

## Item 1: Cover Page

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

March 15, 2021

#### **Financial Solutions, LLC**

SEC File No. 801-107129

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This brochure provides information about the qualifications and business practices of Financial Solutions, LLC. If you have any questions about the contents of this brochure, please contact us at 262-542-5200. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any State securities authority. Registration with the SEC or any State regulatory authority does not imply a certain level of skill or expertise.

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

## **Item 2: Material Changes**

This Firm Brochure is our disclosure document prepared according to regulatory requirements and rules. Consistent with the rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

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## Item 4: Advisory Business

### A. Financial Solutions, LLC

Financial Solutions, LLC ("FS" and/or "the firm"), is a limited liability company formed in the state of Wisconsin. FS has been a registered investment adviser since 1993. The firm is owned by Timothy McGrath (25%), Horace Seely-Brown (31%), Kenneth Stuckert (31%), and William Kenton (13%).

### B. Services Offered

FS is an independent investment advisory and financial planning firm offering a variety of financial services to individuals and high-net-worth individuals, trusts, retirement plans, charitable organizations, and corporations (both profit and non-profit). Advisory services may include financial planning, investment strategy, portfolio management, and selection of other advisers.

#### B.1. Portfolio Management Services

FS provides discretionary and non-discretionary portfolio management services, where the investment advice provided is tailored to meet the needs and investment objectives of the client.

For its discretionary asset management services, FS receives a limited power of attorney to effect securities transactions on behalf of its clients that include securities and strategies described in Item 8 of this Brochure. FS will be granted discretion and authority to manage the account, subject to any written guidelines that the client may provide. Accordingly, FS is authorized to perform various functions, at the client's expense, without further approval from the client. Such functions include the determination of securities to be purchased/sold and the amount of securities to be purchased/sold. FS may utilize, in its sole discretion, one or more sub-advisers, wherein the sub-adviser will have discretion to manage all or a portion of the client's account, which management may be based on one or more model portfolios developed by the sub-adviser. FS will monitor the performance of any accounts managed by a sub-adviser on an ongoing basis and may hire and fire any sub-adviser without the consent of the client. FS will pay a portion of its fee to any sub-adviser(s) utilized by the firm; however, clients do not pay a higher fee than the firm's normal fee as a result of any sub-advisory relationships. Once the portfolio is constructed, FS provides ongoing supervision and rebalancing of the portfolio as changes in market conditions and client circumstances may require.

Where FS enters into non-discretionary arrangements with clients, the firm will obtain client approval prior to the execution of transactions. FS may offer asset allocation recommendations with respect to participants' retirement plan(s). In such cases, all advice will be rendered on a non-discretionary and periodic basis. The client is free at all times to accept or reject any investment recommendation from FS, and the client is solely responsible for implementing any recommendations made by the firm.

FS will remind clients of their obligation to inform the firm of any changes to their personal financial circumstances, investment objectives or risk tolerance, and modifications or restrictions that should be imposed on the management of the client's account. FS will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives, and tolerance for risk.

## **B.2. Investment Advisory Services - RASA**

FS recommends the Royal Advisory Services Account ("RASA") program, offered through Royal Alliance Association, Inc., a licensed full service securities broker/dealer and investment advisor under federal and state securities laws ("Royal"), as a non-commissionable advisory account where we can purchase load waived and no-load mutual funds and other equity, debt and option securities for clients.

FS's investment advisory services are predicated on the client's investment objectives, goals, tolerance for risk, and other personal and financial circumstances. FS will analyze each client's current investments, investment objectives, goals, age, time horizon, financial circumstances, investment experience, investment restrictions and limitations, and risk tolerance and implement a portfolio consistent with such investment objectives, goals, risk tolerance and related financial circumstances. FS's objective is to review the client's tax, financial, and estate planning objectives and goals in connection with the client's investment objectives, goals, tolerance for risk, and other personal and financial circumstances and make appropriate recommendations and implementation decisions. FS may engage third-party service providers to assist with the tax and estate planning portion of the services provided to clients. In addition, FS may utilize third-party software to analyze individual security holdings and separate account managers utilized within the client's portfolio.

FS's investment advisory services to clients take into account a client's personal financial circumstances, investment objectives and tolerance for risk (e.g., cash-flow, tax and estate). FS's engagement with a client will include, as appropriate, the following:

- Providing assistance in reviewing the client's current investment portfolio against the client's personal and financial circumstances as disclosed to FS in response to a questionnaire and/or in discussions with the client and reviewed in meetings with FS.
- Analyzing the client's financial circumstances, investment holdings and strategy, and goals.
- Providing assistance in identifying a targeted asset allocation and portfolio design.
- Implementing and/or recommending individual equity and fixed income securities, mutual funds and ETFs.
- Reporting to the client on a quarterly basis or at some other interval agreed upon with the client, information on contributions and withdrawals in the client's investment portfolio, and the performance of the client's portfolio measured against the client's stated goals.
- Proposing changes in the client's investment portfolio in consideration of changes in the client's personal circumstances, investment objectives and tolerance for risk, the

performance record of any of the client's investments, and/or the performance of any fund retained by the client.

- If the client's portfolio and personal circumstances, investment objectives, and tolerance for risk make such advice appropriate, providing recommendations to hedge a client's portfolio through the use of derivative strategies, to generate additional income through the use of covered call option writing strategies involving exchange listed or OTC options, and/or to monetize or hedge concentrated stock positions.

In addition to providing FS with information regarding their personal financial circumstances, investment objectives and tolerance for risk, clients are obligated to provide the firm in writing with any reasonable investment restrictions that should be imposed on the management of their portfolio, and to promptly notify the firm of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. FS will remind clients of their obligation to inform the firm of any such changes or any restrictions that should be imposed on the management of the client's account. FS will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

### **B.3. Third-Party Advisory Services**

FS offers clients the services of various third-party investment advisors for the provision of certain investment advisory programs, including mutual fund wrap allows the investor and separately managed account programs.

If interested in learning more about any of these services, please note that a complete description of the programs, services, fees and payment structure, and termination features is available via the applicable Third-Party Advisory Service's disclosure brochures, investment advisory contracts, and account opening documents.

In connection with these arrangements, FS will provide assistance in the selection and ongoing monitoring of a particular Third-Party Advisory Service. Factors that FS considers in the selection of a particular third party may include but may not be limited to:

- FS's assessment of a particular Third-Party Advisory Service
- The client's risk tolerance, goals, objectives and restrictions, as well as investment experience; and
- Assets the client has available for investment

The fees charged by Third-Party Advisory Services who offer their programs directly to clients may be more or less than the combined fees charged by the Third-Party Advisory Services and FS for our participation in the investment programs. However, when using the services of Third-Party Advisory Services directly, clients do not receive FS's expertise in developing an investment strategy, selecting a Third-Party Advisory Service, monitoring the performance of the client's account, and changing a Third-Party Advisory Service provider when appropriate.

#### **B.4. Financial Planning Services**

FS provides a variety of financial planning services regarding the management of clients' financial resources, based upon an analysis of client needs. Generally, such financial planning services will involve preparing a written financial plan based on the client's financial circumstances and objectives. This information typically covers present and anticipated assets and liabilities, including insurance, savings, investments, and anticipated retirement or other employee benefits, as well as a summary of the client's current estate plan.

