the just-concluded quarter's last trading day. An account billed on the first business day of January, for example, applies one-fourth of the appropriate household rate to the account's market value on the last trading day of December. Accounts are normally billed on the first business day of January, April, July and October. On occasion, various factors may cause a delay in the actual billing of an account. However, when this occurs, the billing is still calculated as if it had been done on the first day of the quarter. Market value is determined by the account custodian and is reported on client statements. In certain situations, such as illiquid private placement investments, the custodian may not report a value. In this case, the amount will be determined as the value on the books and records of the issuer of the investment. This amount may be higher or lower than the market value if that investment were to be sold. Clients authorize us in our client agreement and custodial paperwork to deduct fees directly from their account.

When an account is first placed under Watts Gwilliam & Co.'s management, billing begins on the first business day of the account being managed. In this case, fees are calculated on a daily, pro-rata basis, based on the number of days remaining in the quarter. The fee is applied to the initial value of the account on the first day of Watts Gwilliam & Co.'s management.

If an account is fully removed from Watts Gwilliam & Co.'s management during a billing quarter, the already-billed quarterly fee is pro-rated as specified in the client agreement and the difference between the assessed fee and the pro-rated fee is refunded promptly to the client. Clients may close accounts without penalty on the last day of any month, upon written notification of Watts Gwilliam & Co.

**Billing Process (Performance Fees - Monthly)**

We bill a performance fee monthly in arrears for the portion of a client's portfolio invested in our Full Throttle options strategy. This fee is billed based on the value on the last day of each month and is deducted directly from your account.

This is a complicated trading strategy, and we limit client contributions and withdrawals into and out of this strategy to manage the complexity and costs of trading. Clients can only begin or terminate the strategy on the first day of each month. We require a 10-day notification prior to month-end if a client wishes to terminate their investment in this strategy.

Management and fees for accounts using in this strategy are always billed based on a full calendar month; we do not manage accounts in this strategy for partial months and therefore do not prorate accounts in this strategy for partial months.

**Billing Process (Financial Planning)**

We bill clients for financial planning fees upon completion of the agreed-upon services. Fees for financial planning services are invoiced directly to the client rather than deducted directly from an investment account.

**Other Fees & Expenses**

Your account will incur fees and expenses charged by third-party service provided that are not related to our advisory fees. For example, brokerage firms may charge transaction fees to purchase and sell securities in your accounts. These transaction fees, or ticket charges, will vary based on the type of security being traded. Your account may incur other activity fees such as IRA fees and wire fees. Custodial and brokerage (transaction, account, and activity) fees will be disclosed in your brokerage account-opening paperwork.

ITEM 6: PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As we describe in Item 5 above, Watts Gwilliam & Company charges performance-based fee rather than an asset-based fee on that portion of a client's portfolio invested in our Full Throttle options strategy and only for clients who meet certain qualifications. We do not charge a performance fee on any assets held or managed outside of the client's options strategy account. As noted in Item 4, clients must be "Qualified Clients," as defined in SEC Rule 205-3 to invest in this strategy.

Our clients who are invested in this strategy likely have the majority of their assets managed by our firm on a fee-only basis. Managing accounts on both a performance-fee and asset-based basis creates a conflict of interest. Watts Gwilliam & Company stands to earn considerably more from performance-fee accounts if returns are significant. This provides an incentive for us to take additional risks in the hope of achieving higher returns. Furthermore, because we could earn more from the performance-based accounts, we have an incentive to devote more time to these accounts and to select those investments we believe will be more profitable. To address this conflict, our performance-based model is an investment approach and corresponding strategy we would not ordinarily select for our clients. The key differences between the two approaches are in diversification and turnover. Performance based-fee accounts are less diversified than its asset-based fee counterpart and the turnover (trading volume) is likely to be higher. Our goal with the performance-based accounts is to generate significant upside, which necessarily entails greater risk of loss.

We attempt to mitigate these conflicts by capping the amount of a client's portfolio which can be invested in this strategy and we will not generally accept greater than 3% of a client's overall investable assets into this strategy.

Clients can contribute funds in increments of \$25,000 (or up to the account balance) once a month at the beginning of each month although account minimums must be maintained. We request clients limit withdrawals of funds to the beginning of each month. We also request clients withdraw any profits over the \$25,000 increment we're managing after our performance fee has been paid each month. Any balance remaining in the account over the \$25,000 increment will remain uninvested and unmanaged in cash and we will not charge a fee on that portion in the account for this strategy.

Any cash withdrawn from the strategy would be deducted from the contribution amount used to determine profits for performance fees. For example, if a client were to initiate the strategy with \$75,000 then later withdraw \$25,000, \$50,000 would be the new benchmark for profit sharing.

In addition, members of the firm may, from time to time, be involved in the management of private placement investments simultaneous to managing client assets as described in the section Advisory Business (above). These private investments may include performance-based fees. There may be times when certain of our clients choose to participate in these private investments. In these situations, money invested by our clients into these funds is not considered a billable asset for fee calculations. Instead, assets held in private funds are assessed a fee at the fund level (meaning there is no double-dipping of fees). Because some members of the firm may receive additional compensation through performance fees based on the success of the investment, a conflict of interest exists. Details of these offerings are outlined in the investment's disclosure documents.

