



# FIRST FINANCIAL EQUITY CORPORATION

Wealth Management Company

## Part 2A of Form ADV: Firm Brochure

This brochure provides information about the qualifications and business practices of First Financial Equity Corporation. If you have any questions about the contents of this brochure, please contact us at 480-951-0079, or [compliancedept@ffec.com](mailto:compliancedept@ffec.com)

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

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

You can view this information about First Financial Equity Corporation on this website by searching our name First Financial Equity Corporation or by our CRD number: 16507

*\*Registration as an investment advisor does not imply a certain level of skill or training.*

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## ITEM 2: MATERIAL CHANGES

This section discloses material changes since the last annual updated Firm Brochure (Form ADV Part 2A) dated April 2020. There are no material changes.

You can obtain a copy of our most current Firm Brochure at any time by contacting us at 480-951-0079 or by downloading it from our firm's website at [www.ffec.com](http://www.ffec.com). Additional important disclosures are available on our website including the current Customer Relationship Summary which discusses our account offerings and important disclosures regarding the handling of your account(s). You may also obtain a copy of the Customer Relationship Summary from your Financial Advisor or by calling the number listed above.

- While not a material change, this brochure was amended from the April 2020 version to include information on a new product offering, FFEC Wealth Solutions.

Attached: ADV Part 2B, Brochure Supplement for your Investment Advisory Representative will accompany this document.

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## ITEM 4: ADVISORY BUSINESS

First Financial Equity Corporation ("FFEC") is dually registered as a broker dealer and a SEC registered investment adviser. FFEC is a member of Financial Industry National Regulatory Association ("FINRA") and the Securities Investors Protection Corporation ("SIPC"). The corporate headquarters is located in Scottsdale, Arizona. FFEC began conducting brokerage and advisory business in 1985. For more information on FFEC or its Investment Advisory Representatives, please visit [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### INTRODUCTION

FFEC, through its Investment Advisory Representatives ("IARs"), provide investment advisory services to its clients. There are a variety of alternatives available which provide different services, products, and cost structures. Details of these programs are described in this document and in the applicable investment advisory agreement. Please read these documents carefully and discuss with your IAR.

If you select to invest at FFEC through one of our IARs, they may provide trade execution services through their separate capacity as a registered representative and utilize one of the FFEC approved custodians. You are under no obligation to use FFEC or one of our IARs. Prior to establishing an account, you are required to sign a new account agreement with FFEC and the applicable custodian and sign an investment advisory contract. The fees charged for FFEC's investment advisory services may be higher or lower than those charged by other firms. IARs are typically also registered as a registered representative and as such, can also receive additional ongoing 12b-1 fees from the mutual fund company for the mutual fund positions you hold.

When determining whether one of the advisory programs available through FFEC is appropriate for your needs, you should consider the products and services desired and the overall fees charged. You should bear in mind that fee-based accounts, when compared with commission-based accounts, often result in lower costs during periods when trading activity is heavier, such as the year an account is established. However, during periods when trading activity is lower, the fee-based account arrangements might result in a higher annual cost as compared to a commission account. Thus, depending on your individual circumstances, the total cost for transactions under a fee account versus a commission account can vary significantly. Factors which affect the total cost include: account size, turnover rate, type and quantities of securities purchased or sold, commission rates and your tax situation. It should also be noted that lower fees for comparable service may be available from other sources. The exact fees and other terms will be outlined in the agreement between you and FFEC. You should discuss the advantages and disadvantages of fee-based and commission-based accounts with your IAR and you should read this Firm Brochure and the Customer Relationship Summary carefully as they explain the various programs offered through FFEC.

IARs and FFEC branch offices can use marketing names or other names that are held out to the public. Such names are known as "doing business as" or "DBA" names. The purpose of using a name other than FFEC is for the IAR to create a brand that is specific to the IAR and/or branch but separate from FFEC. The DBA businesses are legal entities of the IAR and not of FFEC. The IARs investment advisory activities are under the supervision of FFEC, and the advisory services of the IAR are provided through FFEC.

### GENERAL DESCRIPTION OF PRIMARY ADVISORY SERVICES

The following is a brief description of the primary services that IARs can also provide. A detailed description of each service available through FFEC is provided in the corresponding sections of this brochure and in the investment advisory contracts. It is important that you fully understand the investment advisory program you select. Your IAR is available to answer any questions you may have.

### FINANCIAL PLANNING AND CONSULTING

FFEC and your IAR can also provide Financial Planning and/or Consultation Services to design a plan to meet your financial objectives and needs based on a variety of factors including your financial situation and risk tolerance. FFEC's financial planning services typically include, but are not limited to, an analysis of the client's existing assets, investment objectives, insurance, investments, cash flows, risk tolerance, retirement projections, estate or business plans, savings plans, and expense. The scope of the financial plan can also be as broad or detailed as the client wishes. FFEC's consultation services could include, but are not limited to, investment advice regarding retirement, education or estate planning, or the modification of an

existing financial plan. For a client who requests advice on only a portion of their financial plan or regarding a limited project, FFEC and the IAR will provide consultation services within the defined scope.

Our IARs also provide advisory services in the form of comprehensive and limited scope financial planning services. Financial planning services do not involve the active management of client accounts. Instead, financial planning can be described as helping individuals determine and set their long-term financial goals, through investments, tax planning, asset allocation, risk management, retirement planning, and other areas. The role of a financial planner is to find ways to help the client understand his/her overall financial situation and help the client set financial objectives. It is important that you make you IAR aware of any changes to the original information provided as changes will affect the outcome.

Comprehensive planning services focus on a client's overall financial situation. Limited scope and consultations focus on specific areas of client concerns, for example portfolio review and evaluation or education funding planning. Limited scope and consultation services may not take all important financial issues into consideration.

## **INVESTMENT MANAGEMENT**

FFEC offers firm managed portfolios that are based on a client's life stage, risk tolerance and objectives. These accounts are managed on a discretionary basis. See the section titled FFEC Wealth Solutions and ask for a copy of the FFEC Wrap Program Brochure and investment advisory contract for more information.

Our IARs also provide advisory services in the form of investment management services. Investment management services involve providing clients with continuous and ongoing supervision over client accounts. This means that IARs monitor a client's account and make trades in client accounts or make recommendations when deemed necessary. These accounts can be managed on a non-discretionary or a discretionary basis. Clients that engage FFEC and the IAR on a non-discretionary investment advisory basis must understand that IARs cannot effect any transactions without obtaining prior consent from the client. Thus, in the event of a market correction during which the client is unavailable, the IAR will be unable to affect any account transactions (as it would for its discretionary accounts) without first obtaining the client's consent. In a discretionary account, a client gives the IAR and/or FFEC authority to execute which securities are bought and sold as well as the total amount to be bought and sold without obtaining the client's consent prior to each transaction. Clients grant this authorization by executing a discretionary trading power of attorney.

## **WRAP PROGRAMS**

The firm offers a Wrap Fee Program. Specific details can be found in the FFEC Wrap Fee Program Brochure which is publicly available on FFEC's web site [www.ffec.com](http://www.ffec.com) or a copy can be requested from FFEC or your IAR.

For Advisory Programs for which we offer Wrap Account pricing, the commission fee for transactions executed in your account are included in your quarterly account fee. As a result, we may charge you a higher quarterly account fee for a Wrap Account than a Non-Wrap account with separate advisory fees and transaction charges. Please consider that depending upon the level of the wrap fee charges, the amount of portfolio activity in the account, the value of services that are provided under the investment program, and other factors, the wrap fee may or may not exceed the aggregate cost of services if they were to be provided separately. Generally, wrap programs are relatively less expensive for actively traded accounts. However, they could result in higher overall costs to the Client in accounts that experience little trading activity.

Our firm manages wrap fee accounts in the same manner as non-wrap fee accounts. All accounts are managed on an individualized basis according to the client's investment objectives, financial goals, risk tolerance, etc. Whenever a fee is charged for services described in the Wrap Fee Program Brochure, we will receive all or a portion of the fee charged. As FFEC absorbs certain transaction costs in wrap fee accounts, it may have a financial incentive not to place transaction orders in those accounts since doing so increases its transaction costs. Thus, an incentive exists to place trades less frequently in wrap fee arrangements.

The custodian for Investment management assets will typically be Hilltop Securities, Inc. or TD Ameritrade. Other custodians will be used at the discretion of FFEC.

## FFEC Wealth Solutions

The FFEC Wealth Solutions Program offers clients the ability to invest in professionally managed portfolios that are geared towards different investment life stages. The portfolios are geared towards accumulation, shielding, or distribution. Within these stages, FFEC offers portfolios that are consistent with the client's risk profile, objectives, and needs. These portfolios offer diversified portfolios that are generally geared towards long-term appreciation. Minimum initial investment is \$25,000. Please request the FFEC Wrap Program Brochure for additional details.

### Life Stages

- The following describes the basic premise of each of the major portfolio categories.
- *Accumulation* – In the accumulation stage, the client's main goal is to build wealth over time. Compared to the other life stages, a client in the accumulation stage is generally willing to take on more risk for the possibility of obtaining greater rewards. Taking more risk typically increases the risk of loss. Since the FFEC Wealth Solutions portfolios will be diversified, the risk of loss is generally lower than investing in individual stocks.
- *Shielding* – In the shielding stage, the client's main goal is to build wealth but at the same time is looking to reduce the risk of loss. To accomplish this, the portfolios in this category contain assets which are believed to perform differently based on market and economic conditions. As market conditions change, it is possible that classes of assets act in concert with each other rather than opposite as historically was the case. While the losses may be lessened by following this strategy, the gains may also be lessened.
- *Distribution* – In the distribution stage, the client's main goal is to receive a certain level of distributions from the portfolio while also looking for appreciation on a portion of the assets over time. This portfolio will keep a portion of the assets in the account liquid for future distributions and the remainder invested.

### Portfolio Design and Management

The client's specific portfolio is selected based on the results of conversations between the customer and his/her financial advisor along with the completion of a risk profile or distribution analysis.

