

**ITEM 1: COVER PAGE**

**KOVACK ADVISORS, INC.**

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[www.kovackadvisors.com](http://www.kovackadvisors.com)**

**September 19, 2022**

**FORM ADV PART 2A BROCHURE**

Kovack Advisors, Inc. is a registered investment adviser. An "investment adviser" means any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who, for compensation and as part of a regular business, issues or promulgates analyses or reports concerning securities. Registration with the SEC or any state securities authority does not imply a certain level of skill or training.

This brochure provides information about the qualifications and business practices of Kovack Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at (866) 564-6574. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Kovack Advisors, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Kovack Advisors, Inc. is 140808.

# FORM ADV PART 2A BROCHURE

## ITEM 2: MATERIAL CHANGES

**The purpose of this section is to inform you of any material changes since the previous version of this brochure.**

On March 31, 2022, we submitted our annual updating amendment for the fiscal year ending 2021. We have made the following changes to our Form ADV Part 2A Brochure:

Item 5: Fees and Compensation – We have updated this section to clarify that we allow investment adviser representatives servicing accounts to negotiate the exact investment management fees within the range disclosed in our Form ADV Part 2A Brochure. Additionally, we clarified that we bill on cash positions, margin balances, and during periods of portfolio inactivity. We also added important disclosures regarding forgivable loans provided to certain investment adviser representatives, including those who are dually registered as representatives of our affiliated broker-dealer, Kovack Securities, Inc. as an incentive to remain affiliated with and to direct business to Kovack Advisors Inc. and/or Kovack Securities Inc.

Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss – We have updated this section to include important investment risks associated with concentrated positions, cybersecurity, pandemics, and use of recommended third-party asset managers, and investment risks associated with investing in structured products, inverse funds, preferred securities, and cryptocurrency.

Item 10: Other Financial Industry Activities or Affiliations – We have updated this section to disclose that some investment adviser representatives of Kovack Advisors Inc. own and operate their own registered investment adviser firms for which they charge separate fees from services provided through Kovack.

Subsequently, on September 19, 2022, we updated Item 9: Disciplinary Information to reflect that on August 26, 2022, KAI settled without admitting or denying the findings with the SEC for failing to review accounts of clients in wrap fee programs to determine whether the program remained suitable for the clients between 2015-2018. The SEC found that certain KAI clients remained in the wrap program despite the lack of activity and that certain fees were not adequately disclosed to wrap clients in addition to the wrap fee. Without admitting or denying the SEC's findings, KAI consented to a cease-and-desist order and a censure, and agreed to pay disgorgement of \$166,239, prejudgment interest of \$33,274, and a civil money penalty of \$700,000. KAI also agreed to distribute the funds to impacted clients and to comply with certain undertakings. Additionally, KAI no longer offers wrap accounts. Information regarding this matter is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for KAI is 140808.

You can find our brochure and other disclosure information at the bottom of the page on our website at <https://kovackadvisors.com/>. Currently, all our Brochures may be requested free of charge by contacting Dawn Bliss or Samantha Alford at (954) 782-4771 or [advbrochure@kovackadvisors.com](mailto:advbrochure@kovackadvisors.com). Additional information about our firm and its financial advisers is available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

If you have questions, please contact your KAI Investment Adviser Representative ("IAR") directly or contact the KAI Chief Compliance Officer at (954) 782-4771.

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## ITEM 4: ADVISORY BUSINESS

Kovack Advisors, Inc. (hereinafter "KAI") is a registered investment adviser based in Fort Lauderdale, Florida. We are a corporation, organized under the laws of the State of Florida. KAI is wholly owned by Kovack Financial, LLC. KAI was founded by Ronald Kovack, former Chairman, and Brian Kovack, CEO. Chris Mills, President, and Melinda Wolfe, Executive Vice President, are responsible for the day-to-day management of the firm. Rick Slavick serves as our Chief Compliance Officer. We have been registered as an investment adviser and have been providing investment advisory services since 2004.

You may see the term Associated Person throughout this Brochure. As used in this Brochure, this term refers to anyone from our firm who is an officer, employee, and all individuals providing investment advice on behalf of our firm. Where required, such persons are properly registered as Investment Adviser Representatives ("IARs").

Currently, we offer the following investment advisory services, personalized to each individual Client:

- **Asset Management Services**
- **Recommendation of Third-Party Asset Managers**
- **Financial Planning Services**

KAI does not specialize in a particular type of advisory service and does not provide investment advice limited to specific types of investments.