Currently, certain members of Watts Gwilliam & Co. are also managers of the Vista Capital Fund II, LLC, Vista Capital Fund III, LLC and Vista Capital Fund IV: AK Courtyard, LLC. These funds seek to generate income and capital appreciation by investing in both commercial and residential real estate and real estate backed investments. David Watts, Brad Gwilliam, and Jeffrey Watts advise on the strategic direction of the funds and are responsible for servicing the clients. Certain clients of Watts Gwilliam & Co. may also invest in these offerings and the fees and compensation paid to us may be different than what are paid through more traditional investments. Fees for these funds may be higher and, therefore, may present a conflict of interest for members of Watts Gwilliam to recommend these funds over other investments. Additional information on the funds can be found in Item 8 of this brochure.

#### ITEM 7: TYPES OF CLIENTS

Watts Gwilliam & Co. provides investment advisory services to individuals, participants in pension and profit sharing plans, trusts, estates, charitable organizations, pooled investment vehicles and corporate or business entities.

We do not have any minimum account size requirements for our portfolio management services generally, although we have minimum account opening and maintenance requirements specifically for assets invested in our Full Throttle options strategy.

We also have annual fee minimums, described in Item 5 of this brochure.



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

### **Investment Strategies**

When managing client portfolios, Watts Gwilliam & Co. generally places an emphasis on strategic asset allocation, utilizing investments from a broad spectrum of asset classes to achieve diversification. As such, investments are generally done with a long-term time horizon. This helps minimize both taxes and trading expenses.

In certain situations, such as clients with large, single stock positions, Watts Gwilliam & Co. manages a covered call options strategy through its Income Producing Option Model (OPTIC), also referred to as OPTIC. OPTIC can be used on both concentrated stock and equity index positions. The model seeks to provide investors appreciation to an upper target price with a simultaneous income stream generated through the option premium.

For Qualified Clients with a higher risk tolerance, we may recommend clients invest a small (less than 3%) of their investment assets into our options trading strategy. See below under Options Strategy.

From time to time, and where suitable to client circumstances and preferences, we may use short sales, margin transaction and short-term trading strategies.

### **Income Producing Option Model (OPTIC)**

Our firm manages money for many investors with concentrated stock positions and for those seeking income through option premiums. While we do not assist clients in establishing these concentrated positions, we may be hired to assist the client in diversifying. Watts Gwilliam & Co. does not liquidate these kinds of positions without communication to the client. Instead, we work with clients to establish a structured exit strategy. Clients with such positions may utilize the firms Income Producing Option Model (OPTIC), also referred to by the name OPTIC.

OPTIC seeks to provide income through the receipt of option premiums, while attempting to provide the client appreciation in the underlying stock, or index, to an upper price target. In most cases, the client chooses the upper price target. While the goal of the strategy is to provide upside to these price targets, the performance can't be guaranteed. When utilizing the OPTIC strategy, clients typically continue to hold the underlying stock position and thus maintain the downside risk in the stock. If the stock position losses value, the client's return is the loss in stock price less the returns of OPTIC. The underlying stock may also appreciate above the clients target price. In this case, the client may not fully participate in the appreciation above the target. Choosing price targets should be done with consideration of both the potential results of OPTIC and the potential opportunity costs if the stock were to rise above the price targets. Clients who use OPTIC without owning the underlying stock (naked options) are subject to additional risks. Many of the risks associated with options are disclosed on the OPTIC application, and further discussed on the OPTIC Proxy Disclosure. These risks should be carefully considered prior to investing.

At times, we may combine the selling of calls with the purchase of a put option. This structure, called a collar, will limit the upside growth in the stock (through the call option), but protect the downside risk through the put option. We often refer to this strategy as "Dynamic Collars", as the selling of calls is done actively through the OPTIC system while a longer-term put is held

statically in the account. There are times that we use this strategy for clients as a moderate risk approach to investing in stocks or as a fixed income alternative.

### **Full Throttle Options Strategy**

We offer an options allocation strategy in which our clients can invest a portion of their overall investable assets. We primarily use options spread strategies with limited use of stocks and/or ETFs. Most of the trading is designed to be “swing trading” where positions are held for several days to a few weeks. This is an active trading strategy, including possible intraday trading, and involves a much higher level of risk than our typical asset management, as well as the potential for higher returns. The strategy is managed through a separately managed account structure (not pooled). This means that the strategy is managed and allocated in each account individually, which can add risk through less diversification. Although we may have several open positions at any given time, we expect to have concentrated positions.

The use of options and spreads can create return profiles designed to make money on either an upward or downward move in the underlying stock. It is most common that at any time the various positions in the account may each profit from different types of moves (both up and down). This dynamic can allow the strategy to make profits (or losses) in any market environment.