The purchasing and selling of securities in FFEC Wealth Solutions accounts will be done on a discretionary basis. This means that FFEC will buy and sell securities without getting prior authorization from you.

Investment decisions in the FFEC Wealth Solutions portfolios will be reviewed and determined by the FFEC Investment Committee utilizing internal and external resources. Please review the ADV Form 2B for a description of the experience and background of the FFEC Investment Committee members. Unless the client has advised FFEC to the contrary, in writing, there are no restrictions that the client has imposed upon FFEC with respect to the management of the client's assets. From time to time, FFEC receives research and consulting services from Horizon Investments ("Horizon") concerning portfolio construction and asset allocation. These portfolios contain funds managed by Horizon, from which Horizon receives management fee compensation. FFEC does not have to directly pay for this research. This arrangement can create an incentive for FFEC to direct client investments in Horizon-related securities or model portfolios based on an interest in receiving the research without having to directly pay for the same. Nonetheless, FFEC evaluates portfolio management decisions carefully and makes decisions that FFEC believes are in the best interests of clients. This can include considering that the research benefits are valuable to clients for managing their accounts. FFEC believes it balances these considerations appropriately and in clients' best interests. FFEC reserves the right to alter or cancel the services from Horizon in the future.

The portfolio's will be monitored and reviewed regularly, and if warranted, the percentage allocated to specific investments may be changed. Whole securities positions may be liquidated and added depending on market conditions, the performance of the securities, and other factors. The client is responsible to pay taxes based on the activity in the account(s). It is important to note that after the client's initial investment, the percentages allocated to each investment will stray from the model due to the performance each investment, deposits, withdrawals, dividends and other factors. FFEC will periodically (typically at least annually) rebalance the client's account to match the appropriate portfolio model.

## Fees

The client is responsible for the advisory fees charged by FFEC, fees charged by the custodian, and fees charged by the securities in which the customer is invested.

The FFEC advisory fee is based on the initial household deposit and will not change during the life of the account(s) unless agreed to by financial advisor and client and client signs a new fee schedule. Clients may be charged different rates depending on a number of factors including, but not limited to household assets, competitive factors, service levels, financial advisor business model, family relationship to financial advisor, and on other anticipated future business.

Combined Household Account Size	Maximum Total Fee
\$0 - \$500,000	2.50%
Over \$500,000 - \$1,000,000	2.25%
Over \$1,000,000 - \$5,000,000	1.75%
Over \$5,000,000	1.50%

- The FFEC advisory fees shall be payable quarterly, in advance, beginning when assets are deposited. The Fee for the first billing period will be calculated on a pro-rata basis beginning with the receipt of the initial investment/deposit. Thereafter, the fee will be charged in advance based on the market value of the client's account(s) at the close on the last business day of the quarter. The client authorizes the custodian to deduct fees from the client's account automatically for payment to FFEC. If there is not sufficient cash in the account to cover the FFEC advisory fee, FFEC may liquidate securities to cover the debit due to the fee.
- The client is responsible for all other fees, including fees from the custodian, TD Ameritrade. Please refer to the fee schedule issued by the custodian. The customer acknowledges receiving the schedule of fees by the custodian. The custodian may receive 12b-1 fees or other fees from the mutual funds or money market accounts in which client invests however the Adviser and its financial professionals do not receive any of these fees.
- The client is also responsible for any product-related fees. Mutual funds, exchange traded funds, and other securities may charge their own fees for invested assets, such as management fees, and such fees are apart from, and in addition to, the advisory fee and the custodian's fee. The client is responsible for paying the applicable product fees. Please read the product prospectus or related disclosure document for information regarding these fees.

## USE OF THIRD-PARTY INVESTMENT ADVISERS

The IAR could determine that it is in the interest of the client to have a Third-Party Investment Manager(s) (TPM) not affiliated with FFEC, provide portfolio management services for the client. FFEC has entered into agreements with a selection of third party manager platforms. To facilitate account reporting and investment management when utilizing TPMs, account assets are usually custodied at a custodian designated by the TPM. TPMs will generally require a client to have all securities transactions for the client's account processed by the custodian.

Once a client has selected a manager program from those presented, FFEC and IAR will supply the manager with information regarding the financial background, risk tolerance, and investment objectives of the client to the extent such information is provided by the client. The client then enters an advisory agreement with the manager's program whereby the manager(s) agrees to accept and manage the client's account on a discretionary basis in accordance with objectives of the client.

## TPMS: WRAP FEE PROGRAMS VERSUS PORTFOLIO MANAGEMENT PROGRAMS

FFEC IARs could offer third party investment advisory services through both wrap fee programs and traditional management programs. Under traditional management programs, there are two types of fees. The TPMs charge an investment advisory fee for advisory services, and additional fees charged for each transaction (buy, sell, exchange, etc.) by the custodian of the account. Under a wrap fee program, advisory services and transaction services are provided for one fee.

From a management perspective, there is not a fundamental difference in the way wrap fee accounts or traditional management accounts are managed. The significant difference is the way in which transaction services are paid. For additional information, please refer to the investment advisory contract.

## RETIREMENT PLAN CONSULTING

Our firm provides retirement plan consulting services to employer plan sponsors on an ongoing basis. Generally, such consulting services consist of assisting employer plan sponsors in establishing, monitoring and reviewing their company's participant-directed retirement plan. As the needs of the plan sponsor dictate, areas of advising could include: investment options, plan structure and participant education. Retirement Plan Consulting services typically include:

- Establishing an Investment Policy Statement – Our firm will assist in the development of a statement that summarizes the investment goals and objectives along with the broad strategies to be employed to meet the objectives.
- Investment Options – Our firm will work with the Plan Sponsor to evaluate existing investment options and make recommendations for appropriate changes.
- Asset Allocation and Portfolio Construction – Our firm will develop strategic asset allocation models to aid Participants in developing strategies to meet their investment objectives, time horizon, financial situation and tolerance for risk.
- Investment Monitoring – Our firm will monitor the performance of the investments and notify the client in the event of over/underperformance and in times of market volatility.

In providing services for retirement plan consulting, our firm does not provide any advisory services with respect to the following types of assets: employer securities, real estate (excluding real estate funds and publicly traded REITs), participant loans, non-publicly traded securities or assets, other illiquid investments, or brokerage window programs (collectively, "Excluded Assets"). All retirement plan consulting services shall be in compliance with the applicable state laws regulating retirement consulting services. This applies to client accounts that are retirement or other employee benefit plans ("Plan") governed by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). If the client accounts are part of a Plan, and our firm accepts appointment to provide services to such accounts, our firm acknowledges its fiduciary standard within the meaning of Section

3(21) or 3(38) of ERISA as designated by the Retirement Plan Consulting Agreement with respect to the provision of services described therein.

### **TAILORED RELATIONSHIPS**

Advisory services are tailored to the specific needs of each client. Prior to providing advisory services, the IAR will ascertain each client's investment goals, financial situation, risk tolerance, and objectives. The IAR then allocates and/or recommends that the client allocate investment assets consistent with the designated investment objective. The client could, at any time, impose reasonable restrictions on the IAR's services, but restrictions must be delivered to the IAR in writing, and must be signed by the client.

In performing services for the client, the IAR is not required to verify any information it received from the client or from the client's other professionals and the IAR is expressly authorized by the client to rely on this information. Each client is advised that it remains the client's responsibility to promptly notify the IAR if there is ever any change in the client's financial situation, risk tolerance or investment objectives for reviewing, evaluating or revising the IAR's previous recommendations or services to the client.

### **RETAIL INVESTOR BEST INTEREST OBLIGATION AND INVESTMENT STRATEGY SERVICES**

FFEC IARs will assist clients in determining their objective(s), risk tolerance, and investment strategy, prior and subsequent to opening an Asset Management account. Clients must contact us to notify us in writing of any changes in their investment objective(s) and/or financial situation. Our services are provided based on the individual needs of the client consistent with the client's profile and in the client's best interests. Clients are given the ability to impose reasonable investment restrictions in writing on their accounts.

FFEC provides investment supervisory services defined as giving continuous investment advice to a client and making investments for the client based on the individual needs of the client. FFEC provides its clients with a range of investment advisory services. These services could include:

- Assessment of the client's investment needs, risk tolerance, and objectives;
- Development of an asset allocation strategy designed to meet the client's objectives;
- Recommendations on account types and services based on a retail investors best interest;
- Investment recommendations based on the retail investor profile and in their best interest;
- Evaluation of investments meeting style, risk, and allocation criteria;
- Review of client accounts to ensure adherence to policy guidelines and asset allocation;
- Recommendations for account rebalancing, if necessary;
- Online and paper reporting of client account(s) performance and progress

FFEC will provide the client some or all of the above referenced investment advisory services consistent with their fiduciary obligations to the client, including acting in the clients best interests. Though all of the above referenced services could be offered, services offered are based on the type of account and your individual needs.

### **SEMINARS**

Our Advisory Representatives are permitted to host seminars on various financial topics that encourage clients to seek investment advisory services or purchase securities or insurance products. Fees for the seminars generally range from \$0 to \$300 per session. Fees could be negotiable for group rates and are negotiated based upon the number of attendees and the content of the seminar. Fees are due before the seminar or on the day of the seminar, as set forth in the seminar announcement. Cancellation and refund provisions for prepaid fees are disclosed in the seminar announcement or invitation.

## **CLIENT ASSETS MANAGED BY FFEC**

As of December 31, 2020, FFEC had non-discretionary assets under management of approximately \$399,423,447 and discretionary assets under management of approximately \$1,722,909,371.

## **BUSINESS CONTINUITY PLAN**

FFEC has established a Business Continuity Plan (BCP). The BCP describes how FFEC will respond to significant business disruptions and provide investors with alternative contact information in the case of a significant business disruption. The BCP summary is distributed when the client establishes an account and can be found at [www.ffe.com](http://www.ffe.com). The BCP is also available upon written request.