When you receive financial planning services you may also purchase securities or insurance products offered through Royal Alliance or other vendor/sponsors pursuant to the plan or consultation. Members of FS may receive commissions as Registered Representatives of Royal Alliance or insurance agents in connection with such transactions. Thus, we may have a conflict of interest when providing financial planning services to you as there may be an incentive for us to recommend specific courses of action through our financial planning services that may lead to member of our Firm receiving additional compensation.

Please be aware that you are under no obligation to purchase products or services recommended by us or members of our firm in connection with our providing you with financial planning services, or any advisory services that we offer.

FS employs a four-step process in providing investment planning services: first, we analyze your business/personal financial goals and objectives against the structure and performance of the current portfolio; second, designing a diversified portfolio; third, implementing that design; and fourth, monitoring performance and reporting results.

- **Analysis:** We begin with an analysis of the client's present investment portfolio in terms of (i) overall diversification, (ii) historical performance, and (iii) congruence with objectives and risk tolerance. This analysis begins with a clear restatement of existing holdings. Overall diversification is measured and compared to the client's needs, both as to short-term and long-term objectives, as well as to liquidity within the portfolio. We discuss the client's tolerance for risk.
- **Design:** In light of the analysis and the client's stated goals and risk tolerance levels, we recommend repositioning that should be made to the current portfolio. For individuals, we estimate retirement income needs and project income-producing assets available at retirement. In making recommendations as to asset repositioning, we determine which categories of investments are needed as well as a recommended percentage allocation among these generic categories.
- **Implementation:** In determining the specific investment managers used to implement the portfolio determined above, we rely on various independent sources such as Morningstar, NASDAQ, S & P, and others. The evaluation includes a quantitative analysis of past performance as well as information provided by independent sources.
- **Monitoring:** We assume responsibility for the monitoring of each investment program and sponsor, proactively recommending changes where deemed appropriate. While we remain sensitive to substantive short-term events, these investment vehicles are evaluated against our fundamental buy and hold strategy. In addition to information



provided by investment sponsors, such as monthly statements, quarterly reports, and periodic written updates, we communicate via regularly scheduled meetings with the client to review a comprehensive Statement of Financial Position. Our advisors are fully committed to making themselves available to respond to clients' questions and input.

### **B.5. 401(k) Plan Services**

Employees in qualified retirement plans are protected by the Employee Retirement Income Security Act of 1974 (ERISA), which requires employers, investment advisers, and plan administrators to put employees' interests first when managing retirement savings plans. Public retirement systems are governed by similar state laws and often incorporate the protections of ERISA.

In order to demonstrate that a plan fiduciary has operated in a prudent manner, there are certain steps that the fiduciary must take. FS is committed to helping fiduciaries understand their roles and to assist them in implementing a process that allows them to fulfill their duties and responsibilities.

FS offers sponsors of employee benefit plans (defined contribution and defined benefit) qualified under the Internal Revenue Code ("IRC"), and other retirement plans not qualified under the IRC a range of discretionary and non-discretionary services.

FS provides Retirement Plan Consulting Services for plan trustees, fiduciaries, and participants, which include the following:

- ***Assistance in Plan Design and Implementation.*** FS, after significant research and discussion with the plan trustee(s), will assist the trustee(s) with a plan design that is consistent with the needs of the company and its employees. Plan design is an important first step in the process. FS stays current with various types of plans and how they are utilized by competitors to ensure the company is offering a competitive plan that is cost-effective and which meets the needs of the company and its participants. Such services will usually involve:
  - Review of expected participation, deferral percentage, and asset allocation of enrollees versus similarly situated companies
  - Review of investment options in relation performance and risk
  - Review of total plan costs and how they compare against similarly situated companies
  - Review of compliance requirements and related costs
  - Participant education and communication needs
  - Recordkeeping and administration requirements
  - Review of technology platform
  - Recommendation
- ***Vendor Search, Selection, and Plan Implementation.*** FS also assists its retirement plan clients in selecting trustees, custodians, third-party administrators, accountants, actuaries, and other service providers. This process involves:

- Generating criteria to identify appropriate service providers
- Developing requests for proposals
- Objectively rating service providers
- Detailing potential conflicts of interest
- Evaluating highly rated service provider candidates
- Presenting to management

Once a service provider is selected, FS will assist a client in implementing the client's retirement plan program. In implementing the program, FS will, among other things, review the plan design, develop performance standards, and review the service provider's contract.

- ***Investment Selection and Monitoring.*** The process of investment selection and monitoring involves the following:

- Creating an investment policy statement
- Performing fund searches to ensure access to institutional funds
- Recommending lifestyle funds where appropriate
- Monitoring the investment options against well-defined risk and return criteria

FS's investment professionals work in partnership with clients to create sound solutions to investment challenges, including:

- Maximizing long-term return while not assuming unnecessary risk
- Creating an optimal portfolio that includes a diverse array of investment options that span the risk/return spectrum
- Keeping plan sponsors and participants current on mutual fund performance and the events that may affect performance

- ***Employee Education and Communications in Connection with Client Retirement Plan Programs.*** FS will provide assistance with employee education and communications as follows:

- Development and maintenance of investment policy statement
- Formalization and maintenance of investment review guidelines
- Investment and market research
- Investment consulting
- Service monitoring
- Group enrollment meetings
- Written materials
- One-on-one allocation and fund selection meetings
- Quarterly investment review and analysis

### **C. Client-Tailored Services and Client-Imposed Restrictions**

Clients' accounts will be managed on the basis of their financial situation and investment objectives, and in accordance with any reasonable restrictions they have imposed on the management of their accounts—for example, restricting the type or amount of security to be purchased in the portfolio.

### **D. Wrap Fee Programs**

FS recommends third-party wrap fee programs to clients, but does not sponsor or manage any of these programs. (Wrap fee programs offer services for one all-inclusive fee.) Details on these programs are provided in their respective wrap fee program brochures.

### **E. Client Assets Under Management**

As of December 31, 2020, FS had \$580,571,598 of discretionary assets and \$215,409,672 of non-discretionary assets under management.

## Item 5: Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### A.1. Asset-Based Fee Schedule

FS's fee for the services is an asset-based fee calculated as a percentage of the value of the managed assets according to the following fee schedule, which represents FS's maximum fees for individual services. All fees are negotiable.

<u>Assets Under Management</u>	<u>Annualized Fee</u>
\$1–\$3,000,000	1.00%
Over \$3,000,000	0.75%

FS requires a minimum account fee of \$1,000 for accounts it manages on a discretionary basis. As a result, there is an implied minimum portfolio size of \$100,000 at the highest fee tier. For accounts with portfolio values less than \$100,000, clients may be able to receive comparable services at more favorable pricing elsewhere. FS, in its sole discretion, may waive the required minimum. At its discretion, FS may allow accounts of members of the same household to be aggregated for purposes of determining the advisory fee—for example, where the firm services accounts on behalf of minor children of current clients, individual and joint accounts for a spouse, and other types of related accounts. This consolidation practice is designed to allow clients the benefit of an increased asset total, which could potentially cause the accounts to be assessed a reduced advisory fee based on the breakpoints available in FS's fee schedule as stated above.