Options, by their very nature, may lose all of their value upon expiration. This is a high-risk strategy with the potential to make substantial returns or losses over a short period of time (on a percentage basis). With this in mind, our clients are limited to investing small portions of their investible assets into the strategy. Our options strategy is suitable only for clients who can and wish to invest a small portion of their portfolio in a speculative investment strategy and we recommend clients limit their investment in this strategy to no more than 3% of their overall liquid, investable assets.

### **Vista Capital Fund II, LLC**

Vista Capital Fund II, LLC (Fund II) is a private fund investing primarily in real estate (residential), with a focus on purchasing properties that require some improvement prior to resale. As a secondary option, the properties will be held as income producing assets. We believe that recent economic conditions have resulted in opportunities to purchase certain types of real estate assets at favorable prices. This fund is illiquid and may be purchased by only our clients who qualify according to the investment’s legal offering memorandum. WGC Management, LLC, manages fund II. This management LLC is owned and managed by Jeffrey Watts, David Watts, and Brad Gwilliam. Client assets that are invested in the fund are charged fees at the fund level. The value of client assets put into the fund are excluding from other billing. Because the fund offers a performance-based incentive fee, there is a conflict of interest in recommending this investment to clients. However, within our fiduciary duties, we are careful to ensure that no client invests at a level that would create excessive risk to their total portfolio allocation. The Vista Capital Fund II is currently closed to new investors.

### **Vista Capital Fund III, LLC**

Vista Capital Fund III, LLC (Fund III) is a private fund investing primarily in real estate (commercial and residential), with a focus on purchasing properties that require some development and improvement prior to resale. As a secondary option, the properties will be held as income producing assets. We believe that current economic conditions favor development in

small retail, commercial, industrial and residential, particularly in situations where a purchase agreement or long-term lease is in force prior to investing. This fund is illiquid and may be purchased by only our clients who qualify according to the investment's legal offering memorandum. Vista Partners, LLC, manages fund II. This management LLC is owned and managed by Jeffrey Watts, David Watts, Brad Gwilliam and Ben Cooper. Client assets that are invested in the fund are charged fees at the fund level. The value of client assets put into the fund are excluding from other billing. Because the fund offers a performance based incentive fee, there is a conflict of interest in recommending this investment to clients. However, within our fiduciary duties, we are careful to ensure that no client invests at a level that would create excessive risk to their total portfolio allocation. Vista Capital Fund III is currently closed to new investors.

#### **Vista Capital Fund IV: AK Courtyard, LLC**

Vista Capital Fund IV: AK Courtyard, LLC (Fund IV) is a private fund investing primarily in the development, construction and operation of a Courtyard Marriott hotel located in Anchorage Alaska. This fund is considered non-diversified as its investing in a single project. Fund IV is illiquid and may be purchased by only our clients who qualify according to the investment's legal offering memorandum. Vista Partners AK, LLC, manages the fund. This management LLC is managed Ben Cooper, with Jeffrey Watts, David Watts and Brad Gwilliam overseeing the manager, providing strategic direction to the fund and handling client administrative issues. Fund IV will not be accessed a fee and serves as a pass through vehicle to the actual investment LLC. All fees will be charged at that level, with the manager (Vista Partners AK) being compensated through that LLC. We've used this structure to eliminate any double charging of fees. The value of client assets put into the fund are excluding from other billing done by Watts Gwilliam & Co. Because the principals of Watts Gwilliam are compensated through the performance of the fund, there is a conflict of interest in recommending this investment to clients. However, within our fiduciary duties, we are careful to ensure that no client invests at a level that would create excessive risk to their total portfolio allocation. Vista Capital Fund IV is currently closed to new investors.

#### **Watts Gwilliam PATH Program**

The PATH program is a technology-based platform designed to help investors who are in the accumulation phase of their wealth management cycle. The program allows clients to electronically establish accounts, set goals, and save toward those objectives. Unlike Watts Gwilliam's private clients (non-PATH clients), investors in this program receive advice and are serviced primarily through electronic methods (email, webinars, etc). While our advisors are available to assist when needed, investors in this program receive less one-on-one guidance and consultations.

Investment management in PATH is done through automated investment platforms that streamline deposits, rebalancing and portfolio allocation. Accounts in the program are diversified using only exchange traded funds (ETFs), and will include investments in U.S. and non-U.S. stocks, bonds, cash, and other liquid investments. Technology is used to ensure that the portfolio is kept within a tolerable range. Any triggers to rebalance the account (market movements, new cash deposits, etc) happen automatically and at the discretion of the manager.

The PATH program uses Betterment Securities (Betterment) as the custodian of the account. This means that accounts are opened at Betterment, in the name of the investor, and Watts Gwilliam is designated as the advisor to oversee the account. Betterment is responsible for providing account

statements (at least quarterly), tax reporting, etc. While Betterment provides many benefits to the clients (goal modeling, tracking, automatic investment programs, etc), they also provide services intended to help us manage the account. Some of these service are to assist with back-office functions related to the account, educational events, technology support, etc. We believe that our selection of Betterment for this program is in the best interest of our clients. Our selection is primarily supported by the scope, quality, and price of Betterment Securities' services and not Betterment Institutional and Betterment Securities' services that benefit only us.