## **ITEM 5: FEES AND COMPENSATION**

This section provides details regarding FFEC's services along with descriptions of the service's (as outlined in Item 4 – Advisory Business) fees and compensation arrangements. FFEC has the right to refuse any investment advisory contract submitted for approval. If the appropriate disclosure brochure is not delivered to you at least 48 hours prior to you entering into an agreement with FFEC, then you have the right to terminate services without penalty within five (5) business days after entering into the agreement. For purposes of this provision, an agreement is considered entered into when all parties have executed the agreement.

Additional fees charged to the client directly by FFEC, excluding FFEC Wealth Solutions, are as described below:

- Non-retirement accounts are subject to a \$140 annual maintenance fee with the exception of DVP, UTMA, UGMA and non-profit organizations.
- Retirement accounts over \$5,000.00 market value are subject to a \$65.00 annual maintenance fee that includes IRA and ROTH Individual, rollover and beneficiary accounts, Simple, SEP and qualified plans. Health Savings (HAS) and Coverdell accounts are exempt from the fee.

## **FINANCIAL PLANNING AND CONSULTATION SERVICES**

The hourly fee for providing consultation services is negotiable but generally ranges from \$50.00 to \$350.00 per hour. Services can also be performed on a flat-fee basis. Flat-fees typically range between \$500.00 to \$1,500.00 but could be higher or lower depending on the scope of the plan. The rate and fee payment schedule are typically determined by the complexity of the project and the amount of time involved. The client payment for a plan or service is negotiable, but typically the fee is paid in its entirety up front or an estimate of the total fee is given to client by IAR and a deposit of 50% of the estimated hourly or flat-fee is due and payable upon execution of the agreement, with the balance of the fee due and payable upon receipt of the final written report or advisory service. It is possible for hourly or flat fees to be waived or refunded in instances where repositioning of the client's portfolio has generated commissions to FFEC and IAR. In the event of contract termination, which can occur by either the client or IAR giving notice to the other, prepaid fees received but not earned are returned to the client. Clients have the option to purchase investment products that IARs recommend through other brokers or agents that are not affiliated with FFEC.

## **ASSET-BASED FEE AGREEMENT**

Clients can retain IAR to provide financial consulting services based on assets held outside of FFEC. The fee for such services will be a percentage of all assets being managed by the IAR. The total fee may not exceed 2.5 % annually of the assets under management ("AUM").

Fees for on-going consultation services are due in accordance to the time frame agreed upon between you and your IAR. The exact fee you will be charged is contingent upon the nature and complexity of your overall financial circumstances.

The investment advisory fee will be divided and billed either on a monthly, quarterly, semi-annual, or annual basis. You and your IAR can also choose to have a one-time fee instead of the above billing options. Fees can be charged in advance or in arrears depending on the specific arrangement. The contract will automatically renew on an annual basis unless agreed upon to be a one-time fee.

Fees can be automatically deducted from client's accounts. In some situations, FFEC will directly bill clients.

As part of the automatic fee deduction process, please note the following:

- a) You provide written authorization permitting us to be paid directly from the managed account held by the independent custodian;
- b) Our firm sends an electronic request to the custodian indicating the amount of the fee to be paid from the client's managed account;
- c) Your independent custodian sends statements at least quarterly to you showing the market values for each security included in the assets and all disbursements in your account including the amount of the advisory fees paid to us;
- d) As required by paragraph (a)(2) of Rule 206(4)-2 under the Investment Advisers Act of 1940, if we send our own statement to our clients, we urge them to compare information provided in their statements with those from the qualified custodian in account opening notices and subsequent statements.

Clients could incur certain charges imposed by third parties' other than FFEC in connection with investments recommended through consulting arrangements, including but not limited to, product fees, such as for mutual funds, and fees from the broker dealer or custodian. A description of the mutual fund product fees and expenses are available in each investment company product prospectus.

Financial planning and/or consulting fees charged by FFEC are separate and distinct from the fees and expenses charged by investment company securities that would be recommended to you. IARs could waive agreed upon financial planning fees and expenses if you purchase products or enter into agreements for other services with the IAR. You and the IAR preparing the financial plan or providing the consultation services will determine the exact fee and the manner in which the fee is to be paid. IARs could negotiate fees with each of their clients based on the complexity of that client's personal circumstances, financial situation and the services that will be provided, the scope of the engagement, the client's gross income, the experience and standard fees charged by the IAR providing the services, and the nature and total dollar asset value of the assets that services will be provided on. In addition, fees could be negotiated based on whether the client has AUM with the IAR.

## **INVESTMENT MANAGEMENT**

Generally, fees for investment management will be based on a percentage of the assets under management. The investment advisory fee will be divided and billed on either a monthly, quarterly, semi-annual or annual basis. Fees could be charged in advance or in arrears depending on the specific offering or arrangement. The agreement will automatically renew on an annual basis unless agreed upon to be a one-time fee. Please refer to the applicable investment advisory agreement for more details on fees.

Fees could be automatically deducted from client's managed account upon prior written authorization by the client to do so. The Firm sends an electronic request to the custodian indicating the amount of the fee to be paid from the client's managed account. If there is insufficient cash in the account to pay fees due, assets will be sold to cover fees. The client will receive a statement from the independent custodian at least quarterly which will show the amount of the advisory fees paid to the Firm.

## **THIRD-PARTY MANAGER PROGRAMS**

Manager fees usually range between 0.35% to 2.00% per annum, which might be higher than those charged by other management services. FFEC and IAR will provide periodic assistance in evaluating manager(s) performance and, if necessary, recommend replacing a manager selected. Under the terms of Third-Party Manager Agreement



with FFEC, in return for referring a FFEC client in need of management services to a TPM, the manager program pays FFEC a fee, typically calculated as a percentage of AUM or as a percentage of the advisory fee received by the TPM from the client. Such fees are generally paid for as long as the account remains under management. A conflict of interest exists as TPMs offer different levels of compensation to FFEC and the IAR. Recommendations to clients must be made consistent with our fiduciary obligations and in the client's best interests. Please refer to your investment advisory contracts for additional details on fees. The TPM's platforms provide reports to clients at the frequency specified in the investment management agreements entered with the clients. A client's IAR is available to discuss reports and to assist the client with other matters associated with the third-party account. TPM platform fees vary based upon the value of AUM. Annual asset-based fees usually range from .25% to 1.50% of the AUM and cover FFEC and IAR fees only, not manager, transaction, or custodial fees. Fees are generally payable quarterly and in advance. Upon termination, all unearned prepaid fees are returned to the client. Clients usually authorize both the manager and FFEC to debit the client's account for the amount of fees due.

## **RETIREMENT CONSULTING**

IARs generally charge an hourly or flat-fee basis for pension consulting services. The hourly fee for providing consultation services is negotiable but generally range from \$50.00 to \$350.00 per hour. Services can also be performed on a flat-fee basis. Flat fees typically range between \$500.00 to \$5,000.00 but could be higher or lower depending on the scope of the plan. The rate and fee payment schedule are typically determined by the complexity of the project and the amount of time involved. The client payment for a plan or service is negotiable, but typically the fee is paid in its entirety, up front or an estimate of the total fee is given to client by IAR and a deposit of 50% of the estimated hourly or flat-fee is due and payable upon execution of the agreement, with the balance of the fee due and payable upon receipt of the final written report or advisory service.

## **CONSIDERATIONS**

IARs primarily recommend the purchase of no-load mutual fund securities and/or exchange traded funds (ETF) for implementing investment recommendations. However, FFEC recognizes that because its IARs could also be registered representatives with the broker-dealer, there is an inherent conflict of interest when selling products that charge a commission. Please be aware that compensation to a registered representative varies as commissions paid are different among products and providers. Prior to transacting any securities or advisory business, the IAR must disclose the fee structure and the commission structure to the client so that he or she may evaluate the fees. If there are trail commissions generated by a recommended product, this must be disclosed to the client. Details of trail commissions can be found in the product prospectus or offering circular which is provided to each client. Please read this information in detail. In a situation where FFEC and IAR are using commissioned products to implement the investment strategy, fees can be waived or offset in lieu of commission which must be properly disclosed to the client.

The IAR must also disclose whether the purchase of a particular investment product will add to the IAR's production volume for incentives such as gifts, trips, etc. An IAR who is managing an investment account positioned in mutual funds or variable contracts must disclose all management fees and expenses as described in the prospectus. Fees could be paid six (6) months in advance up to \$500.00, or could be billed in arrears on a monthly, quarterly, or other client agreed periodic schedule. FFEC and its IARs cannot assign, sell, or otherwise transfer a client's investment advisory contract unless they have written permission to do so from the client or the client's designated legal representative.

FFEC's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client unless otherwise noted. Clients could incur certain charges imposed by custodians, brokers, third-party investment, and other third- parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and ETFs also charge internal management fees, which are disclosed in the fund's prospectus. Such charges, fees, and commissions are exclusive of and in addition to FFEC's fee, and FFEC does not receive any portion of these associated fees and costs.

FFEC is affiliated with individuals that are also licensed insurance agents. Clients can choose to engage these persons, in their individual capacities, to effect insurance transactions on a commission basis. The recommendation by an IAR (who is also a licensed insurance agent) that a client purchase an insurance commission product presents a conflict of interest, as the receipt of commissions may provide an incentive to recommend insurance products based on commissions to be received, rather than on a client's need. No FFEC client is under any obligation to purchase any commission products from any of FFEC's IARs. FFEC has a related insurance agency where many IARs are licensed through to sell insurance products. Certain IARs sell insurance products through agencies unrelated to FFEC.

Clients are reminded that they could purchase insurance products recommended by FFEC through other, non-affiliated insurance agents.

While FFEC and IARs endeavor at all times to put the interests of their clients first as a part of FFEC's fiduciary duty over investment advisory accounts, clients should be aware that the receipt of commissions through the IARs separate capacity as a registered representative and additional compensation itself creates a conflict of interest and could affect the judgment of FFEC when offering services of its affiliated broker-dealer.

No FFEC client is under any obligation to purchase any commission products from any of the Adviser's representatives.

FFEC has not entered into revenue sharing arrangements with product sponsors.

## **VARIABLE ANNUITIES**

IARs can manage the sub-accounts of various approved variable annuities on either a discretionary or non-discretionary basis for a fee. The IAR can also use a third-party money manager to manage the sub-accounts. A fee of up to 1% could be charged for variable annuity management.