Asset-based fees are always subject to the investment advisory agreement between the client and FS. Such fees are paid quarterly in advance. The clients and the client's custodian or broker-dealer will be invoiced at the beginning of each quarter, based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of the previous quarter, as mutually agreed upon by the client and FS. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a quarter. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance. FS has discretion as to the timing of liquidation and amount and type of assets. Adjustments for significant contributions to and distributions from a client's portfolio are prorated for the quarter in which the change occurs.

The client authorizes the qualified custodian to automatically deduct the fee and all other charges payable hereunder from the assets in the account when due, with such payments to be reflected on the next account statement sent to the client. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance. FS may modify the fee at any time upon 30 days' written notice to the client. In the event the client has an ERISA-governed plan, fee modifications must be approved in writing by the client.

A client investment advisory agreement may be canceled at any time by the client, or by FS with 30 days' prior written notice to the client. Upon termination, any unearned, prepaid fees will be promptly refunded. The firm calculates unearned fees as those fees paid in advance multiplied by the number of days left in the calendar quarter. For example, if the client paid quarterly fees of \$1,000 in advance and terminates the relationship 45 days into the quarter, the refund will be calculated as follows:  $\$1,000 \times (90-45) = \$500$ . The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

#### **A.1.a ERISA Accounts**

The advisor's fee for the services is an asset-based fee calculated as a percentage of the value of the managed assets according to the following fee schedule, which represents the advisor's maximum fees for individual services. All fees are negotiable.

<u>Assets Under Management</u>	<u>Annualized Fee</u>
First \$1,000,000	1.00%
Next \$4,000,000	0.75%
Over \$5,000,000	0.60%

FS requires a minimum fee of \$5,000 for retirement plans. As a result, there is an implied minimum plan size of \$500,000 at the highest fee tier. For plans with portfolio values less than \$500,000, the client may be able to receive comparable services at more favorable pricing elsewhere. FS, in its sole discretion, may waive the required minimum.

Generally, fees will be charged quarterly in arrears. The client will be invoiced at the beginning of each calendar quarter, based upon the market value of the retirement plan at the end of the previous quarter, as mutually agreed upon by the client and FS. Fees are computed by  $\text{portfolio value} \times \text{annualized fee} / 4$ .

A client investment advisory agreement may be canceled at any time by the client, or by FS with 30 days' prior written notice to the client. Upon termination, earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

#### **A.2. Third-Party Advisory Services Fees**

Compensation in connection with Third-Party Advisory Services generally consists of six elements:

1. Management fees paid to Third-Party Advisory Services
2. Management fees paid to FS as outlined below
3. Transaction costs if applicable, which may be paid to purchase and sell such securities
4. Custody fees
5. Revenue sharing compensation paid to Royal Alliance Associates, Inc. ("Royal Alliance"), the securities broker-dealer with which members of FS are associated

6. Fees paid to Royal Alliance for administrative and supervisory services.

The Third-Party Advisory Services annual fee schedule is as follows:

<u>Assets Under Management</u>	<u>Annual Fee Rate</u>
\$0-\$1,000,000	0.50 to 2.00%
Next \$1,000,000	0.40% to 1.50%

For more complete fee details, please see the applicable third-party advisory service's disclosure brochures, investment advisory contracts, and account opening documents.

### **A.3. Financial Planning Fee Schedule**

#### **A.3.a. Ongoing Agreement (Advisory Clients)**

FS does not take custody of client funds. FS may charge up-front fees for the analysis, which are negotiable and billed to client upon completion of the financial plan, or analysis, design and implementation phases of its activities ranging from \$250.00 to \$2,500.00 depending upon each situation. The fee is billed in arrears; clients are invoiced in January for the previous calendar year.

The client may terminate the agreement at any time by giving at least five days' written notice to FS. FS may terminate the agreement upon giving at least 30 days' written notice to the client. Upon termination, any earned, unpaid fees will be due and payable. An agreement for ongoing financial planning services may be canceled by the client, without penalty, during the first five business days after the client executes the agreement.

#### **A.3.b. One-Time Financial Planning (non-Advisory Clients)**

Financial planning fees will be billed at the rate of \$250 per hour or a fixed fee mutually agreed upon by the client and FS. For fixed fee arrangements, FS will provide the prospective client with an estimate of the fixed charges prior to finalizing the financial planning agreement; the fees generally range from \$500 to \$2500, depending on the scope and complexity of the plan, the client's situation, and the client's objectives. Estimates will be based upon a good faith estimate of the number of hours to complete the assignment multiplied by the hourly rate and re-evaluated at a later point. FS may require a minimum fee of \$500, which is payable in advance. The client will be billed for the remainder upon completion of the plan. Under no circumstances will FS require prepayment of a fee more than six months in advance and in excess of \$1200.

The financial planning agreement covers the initial financial plan and terminates upon completion and presentation of the report to the client. A financial planning agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination, any earned, unpaid fees will be due and payable. An agreement for one-time financial planning services may be canceled by the client, without penalty, during the first five business days after the client executes the agreement.

#### **A.4. 401(k) Plan Services Fees**

The advisor's fee for the services is an asset-based fee calculated as a percentage of the value of the managed assets according to the following fee schedule, which represents the advisor's maximum fees for individual services. All fees are negotiable.

<u>Assets Under Management</u>	<u>Annualized Fee</u>
First \$1,000,000	1.00%
Next \$4,000,000	0.75%
Over \$5,000,000	0.60%

FS requires a minimum fee of \$5,000 for retirement plans. As a result, there is an implied minimum plan size of \$500,000 at the highest fee tier. For plans with portfolio values less than \$500,000, the client may be able to receive comparable services at more favorable pricing elsewhere. FS, in its sole discretion, may waive the required minimum.

Generally, fees will be charged quarterly in arrears. The client will be invoiced at the beginning of each calendar quarter, based upon the market value of the retirement plan at the end of the previous quarter, as mutually agreed upon by the client and FS. Fees are computed by portfolio value x annualized fee / 4.

This Agreement may be terminated at any time by the Client with written notice of termination or by Advisor with thirty (30) days' prior written notice of termination as set forth in this Section 13. Upon termination by either party, any fees paid in advance to Advisor will be prorated to the effective date of termination, with any unearned balance being promptly refunded.

### **B. Client Payment of Fees**

#### **B.1. Asset-Based Fees**

Other than for 401(k) plans and financial planning services, FS requires the prepayment of its investment advisory fees. FS requires clients to authorize the direct debit of fees from their accounts. Exceptions may be granted subject to the firm's consent for clients to be billed directly for our fees. For directly debited fees, the custodian's periodic statements will show each fee deduction from the account. Clients may withdraw this authorization for direct billing of these fees at any time by notifying us or their custodian in writing.

FS will deduct advisory fees directly from the client's account provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account. The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation. In the event of termination, all unearned, prepaid fees will be promptly refunded to the client.

#### **B.2. Third-Party Advisory Services Fees**

For information on payment of fees, please see the applicable Third Party Advisory Service's disclosure brochures, investment advisory contracts, and account opening documents.

### **B.3. Financial Planning Fees**

For an ongoing agreement, the fee is billed in arrears; clients are invoiced in January for the previous calendar year.