Fees and costs for the program are disclosed on the client agreement. The calculation of fees in this program is done as described above. However, unlike private clients of Watts Gwilliam, fees charged in the PATH program are done in arrears, not in advance. As clients in the program grow their wealth, they may be encouraged to leave PATH for the opportunity to receive more one-on-one counsel and advisement as a private client.

### **Methods of Analysis**

Watts Gwilliam & Co. uses a combination of charting, technical and fundamental methods to assess risks and opportunities in the financial markets.

Throughout the investment process, we review numerous sources of information such as financial newspapers and magazines, research materials prepared by others, annual reports, prospectuses and filings with the Securities and Exchange Commission, rating services and company press releases.

### **Risk of Loss**

Investing in securities involves risk of loss. Despite all due care, investment decisions made for our client accounts are subject to various market, currency, economic, political and business risks, and those investment decisions will not always be profitable. Examples of specific risks are described in more detail below.

## ITEM 9: DISCIPLINARY INFORMATION

Watts Gwilliam & Company has no disciplinary events.

## ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Certain of Watts Gwilliam & Co.'s associated persons are also licensed insurance agents. Within this capacity, they may recommend the purchase of insurance products, such as life insurance and index annuities. These advisors may be compensated by the insurance company for selling insurance or fixed (or index) annuities. This does present a potential conflict of interest and all such transactions are done with proper disclosures.

## ITEM 11: CODE OF ETHICS

Watts Gwilliam & Co. has a duty of utmost good faith to act solely in the best interests of each of our clients. Our clients entrust us with their funds, which in turn places a high standard on our

conduct and integrity. Our fiduciary duty compels all employees to act with the utmost integrity in all of our dealings. This fiduciary duty is the core principle underlying our Code of Ethics, and represents the expected basis of all of our dealings with our clients. Our written code of ethics includes standards of conduct, protection of material, non-public information, and personal conduct. A copy of our code of ethics is available upon request.

#### **Client Related Securities**

From time to time, our officers, and other employees, may invest alongside the firm's clients. This is done to both align the interests of the firm personnel and firm clients and as an expression of confidence in our portfolio management efforts. It is also acknowledged that we perform investment management for clients with varying investment goals and risk profiles. As such, the investment advice may differ between clients and investments made by the company's officers. When a decision is made to purchase, or sell, a security, priority will always be given to the client's orders before those of a related or associated person to the advisor.

#### **ITEM 12: BROKERAGE PRACTICES**

Watts Gwilliam & Co. uses Fidelity Investments, TD Ameritrade Institutional, a division of TD Ameritrade, Inc. (member FINRA/SIPC), Interactive Brokers and Betterment Securities (PATH Program discussed above) as its custodians for private client assets. The firm has chosen these custodians on the basis of reasonable, straightforward commission structure, integrity, and financial stability. As a function of using the services of these custodians for its private clients' assets, the firm enjoys access to certain research reports to which we might not otherwise have access. The availability of these reports is in no way a function of the number or type of trades the firm executes on behalf of its clients. Watts Gwilliam & Co. receives no cash benefits from the custodians.

Watts Gwilliam participates in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services that include custody of securities, trade execution, clearance and settlement of transactions. Advisor receives some benefits from TD Ameritrade through its participation in the Program. (Please see the disclosure under Item 14. below.)

In addition to the custodians listed above, Watts Gwilliam & Co. may, from time to time, utilize other custodians for transactions not available through Fidelity, T.D., Interactive Brokers or Betterment. Such cases are generally not applicable to most of the firm's clients. However, when such cases arise, only custodians that are widely recognized for their financial size and strength are used.

#### **Order Aggregation**

Transactions for each client account generally will be affected independently, unless we decide to purchase or sell the same securities for several clients at approximately the same time. We may choose to aggregate such orders to obtain best execution or to allocate equitably among our

client's differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among our clients in proportion to the purchase and sale orders placed for each client account on any given day.

#### **Participation or Interest in Client Transactions**

The trading fees paid by our clients comply with the duty to obtain "best execution." In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Financial Institution's services and the fees for those services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Watts Gwilliam & Co. seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services that assist us in our investment decision-making process. Such research generally will be used to service all of our clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because we do not have to produce or pay for the products or services. The products received qualify as "brokerage or research services" under Section 28(e) of the Securities Exchange Act of 1934 ("Exchange Act").

#### ITEM 13: REVIEW OF ACCOUNTS

A member of our investment committee and/or the advisor who oversees the particular account reviews individual accounts on an ongoing basis. This process is facilitated by the fact that we run model portfolios, not unique accounts for each household. While some client portfolios are created, and managed, outside our investment models, using models creates efficiency in overseeing client assets. Certain clients may impose restrictions on their holdings. In cases of such restrictions, we work carefully to align the portfolio as closely as possible to our models. Accounts are monitored on a portfolio management system that provides current and comprehensive information concerning account performance, asset allocation (both globally across all household accounts and on accounts individually), and the progress of individual positions in the portfolio.