## **RECOMMENDATION OF THIRD-PARTY INVESTMENT ADVISERS**

IARs can provide asset allocation advice through programs of various outside third-party managers based on your individual, personal and financial goals, investment objectives, and risk tolerance. As a result, FFEC and your IAR receive a portion of the fee charged and collected by the Third Party Manager ("TPM") in the form of a solicitor fee or co-adviser fee. The fee is generally a portion of the overall management fee charged by the third-party.

Dependent on the individual programs sponsored by the TPM and based on information provided by you, your IAR will assist in selecting a suitable investment portfolio and asset allocation strategy that will be used by the program sponsor to properly allocate your assets in the investment portfolio. Your IAR will provide initial and ongoing client education concerning the asset allocation strategy selected by you and explain the rebalancing guidelines utilized with the investment allocation strategy selected. Clients will typically enter into an agreement directly with the unaffiliated TPM who shall provide asset management services. However, your IAR will periodically meet with you to discuss changes in your investment objectives and risk tolerance and current asset allocations within each portfolio. The program sponsor periodically changes the relative allocations among mutual funds in the portfolios. IARs will provide you, the client, with the respective TPM's disclosure brochure(s). We strongly suggest that you review these materials to familiarize yourself with the platform chosen.

IARs can also recommend Separately Managed Account programs (SMA) offered by a TPM. These programs specialize in SMA, private account management, timing, and multi-disciplined account services. Program sponsors provide full-time professional investment management by quality investment managers. Your IAR will assist you in selecting the manager(s) most aligned with your investment style based on your individual personal and financial goals, investment objectives, and risk tolerance. A SMA account portfolio is a customized portfolio that can consist of stocks and/or bonds and cash that is guided by a professional investment manager. The manager buys and sells stock and/or bonds on your behalf. Because you directly own the securities within their account, you have the option to specify investment restrictions (e.g., no alcohol or tobacco stocks), and can request tax-loss selling. Typically, one all-inclusive fee arrangement covers all the services provided by the SMA. A portion of the

SMA's annualized fee based on the total value of your portfolio is charged quarterly to your account and shared with FFEC and your IAR.

IARs are available to answer questions regarding your account and act as a relationship manager between you and the TPM. TPMs will generally take discretionary authority to determine the securities to be purchased and sold for you. Generally, FFEC and its associated persons do not have trading authority with respect to a client's managed account with the TPM. However, when your IAR is acting in a co-adviser role, you can give them discretion on certain activities such as moving among strategies and/or multiple managers.

While the actual fee charged to you will vary depending on the TPM, the portion retained by FFEC shall not exceed 1.50% in a solicitor role and not more than 2.25% in a co-adviser role. Overall management fees charged to you through this program will include the portion retained by the TPM and therefore could exceed the maximum amount allowed by FFEC. All fees are calculated and collected by the selected TPM firm who shall be responsible for delivering FFEC's portion of the client fee to FFEC.

TPM programs generally have account minimum requirements that will vary from Investment Adviser to Investment Adviser. Account minimums could be higher on fixed income accounts than equity-based accounts. A complete description of the TPM's services, fee schedules, and account minimums will be disclosed in the TPM's Form ADV, Wrap Brochure, or similar Disclosure Brochure which will be provided to you at the time an agreement for services is executed and the account is established. Client reports will depend upon the TPM.

Although FFEC reviews the performance of numerous third-party investment firms, FFEC enters into relationships with only a select number of TPMs that pass the FFEC due diligence process. TPMs recommended by an IAR must be approved by FFEC.

Clients are advised that IARs have a conflict of interest as TPMs offer different levels of compensation. IARs are required to place your best interest ahead of their own when making a recommendation.

Clients are advised that there could be other TPM programs that may be suitable for you that may be more or less costly. No guarantees can be made that your financial goals or objectives will be achieved. Further, no guarantees of performance can be offered.

#### **GENERAL DISCLOSURE REGARDING ERISA AND QUALIFIED ACCOUNTS**

The following disclosure is directed for clients of FFEC that are (i) a pension or other qualified employee benefit plan (including a 401(k) plan) governed by the Employee Retirement Income Security Act of 1974, as amended (ERISA); (ii) a tax-qualified retirement plan under section 401(a) of the Internal Revenue Code of 1986, as amended (the Code), and not covered by ERISA; or (iii) an individual retirement account (IRA) under Section 408 of the Code.

It is the client's responsibility to ensure FFEC and the IAR have been furnished complete copies of all documents that establish and govern the plan and evidencing client's authority to retain FFEC as an Investment Adviser. Clients must promptly furnish to FFEC any amendments to the plan and if any amendment affects the rights or obligations of FFEC, such amendment shall be binding on FFEC and the IAR only when agreed to by FFEC and the IAR in writing.

FFEC must maintain appropriate ERISA bonding coverage for their managed accounts and must include within the coverage of the bond FFEC, IARs, and their personnel as may be required by law.

FFEC's IARs, in their separate capacity as Registered Representatives of FFEC, and acting in full compliance with the FFEC policies and procedures, could retain a portion of the commissions charged to the client. These commissions could include mutual fund sales loads, 12b-1 fees and surrender charges, variable annuity fees and surrender charges, and IRA and qualified retirement plan fees. When managing ERISA and qualified accounts, the IAR must lower or offset the investment advisory fee by the amount of 12b-1 fees and other commissions received in the event such types of compensation are received by the IAR in his/her individual capacity as a Registered Representative of FFEC.

#### **ADDITIONAL FEES AND EXPENSES**

Mutual fund investments in the programs that we offer are no-load or load at net asset value ("NAV"). Your mutual fund investments could be subject to early redemption fees, 12b-1 fees and mutual fund management fees as well as other mutual fund expenses. These fees are in addition to the fees and expenses referenced above. Please review the mutual fund prospectus for full details.

Variable annuity companies generally impose internal fees and expenses on your variable annuity investment, including contingent deferred sales charges and early redemption fees. In addition, variable annuity companies generally impose mortality charges. These fees are in addition to the fees and expenses referenced above. Complete details of such internal expenses are specified and disclosed in each variable annuity company's prospectus. Please review the Variable Annuity prospectus for full details.

There are additional fees relating to IRA and Qualified Retirement Plan accounts that you normally incur such as maintenance and termination fees. You will find these fees disclosed in the account application paperwork provided to you associated with these accounts.

IARs might receive commissions or other fees or compensation in relation to any investment or insurance product placed through or with FFEC as a broker-dealer outside your advisory account. Therefore, Advisory Representatives have a conflict of interest in recommending such products, as does any commission-based broker or fee-based solicitor.

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 providing you with any advisory service that we offer.

Mutual funds generally offer multiple share classes available for investment based upon certain eligibility and/or purchase requirements. For instance, in addition to the more commonly offered retail share classes (typically, Class A, B and C shares), mutual funds can also offer institutional shares classes and other share classes that are specifically designed for purchase in an account enrolled in fee-based investment advisory programs. Institutional share classes or classes of shares designed for purchase in an investment advisory program usually have a lower expense ratio than other shares classes. The Firm and its Advisory Representatives have a financial incentive to recommend or select share classes that have higher expense ratios because such share classes generally result in higher compensation. The Firm has taken steps to minimize this conflict of interest, by implementing additional training for IARs, and increasing the proportion of institutional share classes that are available on the platform. Regardless, however, clients should not assume that they will be invested in the share class with the lowest possible expense ratio.

In an advisory program, the appropriateness of a particular mutual fund share class should be determined based on the presence and nature of selling agreements with the mutual fund sponsors and/or custodian.

Finally, certain additional brokerage fees and custodian fees could apply to your brokerage accounts. In some instances, we pay a portion of the fee charged. In some limited instances, we apply a markup to these fees. Examples of instances where a markup fee could be applied include federal funds wire fees, outgoing account transfer fees, margin fees, insufficient funds fees, check stop payment fees and other transaction costs assessed by the custodian. Depending on the custodial fee, it could be applied annually, per transaction, per month or per CUSIP.

## **TERMINATION**

Clients who choose to terminate the Adviser's Agreement will receive, where applicable, a prorated refund of any prepaid advisory fees. Such prorated refund will be based upon actual services and termination costs incurred up to and at the time of termination of the Adviser's services consistent with the investment advisory contract. Clients who pay for services in arrears will be charged the balance due at the time of termination of the Adviser's services consistent with the investment advisory contract.

Clients can terminate their contracts without penalty, for full refund, within 5 business days of signing the advisory contract. Thereafter, clients can terminate the Investment Advisory Contract with thirty days' written notice and shall owe their fees for those thirty days in full.

For those clients utilizing TPM, please refer to the specific TPM disclosure brochure for their specific termination guidelines.

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

Item 6 of the Form ADV Part 2 instructions is not applicable to FFEC's brochure because FFEC does not charge or accept performance-based fees which can be defined as fees based on a share of capital gains on or capital appreciation of the assets held within a client's account.

## ITEM 7: TYPES OF CLIENTS

FFEC provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High Net Worth Individuals
- Pension and Profit Sharing Plans (other than plan participants)
- Charitable Organizations
- Corporation or Business entities other than those listed above

All clients are required to execute an agreement for services in order to establish a client arrangement with FFEC.

## MINIMUM INVESTMENT AMOUNTS REQUIRED

FFEC typically requires a minimum investment amount of \$25,000.00 to establish an FFEC Investment Management account or an account managed on an institutional RIA platform. FFEC waives the minimum investment amount for retirement accounts. FFEC may accept accounts with less than \$25,000.00 in assets if FFEC believes that, based on information provided by the client to the IAR, investing a lower amount is appropriate for the client and is acceptable to the program sponsor. It should be noted that IARs could require higher account minimums than the \$25,000 level established by FFEC. Accounts might not be aggregated to meet program minimums. You should consult with your IAR to determine the required account minimum.