### ASSET MANAGEMENT SERVICES

Our firm offers continuous discretionary and non-discretionary asset management services. Discretionary asset management means we will make investment decisions and place buy or sell orders in your account without contacting you for prior approval for each transaction. These decisions are made based on your stated investment objectives. We will monitor your portfolio's performance on a continuous basis, and rebalance the portfolio whenever necessary, as changes occur in market conditions, your financial circumstances, or both.

You may impose reasonable written restrictions on investing in certain securities, types of securities, or industry sectors. Non-discretionary asset management service means that we must obtain your approval prior to making any transactions in your account. Our investment advice is tailored to meet your needs and investment objectives. If you decide to hire our firm to manage your portfolio, we will meet with you to gather your financial information, determine your goals, and help you determine how much risk you should take in your investments. The information we gather will help us implement an asset allocation strategy that will be specific to your goals, whether we are actively investing for you or simply providing you with advice.

### WRAP FEE PROGRAMS

A "wrap fee program" is an advisory program under which a specified fee or fees not based directly upon transactions in a Client account is charged for investment advisory services (which may include asset management or advice concerning the selection of other investment advisers) and the execution of Client transactions. KAI is not the portfolio manager and/or sponsor of a wrap fee program. However, in certain circumstances, your KAI IAR may negotiate with you to pay certain transaction costs as part of the overall advisory fee. In such cases, this presents a conflict of interest since your KAI IAR may have an incentive to trade your account less frequently to avoid incurring the transaction costs or to use a broker-dealer or custodian that charges lower transaction charges, although a more favorable transaction might be available through another broker-dealer or custodian. As described in the Item 13 Account Reviews section below, KAI conducts periodic supervisory reviews of advisory accounts for consistency with its fiduciary duties and best execution obligations.

In recognition of the additional costs and expenses your KAI IAR may incur on your behalf, you may pay a higher Negotiated Annual advisory fee. This fee may be higher than fees that could be obtained from other Investment advisers. Clients with less actively traded accounts may, therefore, benefit from paying the fees, costs, and expenses themselves and paying a lower overall Negotiated Annual advisory fee. All fees and costs, including transaction fees, administrative fees and the like will reduce your overall return on your investment.

You should carefully review all disclosures and account forms provided by KAI, any recommended brokers, dealers, custodians, and/or recommended Third-Party Asset Managers to fully understand the total fees you will pay in order to understand and evaluate the overall total cost if you elect to have your IAR cover certain transaction costs.

## RECOMMENDATION OF THIRD-PARTY ASSET MANAGERS

As part of our overall asset management strategy, we may also recommend Third-Party Asset Managers or programs to manage all or a portion of your account. All Third-Party Asset Managers recommended by our firm must either be registered as investment advisers or exempt from registration requirements. Factors that we consider when making our recommendations include, but are not limited to, the following: the Third-Party Asset Manager's performance, methods of analysis, fees, your financial needs, investment goals, risk tolerance, and investment objectives. We will periodically monitor the Third-Party Asset Manager's performance to ensure its management and investment style remains aligned with your investment goals and objectives.

Where Client appoints KAI as Client's agent to buy and sell securities or other investments for Client's account on a discretionary basis, Client delegates to KAI the authority to retain one or more Third-Party Asset Manager(s) to provide all, or a portion, of the discretionary management services with respect to Client's account. KAI shall have the discretion to hire and fire any Third-Party Asset Manager without Client consent. To the extent Client participates in a specific program offered by KAI that is provided through a Third-Party Asset Manager or platform, the investments that are available to Client through that program may be limited to certain types of securities. Client understands that Client may not be able to impose investment restrictions with respect to the securities and other assets that are purchased for, or held in, the account by such Third-Party Asset Managers.

In some cases, you may be required to sign an agreement directly with the Third-Party Asset Manager(s). In which case, you may terminate your advisory relationship with the Third-Party Asset Manager(s) according to the terms of your agreement with the Third-Party Asset Manager(s). You should review each Third-Party Asset Manager's brochure for specific information on how you may terminate your advisory relationship with the Third-Party Asset Manager and how you may receive a refund, if applicable. You should contact the Third-Party Asset Manager directly for questions regarding your agreement with the Third-Party Asset Manager.

A complete description of the programs and services provided, the amount of total fees, the payment structure, termination provisions, and other aspects of each program are detailed and disclosed in: i) the Third-Party Asset Manager's Form ADV Part 2A; ii) or other applicable disclosure documents; iii) the disclosure documents of the portfolio manager(s) selected; or, iv) the Third-Party Asset Manager's account opening documents. A copy of all relevant disclosure documents of the Third-Party Asset Manager and the individual portfolio manager(s) will be provided to anyone interested in these programs/managers.