Account reviews are a routine firm function and monitored through practice management software. Reviews can also be triggered, or intensified, by unexpected performance, shifting market conditions, or changing client preferences or circumstances. In both routine and unusual circumstances, the central purpose of the review process is to ensure that the firm's clients understand both what and how their accounts are doing. An additional purpose is to reaffirm that the client's investment mix remains suitable for their changing needs.

Clients receive monthly statements for each of their investment accounts. The production of these statements is generally outsourced to the account custodian. Upon request, clients may receive more detailed reports through the firm's portfolio management software (available through our



website) and may access account information using our custodian's Internet resources. We advise clients to compare custodian statements with any separate adviser statements.

Watts Gwilliam & Co. typically meets with clients in person on a quarterly or semiannual basis. Some clients may desire more, or less, frequent meetings. During these meetings, client accounts are thoroughly reviewed and any changes in the client's needs and goals are discussed. These meetings are also used to update the client's other investment and financial planning needs. While scheduling client meetings in advance is preferred, clients may visit the office at any time. In addition to these written or formal methods, the firm communicates regularly with its clients through email and telephone.

#### ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

As disclosed under Item 12. above, Watts Gwilliam participates in TD Ameritrade's institutional customer program and Advisor may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between our participation in the program and the investment advice we give to Clients, although Watts Gwilliam receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Advisor by third party vendors. Some of the products and services made available by TD Ameritrade through the program may benefit Advisor but may not benefit its Client accounts. These products or services may assist us in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help us manage and further develop our business. The benefits we receive do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of our fiduciary duties to clients, we endeavor at all times to put the interests of clients first. Clients should be aware, however, that the receipt of economic benefits by our firm in and of itself creates a potential conflict of interest and may indirectly influence the Advisor's choice of TD Ameritrade for custody and brokerage services.

Watts Gwilliam may receive client referrals from TD Ameritrade through its participation in TD Ameritrade AdvisorDirect. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, we may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with Watts Gwilliam and there is no employee or agency relationship between them. TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does

not supervise Watts Gwilliam and has no responsibility for our management of client portfolios or our other advice or services. Watts Gwilliam pays TD Ameritrade an on-going fee for each successful client referral. For referrals that occurred through AdvisorDirect before April 10, 2017, this fee is a percentage (not to exceed 25%) of the advisory fee that the client pays to Advisor ("Solicitation Fee"). For referrals that occurred through AdvisorDirect on or after June 9, 2017 the Solicitation Fee is an annualized fee based on the amount of referred client assets that does not exceed 25% of 1%, unless such client assets are subject to a Special Services Addendum. In the case of a Special Services Addendum, the Solicitation Fee is an annualized fee based on the amount of referred client assets that does not exceed 10% of 1%. Watts Gwilliam will also pay TD Ameritrade the Solicitation Fee on any assets received from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired us on the recommendation of such referred client. Watts Gwilliam will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form. Watts Gwilliam's participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, Watts Gwilliam may have an incentive to recommend to clients that the assets under management by Advisor be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. In addition, Watts Gwilliam has agreed not to solicit clients referred to it through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. Watts Gwilliam's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

#### **Separate Accounts and Solicitor Agreements**

Watts Gwilliam & Co. may be hired as a "sub-advisor" on other investment platforms. In these situations, advisors unaffiliated with our firm outsource the investment supervisory services of certain clients to Watts Gwilliam & Co. This can be done through a "solicitor agreement" in which case the referring advisor is paid a referral fee. Details of a solicitor agreement are found on a solicitor disclosure document signed by the client prior to Watts Gwilliam & Co. managing the assets. Solicitors can include other investment advisers, accounting firms and law firms. Using Watts Gwilliam & Co. as a sub-advisor can also be done through a signed tri-party agreement. The tri-party agreement outlines the details of the relationship, including the responsibility of the Manager (Watts Gwilliam), the Advisor (referring advisor) and the Client.

#### ITEM 15: CUSTODY

Custody by investment advisers means holding client funds or securities, directly or indirectly, or having the authority to obtain possession of them. For example, advisers have custody when the adviser has possession of client funds and securities or has power of attorney to sign checks on a client's behalf, to withdraw funds or securities from the client's account, or to otherwise dispose of a client's assets for any purpose other than authorized trading. Investment advisers who have custody of their clients' funds or securities must safeguard those funds as required by the SEC's



“custody rule.” The custody rule is designed to provide additional safeguards for investors against the possibility of theft or misappropriation by investment advisers who are registered with the SEC.

In most cases, Watts Gwilliam & Co. does not take possession of client funds (custody). Instead, our firm chooses custodians to hold client accounts (see Brokerage Practices above). On occasion, we may manage private investments that require the use of custody to manage the investment. Currently, we manage and have custody in the Vista Capital Fund II and Vista Capital Fund III (see above). In so much as a client has chosen to invest in these funds, our firm does have “custody” of this portion of their investments. In accordance with custody rules, the fund completes an annual audit, and follows other necessary guidelines to safeguard our client’s fund that are invested in the fund.