Sponsors of the TPM programs that FFEC participates in are responsible for determining account minimums and whether such minimums are negotiable. If an account minimum is not established by the TPM, FFEC suggests that clients invest at least \$25,000.00 in the investment management services. FFEC could accept accounts with less than \$25,000.00 in assets if FFEC believes that, based on information provided by the client to the IAR, investing a lower amount is appropriate for the client and is acceptable to the program sponsor.

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

FFEC and IARs use various methods of analysis and investment strategies. Methods and strategies will vary based on the IAR providing advice. Models and strategies used by one IAR could be different than strategies used by other IARs. Some IARs could use just one method or strategy while other IARs could rely on multiple. FFEC does not require or mandate a particular investment strategy be implemented by its IARs. Further, FFEC has no requirements for using a particular analysis method and IARs are provided flexibility (subject to FFEC's supervision and compliance requirements) when developing their investment strategies. The following sections provide brief descriptions of the some of the more common methods of analysis and investment strategies that are used by IARs.

### METHODS OF ANALYSIS IN FORMULATING INVESTMENT ADVICE

**Fundamental:** Fundamental analysis is a method of evaluating a company or security by attempting to measure its intrinsic value. In other words, trying to determine a company's or security's true value by looking at all aspects of the business, including both tangible factors (e.g., machinery buildings, land) and intangible factors

(e.g., patents, trademarks, “brand” names). Fundamental analysis also involves examining related economic factors (e.g., overall economy and industry conditions), financial factors (e.g., company debt, interest rates, management salaries and bonuses), qualitative factors (e.g., management expertise, industry cycles, labor relations), and quantitative factors (e.g., debt-to-equity and price-to-equity ratios).

The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes determining what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis. Fundamental analysis is about using real data to evaluate a security's value. Although most analysts use fundamental analysis to value stocks, this method of valuation can be used for just about any type of security.

**Technical/Fundamental:** This method of evaluating securities analyzes statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools based on historical data to identify patterns that can suggest future activity. Technical analysts believe that the historical performance of stocks and markets could assist in predicting future performance.

**Charting:** A technical analysis that charts the patterns of stocks, bonds and commodities to help determine buy and sell recommendations for clients. It is a way of gathering and processing price and volume information in a security by applying mathematical equations and plotting the resulting data onto graphs in order to predict future price movements. A graphical historical record assists the analyst in spotting the effect of key events on a security's price, its performance over a period of time and whether it is trading near its high, near its low or in between. Chartists believe that recurring patterns of trading, commonly referred to as indicators, can help them forecast future price movements.

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

## INVESTMENT STRATEGIES and TERMS

**Long Term Purchases:** Investments held at least a year.

**Short Term Purchases:** Investments sold within a year.

**Short Sales:** A short sale is generally the sale of a stock not owned by the investor. Investors who sell short believe the price of the stock will fall. If the price drops, the investor can buy the stock at the lower price and make a profit. If the price of the stock rises and the investor buys it back later at the higher price, the investor will incur a loss. Short sales require a margin account.

**Margin Transactions:** When an investor buys a stock on margin, the investor pays for part of the purchase and borrows the rest from a brokerage firm. For example, an investor could buy \$5,000.00 worth of stock in a margin account by paying for \$2,500.00 and borrowing \$2,500.00 from a brokerage firm. Interest charges would be assessed on the borrowed amount.

**Option Writing (Including Covered Options, Uncovered Options, or Spreading Strategies):** Options are contracts giving the purchaser the right to buy or sell a security, such as stocks, at a fixed price within a specific period.

**Tactical Asset Allocation:** Allows for a range of percentages in each asset class (such as Stocks = 40% to 50%). These are minimum and maximum acceptable percentages that permit the investor to take advantage of market conditions within these parameters. Thus, a minor form of market timing is possible, since the investor can move to the higher end of the range when stocks are expected to do better and to the lower end when the economic outlook is bleak.

**Strategic Asset Allocation:** Calls for setting target allocations and then periodically rebalancing the portfolio back to those targets as investment returns skew the original asset allocation percentages. The concept is akin to a “buy and hold” strategy, rather than an active trading approach. Of course, the strategic asset allocation targets can change over time as the client's goals and needs change and as the time horizon for major events such as retirement and college funding grow shorter.



**Market Timing Strategy:** While uncommon and typically not recommended to clients, some IARs can provide a market timing service as or part of, an investment strategy. In general, market timing is a strategy where the IAR will try to identify the best times to be in the market and when to get out. This service is designed to take advantage of stock market fluctuations by being invested based on the anticipated market direction. Clients should be aware that this strategy is considered an aggressive, high-risk investment strategy. Only clients that are looking for a speculative investment strategy should participate in an investment timing service offered by an IAR.

**Modern Portfolio Theory:** Proposes that investing in a predetermined asset mix derived from the efficient frontier (dictated to achieve a specific client objective within a certain risk tolerance) and rebalancing with discipline, the portfolio is diversified across the various asset classes to mitigate unnecessary risk. This also provides for a portfolio that can operate without reliance on market timing and security selection; however, as with all equity investments positive returns are not guaranteed. In conjunction to investing in a diversified portfolio, each portfolio is constructed to meet specific parameters set forth in the individual client's investment needs and goals. These parameters can include, but are not limited to, tax efficiency, concentrated stock positions and management history.

## RISK OF LOSS

Risk is inherent in any investment in securities and the Adviser does not guarantee any level of return on a client's investments. There is no assurance that a client's investment objectives will be achieved. A client could be subject to certain risks, including, but not limited to, the risks described below. The risks discussed below vary by investment style or strategy and may or may not apply to a client. It is important that a client review the prospectuses or other disclosure documents for the securities recommended or purchased for the client's account, as they will contain important information about the risks associated with investing in such securities.

Clients must understand that past performance is not indicative of future results. Therefore, current and prospective clients should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in any type of security (including stocks, mutual funds, and bonds) involves risk of loss. Further, depending on the different types of investments there could be varying degrees of risk. You need to be prepared to bear investment loss including loss of original principal.

Because of the inherent risk of loss associated with investing, FFEC and its IARs cannot represent, guarantee, or even imply that our services and methods of analysis:

- Can or will predict future results; or
- Successfully identify market tops or bottoms; or
- Insulate you from losses due to market corrections or decline.

There are certain additional risks associated when investing in securities through an investment management program:

**Market Risk:** The price of a security, bond, or mutual fund could drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's underlying circumstances. For example, political, economic and social conditions could trigger market events. Either the stock market, or the value of an individual company, goes down resulting in a decrease in the value of client investments. This is also referred to as systemic risk.

**Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They may carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

**Company Risk:** When investing in stock positions, there is always a certain level of company industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based

on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives unfavorable media attention for its actions, the value of the company could be reduced.

**Options Risk:** Options on securities could be subject to greater fluctuations in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks.

**Fixed Income Risk:** When investing in bonds, there is the risk that the issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.

**ETF and Mutual Fund Risk:** When investing in an ETF or mutual fund, there are additional expenses based on your pro rata share of the ETFs or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. Clients will also incur brokerage costs when purchasing ETFs. Leveraged and inverse ETFs may not be suitable for all investors and have unique characteristics and risks. Although there are limited occasions where a leveraged or inverse ETF could be useful for some types of investors, it is extremely important to understand that, for holding periods longer than a day, these funds might not give you the returns you could be expecting.

**Management Risk:** The value of your investment will vary with the success and failure of FFEC's investment strategies, research, analysis and determination of portfolio securities. If FFEC's investment strategies do not produce the expected returns, the value of the investment could decrease.

**Interest-Rate Risk:** Fluctuations in interest rates can cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.

**Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.

**Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.

**Reinvestment Risk:** This is the risk that future proceeds from investments might have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.

**Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many investors are interested in buying or selling a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.

**Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations could result in bankruptcy and/or a declining market value.

**Cybersecurity Risk.** In addition to the Material Risks listed above, investing involves various operational and "cybersecurity" risks. These risks include both intentional and unintentional events at FIR or one of its third-party counterparties or service providers, that may result in a loss or corruption of data, result in the unauthorized release or other misuse of confidential information, and generally compromise our Firm's ability to conduct its business. A cybersecurity breach could also result in a third-party obtaining unauthorized access to our clients' information, including social security numbers, home addresses, account numbers, account balances, and account holdings. Our Firm has established business continuity plans and risk management systems designed to reduce the risks associated with cybersecurity breaches. However, there are inherent limitations in these plans and systems, including that certain risks may not have been identified, in large part because different or unknown threats could emerge in the future. As such, there is no guarantee that such efforts will succeed, especially because our Firm does not directly control the cybersecurity systems of our third-party service providers. There is also a risk that cybersecurity breaches could not be detected.

Considering the risks of loss and potentially enhanced volatility, clients can direct the Adviser, in writing at any time, not to employ any or all of the investment strategies recommended by their IAR for their account.

**Past performance is not a guarantee of future returns. Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**



## ITEM 9: DISCIPLINARY INFORMATION

On November 17, 2016 agreed to an Acceptance, Waiver and Consent (“AWC”) with FINRA including a \$35,000 penalty and \$15,839 in customer restitution. FINRA alleged that the firm’s supervisory system did not achieve compliance with legal requirements for best execution pricing for fixed income securities. The relevant policies and procedures were brought into compliance.

On December 30, 2016 agreed to an AWC with FINRA including a \$230,000 penalty and an agreement to comprehensive review of its compliance procedures and systems. FINRA alleged that in certain instances during the 2011 to 2014 time period, the firm’s supervisory control procedures were inadequately documented, inadequately enforced, or both with respect to: ETF sales, sale of multi-share class variable annuities and exchanges thereof, proprietary trading, concentration reviews, commission reviews, and heightened supervision.

In July of 2017, FFEC was sold to a new ownership group. The former CEO and Chief Compliance Officer are no longer associated with the firm. FFEC has significantly increased the focus and resources devoted to compliance matters. Customer protection and complying with industry rules and regulations is the firm’s top priority.