## FINANCIAL PLANNING SERVICES

We offer various financial planning related services, which assist our Clients in the management of their financial resources. Financial planning services are based upon an analysis of your individual needs and begin with one or more information gathering consultations. Once we collect and analyze all documentation gathered during these consultations, KAI will provide one or more of the following services based on the information furnished by Client:

- A review of Client's present financial position, including the following as appropriate: net worth statement, budget/cash flow analysis, risk assessment, and income tax assessment.
- A review of Client's financial goals, objectives, risk tolerance, and expectations.
- A written evaluation and analysis of the information Client provided and recommendations for Client's personalized financial plan, based on the specific needs to be covered as selected by the Client in the financial planning agreement. Only the needs selected by the Client will be covered in the written evaluation and recommendations. For example, the Client may select from one or more areas of concern, such as the following or the Client may work with KAI to customize a plan based on specific special needs as agreed upon and set forth in the financial planning agreement between the Client and KAI:
  - General Planning, such as Educational Needs, Retirement Needs, and Estate Planning Needs
  - Risk Management Planning, such as Survivor Income Needs, Disability Income Needs, and Long-Term Care Needs
  - Special Planning, such as Business Planning Needs, Charitable Planning Needs, and Special Family Needs

You can also request financial planning services that cover a specific area, such as asset allocation analysis, manager due diligence, 401(k) platform due diligence, or advice on assets in accounts not opened through KAI ("outside accounts").

The recommendations and solutions are designed to achieve your desired goals, subject to periodic evaluation of the financial plan, which may require revision to meet changing circumstances. Financial plans are based on your financial situation based on the information provided to the firm. We should be notified promptly of any change to your financial situation, goals, objectives, or needs.

You may choose to accept or reject our recommendations. If you decide to proceed with our recommendations, you may do so either through our investment advisory services or by using any advisory, brokerage, or insurance provider you choose.

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**KOVACK ADVISORS**

AN SEC REGISTERED INVESTMENT ADVISOR

## ASSETS UNDER MANAGEMENT

As of December 31, 2021, KAI managed \$3,514,635,392 in Client assets on a discretionary basis and \$1,032,646,181 on a non-discretionary basis.

## ITEM 5: FEES AND COMPENSATION

### ASSET MANAGEMENT FEES

KAI charges an annual fee based upon a percentage of the market value of the assets being managed. The maximum annual fee will be 2.90% of the assets being managed by KAI and/or by a recommended Third-Party Asset Manager. KAI does not determine the value of Clients' assets being managed. The account fee will be determined by the account balance as published by the relevant account custodian(s) and/or as listed on a national securities exchange or NASDAQ at the closing price, on the valuation date, on the principal market where the securities are traded. KAI will rely on the valuation by an independent third party for non-listed securities or where a published valuation is not readily available. Interest on any margin debt incurred by Client is in addition to the account fee.

Asset management fees are negotiable depending on factors such as the amount, type, and complexity of the asset management services provided, the nature and complexity of the assets being managed, the complexity of your financial circumstances, as well as the level of administration requested either directly or assumed by the Client, among others. Assets in each of your account(s) are included in the fee assessment unless specifically identified in writing for exclusion. Since this fee is negotiable, the exact fee paid by you will be clearly stated in the management agreement signed by you and us.

Asset management fees are billed quarterly in advance and are based on the value of your portfolio at the end of the prior billing cycle. Terms of payment are stated in the management agreement signed by you and us. If you provide written authorization to us, the advisory fee will be deducted from your account held with a non-affiliated, qualified custodian. The qualified custodian will provide you with an account statement at least quarterly. This statement will detail all account activity, including the advisory fees deducted from your account(s).

Additionally, where appropriate, fees may be pro-rated based on deposits or withdrawals during a billing cycle and, likewise where appropriate, may be pro-rated, or subject to refunds if any fees are paid in advance, based on the date of termination. The period for which the initial payment shall be due will run from the opening date through the last business day of the next full billing cycle and will be pro-rated accordingly. Thereafter, the fee will be based on the full billing cycle as specified in the account opening documents.

Our annual fee is exclusive of, and in addition to, brokerage commissions, transaction fees, custodial fees, postage fees, and other transactional and account related costs and expenses. You are responsible for brokerage costs incurred unless your IAR negotiates with you to cover the ticket charges (Transaction Fees) in your account charged by the clearing firm. This presents a conflict of interest since your KAI IAR may have an incentive to trade your account less frequently to avoid incurring the transaction costs or to use a broker-dealer or custodian that charges lower transaction charges, although a more favorable transaction might be available through another broker-dealer or custodian. As described in the Item 13 Account Reviews section below, KAI conducts periodic supervisory reviews of advisory accounts for consistency with its duties of fiduciary duty and best execution.