#### ITEM 16: INVESTMENT DISCRETION

Watts Gwilliam & Co. generally manages assets on a fully discretionary basis. This is done only at the client’s written request. This means that we are able to direct transactions to buy, or sell, securities in client accounts without first approving the transaction with the client. In these instances, we implement an investment program that is considered prudent, appropriate, and suitable to the nature of the account and our understanding of the client’s general characteristics. You may elect to limit this discretion. For example, you may request that we contact you prior to trading a specified security, or may impose restrictions on the types of securities used. Limitations are listed on the client agreement.

The ability to exercise discretion and trade client accounts is limited to trading authority. Watts Gwilliam & Co. is not authorized to move money outside of accounts registered to the client.

#### ITEM 17: PROXY VOTING

We do not complete or participate in proxy voting for clients.

#### ITEM 18: FINANCIAL INFORMATION

There are no financial conditions that are reasonably likely to impair our ability to meet contractual commitments to clients.

## **BROCHURE SUPPLEMENT-SUPERVISED PERSONS**

### **Jeffrey S. Watts, Founding Member**

#### Education:

Brigham Young University; BS Business Finance

#### Employment

Watts Gwilliam & Co.; May 2004-present

Merrill Lynch Pierce Fenner & Smith; May 1998-May 2004

Other Business Activities: Member of Vista Partners LLC, the Managing Member of the Vista Capital Fund, LLC. Member of WGC Management LLC, the Managing Member of the Vista Capital Fund II, LLC. Licensed life insurance agent.

Outside Compensation: Minimal compensation earned through the sale of life insurance products and as loan originator. Fees and profit sharing earned as manager of Vista Capital Fund, LLC.

Disciplinary History: None

### **D. Bradford Gwilliam, Founding Member**

#### Education:

Arizona State University; BS Business Finance

#### Employment

Watts Gwilliam & Co.; May 2004-present

Merrill Lynch Pierce Fenner & Smith; May 1999-May 2004

Pilgrim Securities; September 1998-May 1999

Bank of America Investments; January 1996-September 1998

Other Business Activities: Member of Vista Partners LLC, the Managing Member of the Vista Capital Fund, LLC. Member of WGC Management LLC, the Managing Member of the Vista Capital Fund II, LLC. Licensed life insurance agent.

Outside Compensation: Minimal compensation earned through the sale of life insurance products. Fees and profit sharing earned as manager of Vista Capital Fund, LLC.

Disciplinary History: None

### **David B. Watts, Founding Member**

#### Education:

Brigham Young University; BS Business Finance

#### Employment

Watts Gwilliam & Co.; May 2004-present

Merrill Lynch Pierce Fenner & Smith; December 1997-May 2004

Other Business Activities: Member of Vista Partners LLC, the Managing Member of the Vista Capital Fund, LLC. Member of WGC Management LLC, the Managing Member of the Vista Capital Fund II, LLC. Licensed life insurance agent.

Outside Compensation: Minimal compensation earned through the sale of life insurance products. Fees and profit sharing earned as manager of Vista Capital Fund, LLC.

Disciplinary History: None

**Mark Vest**Education:

Arizona State University, MBA  
University of Arizona: Bachelor's Degree

Employment

Watts Gwilliam & Co., 12/2007-Present  
Call Realty-Realtor; 01/2005-12/2009  
Bauerfeind-Director of Western Sales: 08/2001-04/2005  
Conmed-Area Director-Western Area; 06/1980-08/2001

Other Business Activities: None

Outside Compensation: None

Disciplinary History: None

**Jeffrey Fryer**Education:

Arizona State University, BS-Business Finance  
University of Phoenix, MBA

Employment

Watts Gwilliam & Co.; 12/2008-Present  
Charles Schwab & Co.-Senior Relationship Specialist; 08/1999-12/2008

Other Business Activities: None

Outside Compensation: None

Disciplinary History: None

**Carey McCrady**Education:

Western International University, BS in Accounting

Certification: Certified Financial Planner (CFP)

Employment

Watts Gwilliam & Co.; 12/2019-Present  
CSM Financial Planning; 06/2016-12/2019  
The Vanguard Group: 07/2006-06/2016

Other Business Activities: None

Outside Compensation: None

Disciplinary History: None

**Yuan (Jenny) Zhenhua**Education:

Barton College, BS in Business and HR

Employment

Watts Gwilliam & Co.; 12/2019-Present  
Merrill Lynch Pierce Fenner & Smith: 08/2017-08/2020  
JP Morgan Securities: 02/2014-09/2016  
Bank of America: 01/2012-02/2014

Other Business Activities: Board Member; Knox Gifted Academy. Volunteer position with no compensation. Minimal time commitment is required.

Outside Compensation: None

Disclosures: Discharged, Merrill Lynch, Pierce, Fenner & Smith Inc. Conduct involving instruction from and providing client information to an unauthorized third party. This conduct DID NOT result in customer harm.

Supervision

We oversee all advisors' personal security trades and correspondence. For further information, please contact Jeffrey Watts at 480-889-8998.