On December 19, 2019 FFEC agreed to an Acceptance, Waiver and Consent (“AWC”) with FINRA including a \$200,000 penalty and censure. FINRA alleged that the firm: (a) failed to file certain U4 updates within the required 30-day period during the period between January 2015 and September 2017; (b) failed to maintain appropriate written procedures to ensure compliance with the filing requirements; (c) failed to file the annual CEO certification for the 2014-2016 period. The relevant reports have since been filed and the relevant written procedures brought into compliance. Rules violations cited: Article V, Section 2 of FINRA’s By-Laws; FINRA Rules 1122, 3110(a) and (b), 3120, 3130, and 2010.

## ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

### BROKER DEALER REGISTRATION

In addition to being a registered investment adviser, FFEC is registered as a FINRA member broker-dealer. FFEC is an introducing broker-dealer who enters client orders through Hilltop Securities Inc. Hilltop Securities custodies client assets for FFEC investment advisory accounts where the IAR manages individual securities positions in the client's account. Wrap program accounts may be custodied through TD Ameritrade. Client assets can also be held directly with other investment advisers, mutual fund companies or insurance carriers.

IARs of FFEC are typically also Registered Representatives of FFEC. FFEC can execute securities transactions through one of the custodians for its investment adviser and IARs. IARs can offer securities and receive normal and customary commissions as a result of securities transactions. This poses a conflict of interest as these commissionable securities and/or variable annuity sales could create an incentive to recommend products based on the compensation they can earn. Additionally there is a conflict to recommend active clients establish a broker dealer account and inactive clients establish an investment advisory account. Approximately 40-50% of the firm's staff time, including that of its IARs, is spent providing investment advisory services.

FFEC can receive commissions and/or fees from other registered investment adviser firms and registered third party manager’s programs which would be fully disclosed in the appropriate selling agreements. A conflict of interest exists when FFEC recommends managers, or a manager’s platform from which it will receive compensation and in situations where the fees received differ between firms.

In all cases, the total management fees must be disclosed to the client. Insurance licensed management personnel and IARs, in their individual capacities, could be agents for various insurance companies. As such, these individuals are able to receive separate, yet customary commission compensation resulting from executing product transactions on behalf of advisory clients. Clients, however, are not under any obligation to engage these individuals when considering implementation of advisory recommendations. The implementation of any or all recommendations is solely at the discretion of the client.

FFEC also retains its license to sell insurance products, such as life, fixed and variable annuities, as well as property and casualty. FFEC has entered into several non-exclusive marketing agreements with insurance marketing agencies for certain insurance solutions.

FFEC is also affiliated with FFEC Insurance Group LLC, in which Jeff Graves is the 100% owner. Insurance business conducted in the state of Texas or any other state that may require a corporate officer that is insurance registered in that state is sold through FFEC Insurance Group LLC.

## HOW WE HANDLE CONFLICTS OF INTEREST

FFEC and all associated persons have an affirmative duty of care, loyalty, honesty and good faith to act in the best interests of its clients. A “conflict of interest” could occur when an Associated Person’s private interests could be inconsistent with the interests of FFEC clients and/or his/her service to FFEC. Clients should be aware that the receipt of additional compensation or commissions by FFEC and its management persons or associated personnel creates a conflict of interest that could impair the objectivity of our firm and these individuals when making advisory recommendations. Associated Persons must try to avoid situations that have even the appearance of conflict or impropriety. FFEC endeavors at all times to put the interest of its clients first as part of our fiduciary duty as a registered investment adviser. FFEC takes the following steps to address this conflict:

- We disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our associated personnel to earn compensation from advisory clients in addition to our firm’s advisory fees;
- We disclose to clients that they are not obligated to purchase recommended investment products from our associated personnel or affiliated companies;
- We collect, maintain and document accurate, complete and relevant client background information, including the client’s financial goals, objectives and risk tolerance;
- Our firm’s management conducts periodic reviews of each client account to verify that all recommendations made to a client are suitable to the client’s needs and circumstances;
- We require that our associated personnel seek prior approval of any outside employment activity so that we can ensure that any conflicts of interests in such activities are properly addressed;
- We periodically monitor these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm; and
- We educate our associated personnel regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

## ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

FFEC and IARs have a duty to exercise its authority and responsibility for the benefit of the client, to place the interests of the client first, and to refrain from having outside interests that conflict with the interests of the client. FFEC and IAR must avoid circumstances that might adversely affect or appear to affect its duty of complete loyalty to its clients.

It is unlawful for any adviser in connection with the purchase or sale, directly or indirectly, of a security held or to be acquired by the adviser:

- To employ any device, scheme or ploy to defraud;
- To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements, not misleading;
- To engage in any act, practice, or course of business that operates or would operate as a fraud or deceit; or,

- To engage in any manipulative practice

FFEC has policies and procedures governing employee and related trading. Adherence to these policies are monitored by FFEC supervisors and compliance. If an IAR enters a personal and client order for the same security on the same day, FFEC policy requires the client's order be entered before the IAR's order. If a trade is done by the IAR on the same day as a client, the trades will be reviewed by FFEC supervisors and/or compliance.

Advisers have a duty to disclose potential and actual conflicts of interest to their clients. IARs and solicitors have a duty to report potential and actual conflicts of interest to their advisory firms. Advisers should not attempt to limit their liability for willful misconduct or gross negligence through the use of disclaimers. A copy of the FFEC Code of Ethics is available upon request.

## **PERSONNEL TRADING POLICY**

From time to time FFEC or one or more of its supervised persons can purchase or own the same securities and investments that FFEC or the client's IAR recommends to the client. The fact that FFEC supervised persons could have personal accounts is a conflict of interest due to the potential that an IAR may devote more time to monitoring his/her personal account(s) as opposed to spending that time on the review and monitoring of client accounts. In addition, there is a potential that IARs may favor their personal account(s) over client accounts. When the recommendation to the client involves individual stocks, stock options, bonds, and other general securities there could be a conflict of interest with the client because the IAR has the potential to engage in practices such as front-running, scalping, and other activities that are potentially detrimental to clients.

FFEC has adopted policies and procedures to ensure that such conflicts are fully disclosed and that neither FFEC, nor its IARs nor supervised persons can trade ahead of or otherwise against the interest of clients. It is the policy of FFEC that the interests of client accounts are placed ahead of the interests of FFEC accounts and personal accounts of FFEC supervised persons.

None of FFEC's supervised persons can effect for himself or herself, or his or her immediate family (i.e., spouse, minor children, and adults living in the same household as the associated person), or for trusts for which the supervised person could serve as trustee or in which the associated person has a beneficial interest, any transactions in a security which is published on the FFEC Restricted Trading List on behalf of any of FFEC's clients without prior approval from the Chief Compliance Officer or his/her designee.

The foregoing policies and procedures are not applicable to (1) transactions in any account which neither FFEC nor its advisory affiliates have any direct or indirect influence or control, and (2) transactions in securities that are direct obligations of the U.S. government, bankers' acceptances, bank certificates of deposit, commercial paper, and high-quality short-term debt instruments, including repurchase agreements or shares issued by registered open-end investment companies.

FFEC recognizes that some securities being considered for purchase or sale on behalf of its clients' trade in sufficiently broad markets without any appreciable impact on the markets of such securities. Under certain limited circumstances, exceptions could be made to FFEC's Code of Ethics.

FFEC has also established policies and procedures to ensure that its supervised persons avoid conflicts of interest and comply with applicable provisions of The Insider Trading and Securities Fraud Enforcement

Act of 1988 ("ITSFEA"). To avoid potential conflicts of interest with clients and to ensure compliance with ITSFEA, FFEC, among other things, does the following:

- Provides ongoing continuing education regarding avoiding conflicts of interest and
- complying with ITSFEA
- Requires supervised persons to report quarterly securities trading in personal accounts (except for those investments excluded from the requirement (e.g., mutual funds)), which are monitored by the FFEC Compliance Department

- Prohibits supervised persons from executing securities transactions for clients or on their personal accounts based on information that is not available to the public upon reasonable inquiry
- Informs clients that they are not required to purchase securities through FFEC or its IARs, although if they choose to purchase securities through their IAR, the transaction must be effected through FFEC or an FFEC approved trading platform.

## **AGENCY CROSS TRANSACTIONS**

An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory clients and for another person on the other side of the transaction. Agency cross transactions typically arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. Agency cross transactions are permitted for advisers only if certain conditions are met under Section 206(3) of the Investment Advisers Act of 1940 or SEC Rule 206(3)-2.

As a fiduciary, the interests of FFEC's clients must always be placed first. FFEC's trading policies and procedures prohibit unfair trading practices and seek to avoid conflicts of interests where possible, and to disclose conflicts when they arise. FFEC will attempt to resolve conflicts in the client's favor when reasonably possible.

FFEC can engage in agency cross transaction only when it is deemed to be in the best interests of both clients and neither client is disfavored. Such transactions will only be used when it can be determined that doing so would achieve "best execution" and benefit the clients involved by saving commissions, market impact costs, and other transaction charges. Agency cross transactions involving an advisory client will be transacted without any compensation, outside of the normal advisory fee, unless specifically approved by FFEC's Chief Compliance Officer in compliance with the above criteria and in accordance with either Section 206(3) of the Investment Advisers Act of 1940 or SEC Rule 206(3)-2.

Where compensation is approved for an agency cross transaction involving advisory clients, FFEC will provide a written disclosure to the customers that FFEC will act as broker for, receive compensation from, and have a potential conflicting division of loyalties regarding both parties to the transaction. FFEC will also receive written, executed consent from the client prospectively authorizing FFEC to effect agency cross transaction in client's accounts.

Where compensation is charged, FFEC will send to each client at or before completion of the transaction, information which includes the date of the transaction, a statement of the nature of the transaction, an offer to furnish the time the transaction took place, and the total of all compensation received. FFEC through its clearing firm will provide each client, who was a party to an agency cross transaction for compensation, an annual written disclosure statement identifying the total number of agency cross transactions since the last statement, and the total compensation received.

It should be noted that agency cross transactions can only be processed through FFEC brokerage accounts and such transactions are not available through Institutional RIA account platforms such as TD Ameritrade.