For one-time financial planning, FS may charge an up-front fee. The client will be billed for the remainder upon completion of the plan. Under no circumstances will FS require the prepayment of fees of \$1200 or more, six months or more in advance.

## **C. Additional Client Fees Charged**

All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by exchange-traded funds, mutual funds, separate account managers, pooled investment vehicles, broker-dealers, and custodians retained by clients. Clients will also pay separate per-trade transaction charges. Such fees and expenses are described in each exchange-traded fund and mutual fund's prospectus, each separate account manager's Form ADV and Brochure and Brochure Supplement or similar disclosure statement, each pooled investment vehicle's confidential offering memoranda, and by any broker-dealer or custodian retained by the client. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, a client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using FS may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

## **D. External Compensation for the Sale of Securities to Clients**

FS's advisory professionals are compensated primarily through a salary and bonus structure. FS's advisory professionals may be paid sales, service, or administrative fees for the sale of mutual funds or other investment products. FS's advisory professionals may receive commission-based compensation for the sale of securities and insurance products. Investment adviser representatives, in their capacity as a Royal Alliance registered representative, are prohibited from earning an advisory fee on the securities value transferred from an advisory client's Royal Alliance brokerage account unless commissions earned on such securities transactions occurred at least a 12–18 months prior to the transfer. Please see Item 10.C. for detailed information and conflicts and interest.

## **E. Important Disclosure – Custodian Investment Programs**

Please be advised that certain of the firm's investment adviser representatives are registered with a broker-dealer and/or the firm is a broker-dealer or affiliated with a broker-dealer. Under these arrangements, we can access certain investment programs offered through the broker-dealer that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. As such, the investment adviser representative and/or the firm



may have an economic incentive to recommend the purchase of 12b-1 or revenue share class mutual funds offered through the broker-dealer platform rather than from the investment adviser platform.

Please be advised that the firm utilizes certain custodians/broker-dealers. Under these arrangements we can access certain investment programs offered through such custodian(s) that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. Please note the following:

***Limitation on Mutual Fund Universe for Custodian Investment Programs:*** Please note that as a matter of policy we prohibit the receipt of revenue share fees from any mutual funds utilized for our advisory clients' portfolios. There are certain programs in which we participate where a client's investment options may be limited in certain of these programs to those mutual funds and/or mutual fund share classes that pay 12b-1 fees and other revenue sharing fee payments, and the client should be aware that the firm is not selecting from among all mutual funds available in the marketplace when recommending mutual funds to the client.

***Conflict Between Revenue Share Class (12b-1) and Non-Revenue Share Class Mutual Funds:*** Revenue share class/12b-1 fees are deducted from the net asset value of the mutual fund and generally, all things being equal, cause the fund to earn lower rates of return than those mutual funds that do not pay revenue sharing fees. The client is under no obligation to utilize such programs or mutual funds. Although many factors will influence the type of fund to be used, the client should discuss with their investment adviser representative whether a share class from a comparable mutual fund with a more favorable return to investors is available that does not include the payment of any 12b-1 or revenue sharing fees given the client's individual needs and priorities and anticipated transaction costs. In addition, the receipt of such fees can create conflicts of interest in instances (i) where our adviser representative is also licensed as a registered representative of a broker-dealer and receives a portion of 12b-1 and or revenue sharing fees as compensation – such compensation creates an incentive for the investment adviser representative to use programs which utilize funds that pay such additional compensation; and (ii) where the custodian receives the entirety of the 12b-1 and/or revenue sharing fees and takes the receipt of such fees into consideration in terms of benefits it may elect to provide to the firm, even though such benefits may or may not benefit some or all of the firm clients.

***Additional Disclosure Concerning Wrap Programs:*** To the extent that we either sponsor or recommend wrap fee programs, please be advised that certain wrap fee programs may (i) allow our investment adviser representatives to select mutual fund classes that either have no transaction fee costs associated with them but include embedded 12b-1 fees that lower the investor's return ("sometimes referred to as "A-Shares," depending on the mutual fund issuer), or (ii) allow the use of mutual fund classes that have transaction fees associated with them but do not carry embedded 12b-1 fees (sometimes referred to as "I-Shares," depending on the mutual fund sponsor). Wrap fee programs offer investment services and related transaction services for one all-inclusive fee (except as may be described in the applicable wrap fee program brochure). The trading costs are typically absorbed by the firm and/or the investment representative. If a client's account holds A-Shares within a wrap fee program, the firm and/or its

investment adviser representative avoids paying the transaction fees charged by other mutual fund classes, which in effect decreases the firm's costs and increases its revenues from the account. Effectively, the cost is transferred to the client from the firm in the form of a lower rate of return on the specific mutual fund. This creates an incentive for the firm or investment adviser representative to utilize such funds as opposed to those funds that may be equally appropriate for a client but do not carry the additional cost of 12b-1 fees. As a policy matter, the firm does not allow funds that impose 12b-1 or revenue sharing fees on the client's investment within its wrap fee programs. Clients should understand and discuss with their investment adviser representative the types of mutual fund share classes available in the wrap fee program and the basis for using one share class over another in accordance with their individual circumstances and priorities.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

FS does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in their best interests.

## Item 7: Types of Clients

FS offers its investment services to various types of clients, including individuals and high-net-worth individuals, trusts, retirement plans, pension and profit sharing plans, charitable organizations, corporations, partnerships, and other legal entities. Although FS provides investment services to the various types of clients mentioned, the services are conditioned upon meeting certain minimum criteria established by the firm for each of the investment programs it offers.

FS requires a minimum account fee of \$1,000 for accounts it manages on a discretionary basis. As a result, there is an implied minimum portfolio size of \$100,000 at the highest fee tier. For accounts with portfolio values less than \$100,000, clients may be able to receive comparable services at more favorable pricing elsewhere. FS, in its sole discretion, may waive the required minimum. At its discretion, FS may allow accounts of members of the same household to be aggregated for purposes of determining the advisory fee—for example, where the firm services accounts on behalf of minor children of current clients, individual and joint accounts for a spouse, and other types of related accounts. This consolidation practice is designed to allow clients the benefit of an increased asset total, which could potentially cause the accounts to be assessed a reduced advisory fee based on the breakpoints available in the firm's fee schedule as stated above.

FS requires a minimum fee of \$5,000 for retirement plans. As a result, there is an implied minimum plan size of \$500,000 at the highest fee tier. For plans with portfolio values less than \$500,000, the client may be able to receive comparable services at more favorable pricing elsewhere. FS, in its sole discretion, may waive the required minimum.

For its one-time financial planning services (non-advisory clients), FS requires a minimum fee of \$500 payable in advance.

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

### **A. Methods of Analysis and Investment Strategies**

FS uses a variety of sources of data to conduct its economic, investment and market analysis, such as financial newspapers and magazines, economic and market research materials prepared by others, conference calls hosted by mutual funds, corporate rating services, annual reports, prospectuses, and company press releases. It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

FS and its investment adviser representatives are responsible for identifying and implementing the methods of analysis used in formulating investment recommendations to clients. The methods of analysis may include quantitative methods for optimizing client portfolios, computer-based risk/return analysis, technical analysis, and statistical and/or computer models utilizing long-term economic criteria.