As part of Watts Gwilliam & Company's commitment to client trust, the confidentiality of personal information is paramount. We maintain high standards to protect personal information. We will remain vigilant in protecting that information and in using it in a fair and lawful manner.

This Pledge explains our privacy commitment. It describes the personal information that we collect and hold, and describes how we use, share and secure it. Covered by the pledge is the personal information of current and former Watts Gwilliam & Company clients, as well as prospective clients who offer personal information to Watts Gwilliam & Company as part of a potential client engagement.

In this pledge, "personal information" refers to any information relating to an identified individual, or any "nonpublic personal information".

#### WHAT INFORMATION DO WE COLLECT AND HOW DO WE COLLECT IT?

Based on our relationship with you, we collect personal information from and about you that is adequate, relevant, and appropriate under the circumstances. This information is collected from different sources, including, but not limited to, applications, forms, communications and other interactions. This information may include your name, address, e-mail address, telephone number, social security number or other identification number, income, financial goals, interests, sources of funds, and investment objectives.

#### HOW DO WE USE PERSONAL INFORMATION?

We use personal information to operate our business in a prudent and efficient manner. This may include, depending on the nature of your relationship with us, using it to evaluate financial needs; deliver integrated financial services; process and service transactions; respond to inquiries and requests; fulfill our obligations to you; work with your other financial, legal, insurance, and tax advisors; resolve disputes; prevent fraud; and perform risk control.

#### WHAT PERSONAL INFORMATION DO WE SHARE EXTERNALLY WITH NONAFFILIATED THIRD PARTIES AND WHY DO WE SHARE IT?

Watts Gwilliam & Company does not rent or sell personal information. In connection with the uses described above, we may, depending on the nature of your relationship with us, transfer some or all of your personal information to nonaffiliated third parties. These nonaffiliated third parties may be financial service providers (such as securities broker-dealers, banks or insurance companies) or others (such as professional services organizations, regulators, professional associations or other service providers). Among other things, these nonaffiliated third parties (a) help us carry out and finalize transactions; (b) provide us with consulting, accounting, legal and other services; and (c) help us develop, prepare and maintain our services and systems. Information may be provided to professional organizations, regulators, or others, to explain advice given to clients.

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<sup>1</sup> As defined under the U.S. Gramm-Leach-Bliley Act. This generally includes, but is not limited to, nonpublic information that you provide to us or that we obtain about you in connection with the client relationship.

#### HOW DO WE PROTECT CLIENT CONFIDENTIALITY AND SECURITY OF INFORMATION?

We educate our members and employees to treat personal information with care, and work to limit access to this information to individuals who need it for purposes stated in this pledge. We maintain and monitor our physical, electronic and procedural safeguards, updating them as needed so that we may protect personal information. We take such technical and organizational security measures, as we deem appropriate, to keep personal information confidential and secure against authorized or unlawful processing, and to prevent loss, destruction or damage.

We endeavor to keep our information current and complete. Information is kept only for so long as is necessary for business purposes or to meet legal and regulatory requirements. If, at any time, you become aware of any discrepancies in your personal information, please notify us and we will make the necessary corrections.

**RELATIONSHIP SUMMARY**  
**WATTS GWILLIAM AND COMPANY, LLC**  
**APRIL 2021**

Watts Gwilliam and Company is an investment adviser registered with the Securities and Exchange Commission. Investment advisory services and fees differ from brokerage services and fees and it is important for you to understand the differences. [Investor.gov/CRS](https://www.investor.gov/crs) is a website providing free and simple tools to research firms and financial professionals, and which provides educational materials about investment advisers, broker-dealers, and investing. We encourage you to ask us questions and have provided suggested conversation starters, "Questions to Ask Us," throughout this Relationship Summary.

**WHAT INVESTMENT SERVICES AND ADVICE CAN YOU PROVIDE ME?**

We offer investment advisory services to retail investors. We first meet with you to gain an understanding of your current financial situation, your short- and long-term goals, and your risk tolerance. We use this information to recommend an investment portfolio specific to your investment objectives, goals, and needs. We offer an options trading strategy for Qualified Clients only and subject to management of investments in \$25,000 increments. We refer some, typically smaller, accounts to a third-party manager. Our Investment Committee sets the firm's overall investment philosophy and underlying mix of asset classes. However, each advisory representative is responsible for monitoring the client portfolios of those clients he works with directly. We monitor accounts through an ongoing process with more formal account reviews conducted on a periodic basis and at least annually. Reviews are also triggered by material market, economic or political events, or by changes in your financial situation (such as retirement or termination of employment).

**Questions to Ask Us:**

- **Given my financial situation, should I choose an investment advisory service? Why or why not?**
- **How will you choose investments to recommend to me?**
- **What is your relevant experience, including your licenses, education, and other qualifications? What do these qualifications mean?**

We manage portfolios on a discretionary basis. When you grant us discretionary authority, this means we don't need to call you before buying or selling securities in your account. We obtain discretionary authorization through our signed advisory agreement with you. We offer advice on different types of securities. We do not have a minimum account size; however, we require a minimum investment amount of \$25,000 in our options trading strategy.