## **PRINCIPAL TRANSACTIONS**

Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliate, buys a security from or sells a security to an advisory client as opposed to carrying out trades through another broker-dealer. FFEC can execute client orders for certain types of securities on a principal basis in advisory accounts managed by FFEC.

It is FFEC's policy that no additional compensation, outside of the normal advisory fee, will be charged to an advisory client account due to the implementation of the principal transaction. FFEC has adopted policies and procedures to ensure that, to the extent it engages in any principal transactions, such transactions comply with Section 206(3) of the Advisers Act, which requires prior notice of and consent to a principal transaction, on a transaction-by-transaction basis. Disclosure will generally come directly from the broker-dealer or custodian. IAR can use its affiliated broker-dealer, FFEC, to help facilitate a principal transaction.

## ITEM 12: BROKERAGE PRACTICES

Clients wishing to implement FFEC's financial planning advice are free to select any broker-dealer or Investment Adviser they wish. When clients decide to implement advice through a FFEC IAR, the client will be required to establish an account through a trading platform that is approved by FFEC. FFEC allows its IARs to manage accounts through a number of different brokerage arrangements. The ultimate decision to recommend or require a certain FFEC approved broker-dealer is typically made by the FFEC IAR but must be agreed to by the client. All accounts managed by FFEC are separate accounts, which mean the client will have direct ownership of the account and must establish the account in the client's name. Broker-dealers approved for use by FFEC and recommended by IARs are registered with the SEC and a member of FINRA & SIPC.

As previously stated, IARs can also be Registered Representatives of FFEC. These dually registered IARs are restricted by certain FINRA rules and policies from maintaining client accounts at or executing client transactions in such client accounts through any broker-dealer or custodian that is not approved by FFEC. Therefore, trading platforms must be approved not only by FFEC, but also by FINRA. It should be noted that not all Investment Advisers require their clients to use specific or particular broker-dealers or other custodians required by the Investment Adviser. The fees charged by other broker-dealers could be higher or lower than those charged at FFEC.

FFEC considers certain factors when selecting or recommending broker-dealers for client transactions. These factors include financial stability, fees, and customer service and transaction execution. FFEC has reviewed charges at other firms to determine if what FFEC is being charged at these broker-dealers is reasonable. FFEC does not receive research or other soft dollar benefits in connection with client securities transactions.

### ACCOUNTS ESTABLISHED THROUGH INSTITUTIONAL RIA ACCOUNT PLATFORMS

FFEC has entered into several arrangements with broker-dealers that offer institutional RIA platforms. An institutional RIA platform allows a client to grant an IAR limited power of attorney to have trading authority over the client's account held by the broker-dealer. FFEC has several approved custodians. While there are others, the most commonly used are Hilltop Securities and TD Ameritrade. FFEC is independently owned and operated and not affiliated with any of these companies.

FFEC's decision to approve an institutional RIA platform for use by its IARs is based on numerous factors. Institutional trading and custody services are typically not available to the same providers' retail investors. Institutional services generally are available to Investment Advisers on an unsolicited basis at no charge to them.

The broker-dealers that FFEC work with could provide products and services that benefit FFEC but can not directly benefit its clients' accounts. These benefits can include specific educational events organized and sponsored by the broker-dealer and occasional business entertainment of personnel of FFEC including meals, lodging and invitations to sporting events. Other product and services assist in managing and administering clients' accounts. These include software and technology that provide access to client account data, facilitate trade execution, provide research, and facilitate payment of advisory fees from its client's accounts.

The broker-dealer can make available, arrange and/or pay vendors for these types of services rendered to FFEC by independent third parties. While, as a fiduciary, FFEC endeavors to act in its clients' best interests, FFEC can recommend that clients maintain their assets in accounts at a specific broker-dealer may be based in part on the benefit to FFEC of the availability of some of the foregoing products and services and other arrangements and not solely on the nature, cost or quality of custody and brokerage services provided by a particular broker-dealer, which could create a potential conflict of interest.

### BEST EXECUTION

As a fiduciary, FFEC owes a fiduciary duty to its clients to obtain best execution of their transactions. That duty puts forth that an Investment Adviser generally must execute securities transactions in such a manner that the total cost or proceeds in each transaction is the most favorable under the circumstances. However, clients must understand that best execution does not necessarily mean the lowest available price. Instead, the totality of the

arrangement and services provided by a broker-dealer must be examined to determine a qualitative measure of best execution. Based on these principles, execution quality, products and services, technology, support, commissions and fee structures of various broker-dealers are periodically reviewed by FFEC in order to evaluate the execution services provided by the unaffiliated broker-dealers and custodians used by FFEC. Accordingly, while FFEC does consider competitive rates, it does not necessarily obtain the lowest possible commission rates for client account transactions. Therefore, the overall services provided by FFEC and all the unaffiliated broker-dealers and custodians are evaluated to determine best execution.

Clients should consider that in light of FFEC's limited approved trading platforms for FFEC accounts and the fact that only some of the approved trading platforms may accommodate the investment strategy recommended by the client's FFEC IAR, that IARs are limited in their ability to obtain the best execution price and lowest execution costs for each transaction or the product with the lowest internal expenses. Not all Investment Advisers restrict or limit the broker-dealers their clients can use. Some Investment Advisers permit their clients to select any broker-dealer of the client's own choosing. Therefore, clients could pay higher commissions or trade execution charges through the trading platforms approved by FFEC and FFEC than through other platforms for investment advisory accounts.

## **TRADE AGGREGATION**

Transactions implemented by FFEC for client accounts are generally effected independently, unless an IAR decides to purchase or sell the same securities for several clients at approximately the same time. In the FFEC Wealth Management Solutions program, FFEC may combine orders for client accounts. This process is referred to as aggregating orders, batch trading or block trading and is used by an IAR when the IAR believes such action could prove advantageous to clients.

When IARs aggregate client orders, the allocation of securities among client accounts will be done on a fair and equitable basis. Typically, the process of aggregating client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. While there is more than one process for allocating transactions, generally the transactions will be averaged as to price and will be allocated among the FFEC IAR's clients in proportion to the purchase and sale orders placed for each client account on any given day. When an IAR determines to aggregate client orders for the purchase or sale of securities, including securities in which a FFEC associated person could invest, the IAR will do so in accordance with the parameters set forth in the SEC No-Action Letter, SMC Capital, Inc. It should be noted, FFEC does not allow IARs to receive any additional compensation or remuneration because of aggregation.

Because FFEC does not require IARs to aggregate trades, not all trades are aggregated even when there is an opportunity to do so. When trades are not aggregated, clients may not enjoy the effects of lower commission per share costs that often occur because of aggregating trades. As a result, clients could pay a higher transaction cost than could be received elsewhere. Finally, it should be noted that FFEC does not aggregate mutual fund transactions.

## **HANDLING OF TRADE ERRORS**

It is FFEC's policy to ensure trading errors are handled and corrected in a timely manner in the best interests of the client affected by the error. Specifically, when FFEC or an IAR causes a trade error to occur in a client account that results in a loss, FFEC works with the relevant broker-dealer and/or custodian to reimburse any costs paid by the client and make whole the client transaction as it should have originally taken place/or not taken place. If the trade error results in a gain and FFEC executed the transaction, FFEC will keep that gain to offset future losses. The retained gain is not shared with the IAR or account owners.

All trade errors should be corrected within a reasonable period of time following discovery of the error. FFEC will not use commissions from client accounts to correct trade errors. It is the strict policy of FFEC that IARs are not permitted to make payments to clients or to client accounts.

The broker-dealers that FFEC works with could provide products and services that benefit FFEC but may not directly benefit its clients' accounts. These benefits could include specific educational events organized and

sponsored by the broker-dealer and occasional business entertainment of personnel of FFEC including meals, lodging, and invitations to sporting events.

Other product and services assist in managing and administering clients' accounts. These include software and technology that provide access to client account data, facilitate trade execution, provide research, and facilitate payment of advisory fees from its client's accounts. The broker-dealer can make available, arrange and/or pay vendors for these types of services rendered to FFEC by independent third parties. While, as a fiduciary, FFEC endeavors to act in its clients' best interests, FFEC can recommend that clients maintain their assets in accounts at a specific broker-dealer may be based in part on the benefit to FFEC of the availability of some of the forgoing products and services and other arrangements and not solely on the nature, cost, or quality of custody and brokerage services provided by a broker-dealer, which could create a potential conflict of interest.

## **ITEM 13: REVIEW OF ACCOUNTS**

### **PERIODIC REVIEWS**

IARs are responsible for providing investment advice and conducting on-going reviews of all accounts for their respective clients. IARs are also in charge of selecting and/or recommending TPMs to their respective clients. Therefore, you will need to contact your IAR for the most current information and status of your account(s).

For managed accounts, reviews are provided on an on-going basis; typically based on a schedule agreed upon by you and your FFEC IAR. IARs will conduct, at a minimum, annual reviews of client profiles and accounts. However, more frequent reviews can be provided to any account depending on, among other issues, changes to the client's financial situation, personal situation, or changes in market conditions. Clients generally will receive periodic profile confirmation information from FFEC or the broker/dealer custodian.

Client investment advisory accounts are reviewed by the IAR to analyze if the account is being managed in accordance with the client's chosen investment objective, that the account is properly balanced, if it is being managed according to a specific asset allocation model, and to verify the accuracy of account holdings and fee deductions. For accounts managed by TPM, the TPM is responsible for managing the account and will conduct all reviews and the IAR will monitor the performance of the TPM.

Pension Consulting clients receive reviews of their pension plans for the duration of the pension consulting service. We also provide ongoing services to Pension Consulting clients where we meet with such clients upon their request to discuss updates to their plans, changes in their circumstances, etc.

### **REVIEW TRIGGERS**

In addition to periodic reviews, the Adviser can conduct account reviews when a triggering event, like a change in client investment objectives, financial situation, market correction, or client request occurs.

In addition to the reviews provided by the IAR, the FFEC home office also reviews transaction suitability for accounts managed by IARs. FFEC also conducts due diligence reviews of custodians and TPMs approved for use by IARs.