- Optimization involves the use of mathematical algorithms to determine the appropriate mix of assets given the firm's current capital market rate assessment and a particular client's risk tolerance.
- Quantitative methods include analysis of historical data such as price and volume statistics, performance data, standard deviation and related risk metrics, how the security performs relative to the overall stock market, earnings data, price to earnings ratios, and related data.
- Technical analysis involves charting price and volume data as reported by the exchange where the security is traded to look for price trends.
- Computer models may be used to attempt the future value of a security based on assumptions of various data categories such as earnings, cash flow, profit margins, sales, and a variety of other company specific metrics.

In addition, FS reviews research material prepared by others, as well as corporate filings, corporate rating services, and a variety of financial publications. FS may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

#### **A.1. Mutual Funds, Exchange-Traded Funds, Independent Investment Managers and Pooled Investment Vehicles, Individual Equity and Fixed Income Securities**

FS may recommend (i) separate account managers to manage client assets; (ii) no-load and load-waived mutual funds and individual securities (including fixed income instruments); and (iii) pooled investment vehicles. Such management styles may include, among others, large-cap, mid-cap, and small-cap value, growth, and core; international and emerging markets; and alternative investments. FS may also assist the client in selecting one or more appropriate manager(s) for all or a portion of the client's portfolio. Such managers typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that FS will take into account when recommending managers to clients.

A description of the criteria to be used in formulating an investment recommendation for mutual funds, exchange-traded funds, individual securities (including fixed income securities), managers, and pooled investment vehicles is set forth below.

FS has formed relationships with third-party vendors that

- provide a technological platform for separate account management
- prepare performance reports
- perform due diligence monitoring of mutual funds, managers, and pooled investment vehicles
- perform billing and certain other administrative tasks

FS may utilize additional independent third parties to assist in recommending and monitoring individual securities, mutual funds, managers, and pooled investment vehicles to clients as appropriate under the circumstances.

FS reviews certain quantitative and qualitative criteria related to mutual funds and managers and to formulate investment recommendations to its clients. Quantitative criteria may include:

- the performance history of a mutual fund or manager evaluated against that of its peers and other benchmarks
- an analysis of risk-adjusted returns
- an analysis of the manager's contribution to the investment return (e.g., manager's alpha), standard deviation of returns over specific time periods, sector and style analysis
- the fund, sub-advisor or manager's fee structure
- the relevant portfolio manager's tenure

Qualitative criteria used in selecting/recommending mutual funds or managers include the investment objectives and/or management style and philosophy of a mutual fund or manager, a mutual fund or manager's consistency of investment style, and employee turnover and efficiency and capacity.

Quantitative and qualitative criteria related to mutual funds and managers are reviewed by FS on a quarterly basis or such other interval as appropriate under the circumstances. In addition, mutual funds or managers are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the mutual fund or manager by FS (both of which are negative factors in implementing an asset allocation structure).

FS may negotiate reduced account minimum balances and reduced fees with managers under various circumstances (for example, for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive any reduced account minimum balances or fees, or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have

an impact on fees given the mutual funds or managers utilized. FS will endeavor to obtain equal treatment for its clients with mutual funds or managers, but cannot assure equal treatment.

FS will regularly review the activities of mutual funds and managers utilized for the client. Clients that engage managers or invest in mutual funds should first review and understand the disclosure documents of those managers or mutual funds, which contain information relevant to such retention or investment, including information on the methodology used to analyze securities, investment strategies, fees, and conflicts of interest. Similarly, clients qualified to invest in pooled investment vehicles should review the private placement memoranda or other disclosure materials relating to such vehicles before making a decision to invest.

### **A.2. Investment Methodology – 401(k) Plans**

FS will generally recommend lifestyle funds. The lifestyle fund enables plan participants to choose the appropriate model portfolio that fits with their tolerance for risk. Lifestyle funds use the client's age as a barometer for the composition of the underlying fund portfolio assets. For example, someone in their 70's will have a lifestyle fund that is composed of securities that are heavily weighted in high-quality fixed income; younger participants will likely have a lifestyle fund whose portfolio is more weighted in equities.

### **A.3. Material Risks of Investment Instruments**

FS typically invests in equity securities, corporate debt instruments, municipal fixed income instruments, government securities including asset-backed securities, and options on securities as detailed below:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange-traded funds
- Corporate debt securities, commercial paper, and certificates of deposit
- Municipal securities
- U.S. government securities
- Corporate debt obligations
- Private placements
- Option contracts on securities
- Pooled investment vehicles
- Structured products
- Government and agency mortgage-backed securities
- Mortgage-backed securities
- Collateralized obligations

### **A.3.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

### **A.3.b. Warrants and Rights**

Warrants are securities, typically issued with preferred stock or bonds, that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors, and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

### **A.3.b. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

### **A.3.c. Exchange-Traded Funds ("ETFs")**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>"), iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear their pro rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by



hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employ the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

#### **A.3.d. Corporate Debt, Commercial Paper, and Certificates of Deposit**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of ten years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be prepayment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

#### **A.3.e. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **A.3.f. U.S. Government Securities**

U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **A.3.g. Corporate Debt Obligations**

Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity

of less than nine months. FS may also invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

#### **A.3.h. Private Placements**

Private placements carry significant risk in that companies using the private placement market conduct securities offerings that are exempt from registration under the federal securities laws, which means that investors do not have access to public information and such investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the start-up phase of their business, or require additional capital to complete another phase in their growth objective. In addition, the securities issued in connection with private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are thus illiquid and cannot be readily converted to cash.

#### **A.3.i. Options on Securities**

A call option is a contract under which the purchaser of the call option, in return for a premium paid, has the right to buy the security (or index) underlying the option at a specified price at any time during the term of the option. The writer of the call option, who receives the premium, has the obligation upon exercise of the option to deliver the underlying security against payment of the exercise price. A put option gives its purchaser, in return for a premium, the right to sell the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy, upon exercise of the option, the underlying security (or a cash amount equal to the value of the index) at the exercise price. The amount of a premium received or paid for an option is based upon certain factors, including the market price of the underlying security, the relationship of the exercise price to the market price, the historical price volatility of the underlying security, the option period and interest rates.

#### **A.3.j. Pooled Investment Vehicles**

A pooled investment vehicle, such as a commodity pool or investment company, is generally offered only to investors who meet specified suitability, net worth and annual income criteria. Pooled investment vehicles sell securities through private placements and thus are illiquid and subject to a variety of risks that are disclosed in each pooled investment vehicle's confidential private placement memorandum or disclosure document. Investors should read these documents carefully and consult with their professional advisors prior to committing investment dollars. Because many of the securities involved in pooled investment vehicles do not have transparent trading markets from which accurate and current pricing information can be derived, or in the case of private equity investments where portfolio security companies are privately held with no publicly traded market, FS will be unable to monitor or verify the accuracy of such performance information.

### **A.3.k. Structured Products**

Structured products are designed to facilitate highly customized risk-return objectives. While structured products come in many different forms, they typically consist of a debt security that is structured to make interest and principal payments based upon various assets, rates or formulas. Many structured products include an embedded derivative component. Structured products may be structured in the form of a security, in which case these products may receive benefits provided under federal securities law, or they may be cast as derivatives, in which case they are offered in the over-the-counter market and are subject to no regulation.