*For more detailed information about our services, please request a copy of our Form ADV, Part 2A brochure. Our brochure can also be found here: <https://adviserinfo.sec.gov/firm/brochure/131458>*

## WHAT FEES WILL I PAY?

We provide our general portfolio management for an asset-based fee, which is negotiable. Our management fee is based on your total assets under management with us. Our fee schedule is tiered, decreasing as your assets increase. Our maximum annual asset-based fee for portfolio management is 1.5%. We bill our fees quarterly in advance, usually deducted automatically from your account. When we charge asset-based fees, the more assets we manage, the more you'll pay in management fees, giving us incentive to encourage you increase your assets with us. Upon request we offer financial planning for a fixed fee based on the complexity of your particular situation. For clients in our options trading strategy, we charge a performance fee, not an asset-based fee, each calendar month for this strategy where a profit has been made. Performance fees create an incentive for us to take more risk for the potential for higher gains.

You will also pay fees charged by third parties for other services provided to you, including fees charged by third-party advisers, your custodian, and your broker-dealer. Examples of third-party costs include transaction fees, foreign tax withholding, regulatory fees, and wire transfers. Exchange traded funds (ETFs) and mutual funds also charge internal management fees, which reduce the return of investments over time. We are paid only through our own advisory fees.

*You will pay fees and costs whether you make or lose money on your investments. Fees and costs will reduce any amount of money you make on your investments over time. Please make sure you understand what fees and costs you are paying. Our [Form ADV, Part 2A \(Item 5 and Item 12\)](#) contain more detailed information about our fees and costs.*

### **Questions to Ask Us:**

- **Help me understand how these fees and costs might affect my investments. If I give you \$10,000 to invest, how much will go to fees and costs, and how much will be invested for me?**

## WHAT ARE YOUR LEGAL OBLIGATIONS TO ME WHEN ACTING AS MY INVESTMENT ADVISER? HOW ELSE DOES YOUR FIRM MAKE MONEY AND WHAT CONFLICTS OF INTEREST DO YOU HAVE?

*When we act as your investment adviser, we have to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests. You should understand and ask us about these conflicts because they can affect the investment advice we provide you.*

*Outside of their role with our firm, our financial professionals are invested in and at times involved in the management of private investments that they may also recommend to our clients. This creates a conflict of interest as our financial professionals either receive fees directly from those investments through their ownership or manager role, or they benefit as an investor from increased value of that investment. This gives them incentive to recommend those investments to clients, thereby increasing the overall investment value. Watts Gwilliam & Co. does not charge an investment management fee on any of those assets. Our receipt of asset-based fees is a conflict of interest. For example, if you asked us for a recommendation about paying down outstanding debt or making charitable contributions, versus keeping those funds in your accounts with us, we will always make the recommendation that we believe is in your best interest. At the same time, we have a conflict of interest in making the recommendation because we earn more advisory fees when you keep more assets in your account.*



The only direct revenue we receive is from the advisory fees you pay to us. We receive non-monetary benefits through our relationship with your broker-dealer/custodian, such as access to their institutional platform, research, technology services, and seminars. These benefits give us an incentive to recommend one particular broker-dealer/custodian over another.

**Questions to Ask Us:**

- **How might your conflicts of interest affect me, and how will you address them?**

*Our Form ADV, Part 2A contains detailed information about our conflicts of interest.*

**HOW DO YOUR FINANCIAL PROFESSIONALS MAKE MONEY?**

Our financial professionals receive variable compensation related to the amount of assets under management and total advisory fees generated. This creates a financial incentive to solicit and retain clients.

**DO YOU OR YOUR FINANCIAL PROFESSIONALS HAVE LEGAL OR DISCIPLINARY HISTORY?**

Yes. Visit [Investor.gov/CRS](https://www.investor.gov/crs) for a free and simple search tool to research our firm and our financial professionals.

**Questions to Ask Us:**

- **Who is my primary contact person?**
- **Is he or she also representative of a broker-dealer?**
- **Who can I talk to if I have concerns about how the service I am receiving?**

*For more detailed information about our investment advisory services, or to request another copy of this Relationship Summary, please contact us at (480) 889-8998 and speak to your advisory professional or our Chief Compliance Officer. You may also visit the SEC's public disclosure website at [www.adviserinfo.sec.gov](https://www.adviserinfo.sec.gov).*

**EXHIBIT OF MATERIAL CHANGES TO RELATIONSHIP SUMMARY**

**WATTS GWILLIAM AND COMPANY, LLC**

**MATERIAL CHANGES**

*We are required to highlight any material changes we make to this Relationship Summary and publish those changes within 30 days of the effective date of the change.*

We have added a new optional options trading strategy to our portfolio management. This strategy is suitable only for Qualified Clients. We charge a performance fee each calendar month for this strategy where a profit has been made. We do not charge an asset-based fee on assets managed in this strategy. Performance fees are a conflict of interest in that give us incentive to take higher risks for potentially higher returns. The minimum investment in this strategy is \$25,000.