### **CLIENT REPORTS AND STATEMENTS**

Clients will receive confirmations of purchases and sales in their account(s) and will receive quarterly and/or monthly statements containing account information such as account value, transactions, holdings, and other relevant account information. Confirmations and statements are prepared and delivered from either the product sponsor or account custodian. Clients should review the account statements and confirmations provided by the custodian in detail and notify FFEC in writing of any errors within 10 days of receipt. The documents received from the custodian should be used by the client for tax reporting. Clients can also receive periodic reports reflecting the performance of their investment portfolio over a specified period, but they should not be relied upon for tax reporting.



Clients will also receive account statements directly from the custodians, sponsor companies, or TPM. FFEC urges clients to review the contents of these custodial statements and compare them against the reports provided directly from FFEC or IARs.

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

### **SOLICITORS**

FFEC and its IARs can enter into arrangements with individuals (Solicitors) who refer clients that could be candidates for investment advisory services to FFEC. In return, FFEC agrees to compensate the Solicitor for the referral. Compensation to the Solicitor is dependent on the client entering into an advisory agreement with FFEC. Compensation to the Solicitor will be an agreed upon percentage of FFEC's investment advisory fee or a flat fee depending on the type of advisory services FFEC provides to clients.

It should be noted that not all IARs work with Solicitors. In fact, most IARs do not use Solicitors. FFEC's referral program will be in compliance with federal or state regulations (as applicable). All solicitation/referral fees are paid pursuant to a written agreement retained by both FFEC and the Solicitor. Solicitors are required to provide the client with a copy of FFEC's Form ADV Part 2A and a Solicitor Disclosure Statement at the time of solicitation and FFEC will obtain acknowledgement from the client of receiving those disclosures. Acknowledgement must be obtained prior to or at the time of entering into any investment advisory contract with FFEC. Solicitors are not permitted to offer clients any investment advice on behalf of FFEC. The advisory fee charged to clients could increase as a result of compensation being shared with the Solicitor.

### **OTHER COMPENSATION**

IARs, in their separate capacities as Registered Representatives of FFEC, could receive commissions from the execution of securities transactions. Although not shared with IARs, FFEC's affiliated broker-dealer, FFEC, receives a portion of the ticket charges for non-wrap accounts managed by FFEC and held at Hilltop. In addition, IARs could receive 12b-1 fees from certain mutual fund companies as outlined in the fund's prospectus. 12b-1 fees come from fund assets, therefore, indirectly from client assets. The receipt of such commissions, ticket charges, and 12b-1 fees could represent an incentive for FFEC and the IARs to recommend funds with 12b-1 fees over funds that have no fees or lower fees, resulting in a potential conflict of interest. When managing ERISA and qualified accounts, IARs must reduce or offset the investment advisory fee by the amount of 12b-1 fees and other commissions received in the event such types of compensation are received by the IARs in their individual capacities as Registered Representatives of FFEC.

IARs that are licensed insurance agents, including those approved to conduct business under FFEC's affiliated insurance company, receive commissions and other incentive awards for the recommendation and/or sale of annuities and other insurance products. The receipt of this compensation could affect the judgment of FFEC's IARs when recommending insurance products to their clients.

While FFEC and IARs endeavor at all times to put the interests of their clients first as a part of FFEC's fiduciary duty, clients should be aware that the receipt of commissions and additional compensation itself creates a conflict of interest and may affect the judgment of FFEC and the IARs when making recommendations or offering services of its affiliated broker-dealer, FFEC. Neither FFEC nor any FFEC IAR has entered into revenue sharing arrangements with product sponsors.

## **ITEM 15: CUSTODY**

FFEC does not have custody of client funds or securities. Clients should receive at least quarterly statements from the broker-dealer or qualified custodian that holds and maintains client's investment assets. FFEC urges you to carefully review such statements and report any errors within 10 days of receipt.



Each client is responsible for appointing the client's custodian from the available options, which will have possession of the assets of the client's account and settle transactions for the account. Clients must choose a service provider unaffiliated with FFEC to serve as custodian. From time to time, FFEC or the IAR could recommend a particular firm to a client to serve as the client's custodian. If the client chooses a recommended custodian, FFEC will, if instructed by the client and FFEC agrees, pay the custodial fee of the client until the agreement between FFEC and the client is terminated or as otherwise determined by FFEC. If the client does not choose a recommended custodian, FFEC will not pay the client's custodian fee and it will be the obligation of the client to pay any custodian fee. Each custodian has a set of fees that the client will be responsible for. Please review the documentation provided by the custodian for a complete description of their fees.

FFEC could recommend that clients establish an account(s) with Hilltop Securities Inc. (Hilltop), a FINRA registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although we can recommend that clients establish accounts at Hilltop, it is the client's decision to custody assets with Hilltop. FFEC is independently owned and operated and not affiliated with Hilltop. Hilltop provides FFEC with access to its trading and custody services. These services are not contingent upon our firm committing to Hilltop any specific amount of business (assets in custody or trading commissions). Hilltop's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available.

Hilltop's products and services that assist us in managing and administering our clients' accounts include software and other technology that:

- Provide access to client account data (such as trade confirmations and account statements); ii. Facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- Provide research, pricing and other market data;
- Facilitate payment of our fees from clients' accounts; and
- Assist with back-office functions, recordkeeping and client reporting.

Hilltop may make available, arrange and/or pay third-party vendors for the types of services rendered to FFEC. Hilltop could discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to our firm. In evaluating whether to recommend that client's custody their assets at Hilltop, we can take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely on the nature, cost or quality of custody and brokerage services provided by Hilltop, which could create a potential conflict of interest.

A client who uses a third-party custodian authorizes FFEC to give instructions to the client's custodian for all actions necessary or incidental to the purchase, sale, exchange, and delivery of securities held in the client's account. Also, the client will receive account statements directly from their selected custodian. Clients should carefully review those account statements and compare them with any account statements provided by FFEC or the IAR.

Payment for fees, securities, and any other items cannot be made payable to a FFEC IAR, their staff members, or entities owned by the FFEC IAR. Payment for planning services (e.g. financial planning) must be made payable to FFEC. Payment for the purchase of securities and for funding an investment advisory account must be made payable to the account's qualified custodian. The qualified custodian for a FFEC client account will never be FFEC or its IARs.

## ITEM 16: INVESTMENT DISCRETION

Upon receiving written authorization from you, FFEC or your IARs can provide discretionary investment management services for your accounts. When discretionary authority is granted, it is limited to discretionary trading authority, but in some cases, may include the authority to determine commission rates paid by you. When discretionary trading authority is granted, the IAR will have the authority to determine the type of securities and the amount of securities that can be bought or sold in an account without obtaining the client's consent prior to each transaction. FFEC's discretionary authority will be granted by the client in the appropriate FFEC agreement. Although discretionary trading authority could result in the purchase of or the deposit of "load" products in a client's account, it is FFEC's policy to offset the "load", or a portion thereof, against the investment advisory fee.

If you choose to grant trading authorization on a non-discretionary basis, your IAR is required to contact you prior to implementing changes in your account. Therefore, you will be contacted and required to accept or reject your FFEC IAR's investment recommendations including:

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

Once the above factors are agreed upon, your IAR will be responsible for making decisions regarding the timing of buying or selling an investment and the price at which the investment is bought or sold. If your accounts are managed on a non-discretionary basis, you need to know that if you are not able to be reached or are slow to respond to your IAR, it can have an adverse impact on the timing of trade implementations and your IAR may not achieve the optimal trading price.

All clients can place reasonable restrictions on the types of investments that can be purchased in an account. Clients can also place reasonable limitations on the discretionary power granted to FFEC and IARs, so long as the limitations are specifically set forth or included as an attachment to the client agreement.

IARs may elect to purchase fixed income securities through fixed income broker-dealers to obtain a better price for the client and then have the bonds delivered into the client's brokerage account. This practice can be referred to as trading away. This is the only case in which an IAR may select a broker-dealer to be used without specific client consent. The client's primary broker-dealer and custodian can charge the client a transaction fee for trading away through other broker-dealers.

You are encouraged to discuss with your IAR the positives and negatives of authorizing discretion on your accounts.

#### ITEM 17: PROXY VOTING CLIENTS SECURITIES

As an investor in a publicly traded company and other investments, you will have the opportunity to participate in certain actions by the company or the investment. This is often referred to as "proxy-voting" or participating in corporate actions. The following are important disclosures regarding FFEC's proxy-voting policies and procedures.

Please know that FFEC and IARs do not vote proxies and other corporate actions on behalf of our clients. It is your responsibility to vote all proxies for securities held in accounts being managed by FFEC.

Although FFEC does not vote proxies, we permit IARs to answer your questions regarding proxy voting materials to assist you in determining how to vote the proxy. However, the final decision of how to vote the proxy rests solely with yourself. It is the decision of each IAR to consult with their clients regarding proxy decisions; therefore, not all IARs will consult with their clients on proxy matters.

With respect to accounts established through a TPM, the TPM could provide proxy-voting services on a client's behalf. For a description of the TPM's proxy voting policy, you will need to refer to each TPM's Disclosure Brochure. Clients can request a complete copy of TPM's proxy voting policies and procedures as well as information on how the individual client's proxies were voted by contacting their FFEC IAR.

A class action is a procedural device used in litigation to determine the rights of and remedies, if any, for large numbers of people whose cases involve common questions of law and/or fact. Class action suits frequently arise against companies that publicly issue securities, including securities recommended by investment advisors to clients. With respect to class action suits and claims, you (or your agent) will have the responsibility for class actions or bankruptcies, involving securities purchased for or held in your account. We do not provide such services and are not obligated to forward copies of class action notices we may receive to you or your agents.

#### ITEM 18: FINANCIAL INFORMATION

FFEC does not allow, require, or solicit prepayment of more than \$1,200.00 in fees per client, six (6) months or more in advance. Therefore, FFEC is not required to include a balance sheet for its most recent fiscal year. Neither FFEC nor our affiliated companies are subject to a financial condition that is reasonably likely to impair our ability

to meet contractual commitments to clients. Finally, we have never been the subject of a bankruptcy petition at any time.

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**\*\* END OF DOCUMENT \*\***