Investment in structured products includes significant risks, including valuation, liquidity, price, credit and market risks. One common risk associated with structured products is a relative lack of liquidity due to the highly customized nature of the investment. Moreover, the full extent of returns from the complex performance features is often not realized until maturity. As such, structured products tend to be more of a buy-and-hold investment decision rather than a means of getting in and out of a position with speed and efficiency.

Another risk with structured products is the credit quality of the issuer. Although the cash flows are derived from other sources, the products themselves are legally considered to be the issuing financial institution's liabilities. The vast majority of structured products are from high-investment-grade issuers only. Also, there is a lack of pricing transparency. There is no uniform standard for pricing, making it harder to compare the net-of-pricing attractiveness of alternative structured product offerings than it is, for instance, to compare the net expense ratios of different mutual funds or commissions among broker-dealers.

### **A.3.l. Government and Agency Mortgage-Backed Securities**

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHLMC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities. Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. government.

### **A.3.m. Corporate Debt Obligations**

Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow

money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. FS may also invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

#### **A.3.n. Mortgage-Backed Securities**

Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations, and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities, or by non-governmental entities such as special-purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, FS may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and underwriting criteria for individual mortgages included in the pools. In addition, many mortgages included in pools are insured through private mortgage insurance companies.

Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts, with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled prepayments as loans in the underlying mortgage pool are paid off by the borrowers. Additional prepayments to holders of these securities are caused by prepayments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As prepayment rates of individual pools of mortgage loans vary widely, it is not possible to accurately predict the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

#### **A.3.o. Collateralized Obligations**

Collateralized mortgage obligations ("CMOs") are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-class debt obligations. Payments of principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as "tranches") of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all tranches on a

monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

Collateralized debt obligations ("CDOs") include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of high-risk, below-investment-grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

## **B. Investment Strategy and Method of Analysis Material Risks**

### **B.1. Margin Leverage**

Although FS, as a general business practice, does not utilize leverage, there may be instances in which exchange-traded funds, other separate account managers and, in very limited circumstances, FS will utilize leverage. In this regard please review the following:

The use of leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment. The use of leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers that carry customer accounts have a minimum equity requirement when clients utilize leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to satisfy a margin deposit or withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

## **B.2. Short-Term Trading**

Although FS, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

## **B.3. Technical Trading Models**

Technical trading models are mathematically driven based upon historical data and trends of domestic and foreign market trading activity, including various industry and sector trading statistics within such markets. Technical trading models, through mathematical algorithms, attempt to identify when markets are likely to increase or decrease and identify appropriate entry and exit points. The primary risk of technical trading models is that historical trends and past performance cannot predict future trends, and there is no assurance that the mathematical algorithms employed are designed properly, updated with new data, and can accurately predict future market, industry, and sector performance.

## **B.4. Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

FS as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading
- Short call option strategy
- Short put option strategy
- Equity collars
- Long straddles

### **B.4.a. Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the money call option against a long security position held in the client portfolio. This type of transaction is used to generate

income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

#### **B.4.b. Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.4.c. Long Put Option Purchases**

Long put option purchases allow the option holder to sell or “put” the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.4.d. Option Spreading**

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder “locks in” a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; clients may contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

#### **B.4.e. Short Call Option Strategy**

Short call option strategy is highly speculative and has theoretical potential for unlimited loss. The seller (writer) of the call option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain below the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security increase above the contract strike price, then the option writer can either purchase the call option at a loss, or through a process of exercise and assignment be forced to sell the stock at the contract strike price. If this happens, the option writer will have to go in the open market and buy an equivalent amount of stock to cover the sale at prices that can be materially higher than the amount received from the sale.



**B.4.f. Short Put Option Strategy**

Short put option strategy is highly speculative and has theoretical potential for significant loss. The seller (writer) of the put option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain above the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security decrease below the contract strike price, the option writer can either purchase the put option at a loss, or through a process of exercise and assignment be forced to buy the stock at the contract strike price. If this happens, the option writer will be purchasing the underlying security at a price potentially well above its then-current market value, exposing the investor to potential loss.

**B.4.g. Equity Collar**

A collar combines both a cap and a floor. A cap gives the purchaser of the cap the right (for a premium payment), but not the obligation, to receive the difference in the cost on some amount when a specified index rises above the specified "cap rate." A floor is the opposite of a cap—it gives the purchaser of the floor the right (for a premium payment), but not the obligation, to receive the difference in interest payable on an amount when a specified index falls below the specified "floor rate." A collar involving stock is called an "equity collar." In a collar transaction, the buyer of the collar purchases a cap while selling a floor indexed to the same rate or asset. A zero-cost collar results when the premium earned by selling a floor exactly offsets the cap premium.

**B.4.h. Long Straddle**

A long straddle is the purchase of a long call and a long put with the same underlying security, expiration date and strike price. This is a speculative trade that may be profitable when volatility is high and will result in a loss when prices of the underlying security are relatively stable.

**C. Concentration Risks**

There is an inherent risk for clients whose investment portfolios lack diversification—that is, they have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.



## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

FS has nothing to disclose for this item.

### **B. Administrative Enforcement Proceedings**

FS has nothing to disclose for this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

FS has nothing to disclose for this item.

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

### **A. Broker-Dealer or Representative Registration**

Members and registered advisory personnel of FS are registered representatives of Royal Alliance Associates, Inc. ("Royal Alliance"). Royal Alliance is a diversified financial services company registered with FINRA as a broker-dealer engaged in the offer and sale of securities products. FS professionals licensed with Royal Alliance as registered representatives spend less than 25% of their time engaged in commission product sales through Royal Alliance.

As a result of FS members and registered professionals' affiliation with Royal Alliance, such professionals, in their capacity as registered representatives of Royal Alliance, are subject to the general oversight of Royal Alliance and the Financial Industry Regulatory Authority Inc. ("FINRA"). As such, clients of FS should understand that their personal and account information is available to FINRA and Royal Alliance for the fulfillment of their regulatory oversight obligations and duties.

Further, a potential conflict of interest may be deemed to exist as a result of FS personnel being licensed with Royal Alliance; in that regard please note the following:

- The recommendation of securities transactions for commission creates a conflict of interest in that FS is economically incented to effect securities transactions for clients;
- The client is under no obligation to act upon FS's recommendation; and
- If the client elects to act on any of the recommendations, the client is under no obligation to effect the transaction through Royal Alliance.

Please note that the registration of FS personnel with Royal Alliance is to facilitate the sale of securities products. All FS managed portfolios are established at Pershing LLC. Please see Item 12 of this Brochure for additional details regarding FS's relationship with Pershing.

### **B. Futures or Commodity Registration**

Neither FS nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator, or commodity trading adviser and do not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

#### **C.1. Royal Alliance Associates, Inc.**

Certain representatives of FS are associated with Royal Alliance Associates, Inc. ("Royal Alliance") as Registered Representatives. Royal Alliance a diversified financial services company registered with FINRA as a broker-dealer engaged in the offer and sale of securities products.

### **C.2. MJA, Inc.**

Tim McGrath is a 50% owner of MJA, Inc., which provides tax preparation services for individuals. Clients are advised that FS has an economic interest in recommending its affiliate, but are under no obligation to use the services of MJA, Inc.

### **C.3. Insurance Sales**

Certain managers, members, and registered employees of FS are licensed insurance agents. With respect to the provision of financial planning services, FS professionals may recommend insurance products offered by such carriers for whom they function as an agent and receive a commission for doing so. Please be advised there is a potential conflict of interest in that there is an economic incentive to recommend insurance and other investment products of such carriers. Please also be advised that FS strives to put its clients' interests first and foremost. Other than for insurance products that require a securities license, such as variable insurance products, clients may utilize any insurance carrier or insurance agency they desire. For products requiring a securities and insurance license, clients may be limited to those insurance carriers that have a selling agreement with FS's employing broker-dealer.

## **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

FS may refer clients to certain investment management firms in return for an ongoing portion of the advisory fee received by such investment manager. See Item 14 for additional disclosure.

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

### **A. Code of Ethics Description**

In accordance with the Advisers Act, FS has adopted policies and procedures designed to detect and prevent insider trading. In addition, FS has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of the firm's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the Chief Compliance Officer of the firm. FS will send clients a copy of its Code of Ethics upon written request.

FS has policies and procedures in place to ensure that the interests of its clients are given preference over those of the firm, its affiliates, and its employees. For example, there are policies in place to prevent the misappropriation of material nonpublic information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

### **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

FS does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, FS does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

### **C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

FS, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which FS specifically prohibits. FS has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest,
- prohibit front-running, and
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow FS's procedures when purchasing or selling the same securities purchased or sold for the client.

#### **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

FS, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other of the firm's clients. FS will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of FS to place the client's interests above those of the firm and its employees.

## Item 12: Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

#### A.1. Custodian Recommendations

FS may recommend that clients establish brokerage accounts with Pershing, a FINRA-registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although FS may recommend that clients establish brokerage accounts with Pershing, FS is independently owned and operated and not affiliated with Pershing. Pershing is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through or that settle into Pershing accounts.

FS considers the financial strength, reputation, operational efficiency, cost, execution capability, level of customer service, and related factors in recommending broker-dealers or custodians to advisory clients.

In certain instances and subject to approval by the firm, FS will recommend to clients certain broker-dealers and/or custodians based on the needs of the individual client, taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by FS will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

##### A.1.a. Soft Dollar Arrangements

FS does not utilize soft dollar arrangements. FS does not direct brokerage transactions to executing brokers for research and brokerage services.

##### A.1.b. Institutional Trading and Custody Services

Pershing provides FS with access to its institutional trading and custody services, which are typically not available to Pershing's retail investors. These services are generally available to independent investment advisers on an unsolicited basis, at no charge to them so long as a minimum dollar commitment of the advisor's clients' assets are maintained in accounts at Pershing. Pershing's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or that would require a significantly higher minimum initial investment.

##### A.1.c. Other Products and Services

Pershing also makes available to FS other products and services that benefit FS but may not directly benefit its clients' accounts. Many of these products and services may be used to

service all or some substantial number of FS's accounts, including accounts not maintained at Pershing. Pershing also makes available to FS its managing and administering software and other technology that

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing, and other market data
- facilitate payment of FS's fees from its clients' accounts
- assist with back-office functions, recordkeeping, and client reporting

Pershing also offers other services intended to help FS manage and further develop its business enterprise. These services may include

- compliance, legal, and business consulting
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants, and insurance providers

Pershing may also provide other benefits such as educational events or occasional business entertainment of FS personnel. In evaluating whether to recommend that clients custody their assets at Pershing, FS may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers, and not solely the nature, cost, or quality of custody and brokerage services provided by Pershing, which may create a potential conflict of interest.

#### **A.1.d. Independent Third Parties**

Pershing may make available, arrange, and/or pay third-party vendors for the types of services rendered to FS. Pershing may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to FS.

#### **A.1.e. Additional Compensation Received from Custodians**

FS may participate in institutional customer programs sponsored by broker-dealers or custodians. FS may recommend these broker-dealers or custodians to clients for custody and brokerage services. There is no direct link between FS's participation in such programs and the investment advice it gives to its clients, although FS receives economic benefits through its participation in the programs that are typically not available to retail investors. These benefits may 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 FS 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
- Discounts on compliance, marketing, research, technology, and practice management products or services provided to FS by third-party vendors

The custodian may also pay for business consulting and professional services received by FS's related persons, and may pay or reimburse expenses (including client transition expenses travel, lodging, meals and entertainment expenses for FS's personnel to attend conferences). Some of the products and services made available by such custodian through its institutional customer programs may benefit FS but may not benefit its client accounts. These products or services may assist FS in managing and administering client accounts, including accounts not maintained at the custodian as applicable. Other services made available through the programs are intended to help FS manage and further develop its business enterprise. The benefits received by FS or its personnel through participation in these programs do not depend on the amount of brokerage transactions directed to the broker-dealer.

FS also participates in similar institutional advisor programs offered by other independent broker-dealers or trust companies, and its continued participation may require FS to maintain a predetermined level of assets at such firms. In connection with its participation in such programs, FS will typically receive benefits similar to those listed above, including research, payments for business consulting and professional services received by FS's related persons, and reimbursement of expenses (including travel, lodging, meals and entertainment expenses for FS's personnel to attend conferences sponsored by the broker-dealer or trust company).

As part of its fiduciary duties to clients, FS endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by FS or its related persons in and of itself creates a potential conflict of interest and may indirectly influence FS's recommendation of broker-dealers such as Pershing for custody and brokerage services.

## **A.2. Brokerage for Client Referrals**

FS does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

## **A.3. Directed Brokerage**

### **A.3.a. FS Recommendations**

FS typically recommends Pershing as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.



In connection with the provision of Third Party Advisory Services, our choice of custodian will be limited to those choices offered by the Third Party Advisory Service.

#### **A.3.b Client-Directed Brokerage**

Occasionally, clients may direct FS to use a particular broker-dealer to execute portfolio transactions for their accounts or request that certain types of securities not be purchased for their accounts. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage FS derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. FS loses the ability to aggregate trades with other FS advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

### **B. Aggregating Securities Transactions for Client Accounts**

#### **B.1. Best Execution**

FS, pursuant to the terms of its investment advisory agreement with clients, may have discretionary authority to determine which securities are to be bought and sold, and the price of such securities. FS effects securities transactions directly with the clients' custodian unless as otherwise directed by the client. FS recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. FS will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement
- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, FS seeks to ensure that clients receive best execution with respect to clients' transactions by blocking client trades to reduce commissions

and transaction costs. To the best of FS's knowledge, these custodians provide high-quality execution, and FS's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, FS believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

## **B.2. Security Allocation**

Since FS may be managing accounts with similar investment objectives, FS may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by FS in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

FS's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. FS will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

FS's advice to certain clients and entities and the action of FS for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of FS with respect to a particular investment may, for a particular client, differ, or be opposed to the recommendation, advice, or actions of FS to or on behalf of other clients.

## **B.3. Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if FS believes that a larger size block trade would lead to best overall price for the security being transacted.

#### **B.4. Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs, and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

FS acts in accordance with its duty to seek best price and execution and will not continue any arrangements if it determines that such arrangements are no longer in the best interest of its clients.

## Item 13: Review of Accounts

### A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved

FS assumes responsibility for the monitoring of each investment program sponsor, proactively recommending changes where it is deemed appropriate. While we remain sensitive to substantive short-term events, these investment vehicles are evaluated against our fundamental buy and hold strategy. In addition to monthly statements, quarterly reports and periodic written updates, communications include regularly scheduled meetings with the client to review a comprehensive written Statement of Financial Position report. Our firm is fully committed to making itself available to respond to client questions and input.

FS, at its discretion, may prepare a customized written investment policy statement ("IPS") for a client. Each client account is reviewed periodically by the managing member or his designee as specified in the client's IPS. Reviews include an inspection of portfolio holdings, change in account values, and actual allocation of the account as compared to the recommended allocation. Reviews may be conducted by any of FS's financial advisors.

### B. Review of Client Accounts on Non-Periodic Basis

FS may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how FS formulates investment advice.

### C. Content of Client-Provided Reports and Frequency

FS typically provides written reports to non-ERISA clients on at least an annual basis. These reports include

- changes in market values
- current and historical time-weighted performance statistics
- comparison to an appropriate benchmark index

FS will provide reports showing the investment performance of a client's account and a comparison of such account performance against the client's stated goals. The client's independent custodian also provides regular account statements directly to the client. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports created on behalf of the client by FS.

For ERISA clients, FS will not provide performance reports.

In addition, the client's independent custodian provides account statements directly to the client no less frequently than quarterly. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports created on behalf of the client by FS.

## Item 14: Client Referrals and Other Compensation

### A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest

#### A.1. Royal Alliance

FS's advisory representatives are Registered Representatives of Royal Alliance. This arrangement requires us to offer you advisory services and programs sponsored or approved by Royal Alliance. Royal Alliance sets limits on how much we can charge you for these advisory services. Some advisory programs have higher fee limits than others. As such, there may be an incentive for us to recommend to you advisory services or programs with higher limits. In addition, Royal Alliance may charge us certain usage fees and expenses to use their advisory programs which may decrease the amount of money we make when offering investment advice to you. Therefore, there may be an incentive to provide you with advisory programs and services that may be cheaper for us to use but not as suitable to your needs as other advisory programs that Royal Alliance sponsors which may be more expensive for us to use.

In addition, Royal Alliance offers our Advisory Representatives educational, training and incentive programs for those Advisory Representatives that meet certain sales production goals. There may be an incentive for us to manage your account in ways that assist us in meeting these production goals even if such strategies may not always be suitable for your account.

Certain Third Party Advisory Service programs may provide our Advisory Representatives with the opportunity to attend training or education conferences. Such conferences include the payment or reimbursement of travel, meals, and lodging expenses for attendees. Payment/reimbursement of expenses is not contingent upon sales targets or contests, but rather on total assets managed on their respective Third Party Advisory Service platforms. We may have an incentive to recommend third Party Advisory Service programs that provide us with the above referenced opportunities over those that do not.

When we offer you a Wrap Account, the fee for transactions executed in your account are included in your quarterly account fee. However, Royal Alliance will still assess the truncation charges to us. This may influence us to charge you a higher quarterly account fee than we would otherwise charge you in an effort to recoup from you the transaction charges Royal Alliance charges us. We may also have incentive to trade your account less often to lessen our transaction fees or to trade your account with certain securities where royal Alliance reduces or eliminates the transaction charges (such as the Focus Elite and FundVest programs mentioned below) to use eve if such trading strategies may not always to be suitable for your account.

Our Advisory Representatives participate in the Focus Elite and FundVest programs, provided by Royal Alliance. In these programs, transaction charges for purchasing securities that participate in these programs may be reduced or waived. This may provide us with incentive to invest your account in these securities over securities that do not participate in these programs to reduce our transaction costs even if such investments may not always be suitable for your account.

Royal Alliance has provided some of our Advisory Representatives with funding in the form of loans as incentive to establish, maintain or expand our broker-dealer relationships with Royal Alliance. Such loans are typically used to assist in the transition and expansion of our practice. All or a portion of the loans require cash repayments of principal and interest if specific production levels are not achieved over a specified time frame. Any year in which the practice achieves its production levels initiates pro-rata loan forgiveness by Royal Alliance. Thus, there may be an incentive for us to offer advisory services and programs to you that may not be suitable in an effort to achieve specific production levels.

While our security sales are reviewed for suitability by an appointed supervisor, you should be aware of the incentives we have to sell certain securities products and are encouraged to ask us about any conflict presented.

#### **A.2. Third-Party Investment Manager Referrals**

In addition to the information described in Items 10 and 12 of this Brochure, FS receives economic benefits from external sources. FS refers clients to certain investment management firms in return for an ongoing portion of the advisory fee received by such investment manager. All such arrangements are in compliance with Investment Advisers Act rule 206(4)-3. Generally, these requirements require the solicitor, FS, to have a written agreement with the investment management firm. FS must provide the client with a disclosure document describing the fees it receives from the investment management firm, whether those fees represent an increase in fees that the investment management firm would otherwise charge the client, and whether an affiliation exists between FS and the investment management firm.

### **B. Advisory Firm Payments for Client Referrals**

FS may pay compensation to persons introducing new client accounts to the firm.

## Item 15: Custody

FS is considered to have custody of client assets for purposes of the Advisers Act for the following reasons:

- The client authorizes us to instruct their custodian to deduct our advisory fees directly from the client's account. Advisory Clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances, and portfolio holdings in their accounts. Financial Solutions urges its clients to compare the account balance(s) shown on their Financial Solutions account statements to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.
- Our authority to direct client requests, utilizing standing instructions, for wire transfer of funds for first-party money movement and third-party money movement (checks and/or journals, ACH, Fed-wires). The firm has elected to meet the SEC's seven conditions to avoid the surprise custody exam, as outlined below:
  1. The client provides an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.
  2. The client authorizes the investment adviser, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
  3. The client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization, and provides a transfer of funds notice to the client promptly after each transfer.
  4. The client has the ability to terminate or change the instruction to the client's qualified custodian.
  5. The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client's instruction.
  6. The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.
  7. The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.



## **Item 16: Investment Discretion**

Clients may grant a limited power of attorney to FS with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In those cases, FS will exercise full discretion as to the nature and type of securities to be purchased and sold and the amount of securities for such transactions. Investment limitations may be designated by the client as outlined in the investment advisory agreement.

## Item 17: Voting Client Securities

FS does not take discretion with respect to voting proxies on behalf of its clients. FS will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of FS supervised and/or managed assets. In no event will FS take discretion with respect to voting proxies on behalf of its clients.

Except as required by applicable law, FS will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. FS has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. FS also has no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, FS has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients.

Where FS receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it will forward all notices, proof of claim forms, and other materials to the client. Electronic mail is acceptable where appropriate and where the client has authorized contact in this manner.

## **Item 18: Financial Information**

### **A. Balance Sheet**

FS does not require the prepayment of fees of \$1200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

FS does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There are no bankruptcy petitions to report.