The investment management agreement between you and KAI will continue in effect until either party terminates the management agreement upon written notice in accordance with the terms of the investment management agreement. KAI's annual fee will be pro-rated through the date of termination. Any pre-paid, unearned fees will be promptly refunded to the Client.

In some cases, KAI may provide research and/or monitoring of certain assets without providing any active management of such assets. In such cases, such assets will be designated as "Unmanaged Advised Assets" and will not be charged any advisory fees. Such Unmanaged Advised Assets will be designated in the management agreement.

### Billing on Cash Positions

The firm treats cash and cash equivalents as an asset class. Accordingly, unless otherwise agreed in writing, all cash and cash equivalent positions (e.g., money market funds, etc.) are included as part of assets under management for purposes of calculating the firm's advisory fee. At any specific point in time, depending upon perceived or anticipated market conditions/events (there is no guarantee that such anticipated market conditions/events will occur), the firm may maintain cash and/or cash equivalent positions for defensive, liquidity, or other purposes. While assets are maintained in cash or cash equivalents, such amounts could miss market advances and, depending upon current yields, at any point in time, the firm's advisory fee could exceed the interest paid by the client's cash or cash equivalent positions.

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## **Billing on Margin**

Unless otherwise agreed in writing, the gross amount of assets in the client's account, including margin balances, are included as part of assets under management for purposes of calculating the firm's advisory fee. Clients should note that this practice will increase the total assets under management used to calculate advisory fees which will in turn increase the amount of fees collected by our firm. This practice creates a conflict of interest in that our firm has an incentive to use margin in order to increase the amount of billable assets. At all times, the firm and its Associated Persons strive to uphold their fiduciary duty of fair dealing with clients. Clients are free to restrict the use of margin by our firm. However, clients should note that any restriction on the use of margin may negatively impact an account's performance in a rising market.

## **Periods of Portfolio Inactivity**

The firm has a fiduciary duty to provide services consistent with the client's best interest. As part of its investment advisory services, the firm will review client portfolios on an ongoing basis to determine if any changes are necessary based upon various factors, including but not limited to investment performance, fund manager tenure, style drift, account additions/withdrawals, the client's financial circumstances, and changes in the client's investment objectives. Based upon these and other factors, there may be extended periods of time when the firm determines that changes to a client's portfolio are neither necessary nor prudent. Notwithstanding, unless otherwise agreed in writing, the firm's annual investment advisory fee will continue to apply during these periods, and there can be no assurance that investment decisions made by the firm will be profitable or equal any specific performance level(s).

**Negotiability of Fees:** We allow Associated Persons servicing the account to negotiate the exact investment management fees within the range disclosed in our Form ADV Part 2A Brochure. As a result, the Associated Person servicing your account may charge more or less for the same service than another Associated Person of our firm. Further, our annual investment management fee may be higher than that charged by other investment advisors offering similar services/programs

## **THIRD-PARTY ASSET MANAGER FEES**

The combined fee charged by KAI and the Third-Party Asset Manager will not exceed 2.90%. Clients are hereby informed that a combined fee in excess of 2.90% of assets under management is in excess of industry norms and similar advisory services can be obtained for less. Depending on the Third-Party Asset Manager, Clients may or may not be able to negotiate the portion of the fee payable to the Third-Party Asset Manager.

A portion of the advisory fees paid by Client to KAI is remitted to the Third-Party Asset Manager for their services. Therefore, we have a conflict of interest since arrangements with Third-Party Asset Manager and we have a financial incentive to recommend Third-Party Asset Managers with whom we have more favorable compensation arrangements. Nevertheless, we mitigate this conflict since we are a fiduciary and are obligated to act in your best interests. We also have policies and procedures in place that require us to perform due diligence on Third-Party Asset Managers to ensure that we make every effort to recommend a Third-Party Asset Manager that is appropriate for you based on the facts and circumstances you disclose to us including, but not limited to, your risk tolerance, financial objectives, and financial circumstances.

Clients are encouraged to review the Disclosure Brochures of the Third-Party Asset Managers and/or Custodians as well as the new account documents provided by all parties to ensure that they understand the total fee they will pay. The advisory fees payable to KAI and the Third-Party Asset Managers will be debited from Client's account upon the Custodian's receipt of the invoice from KAI. If there is not adequate cash in the account to pay the advisory fees, it may be necessary to liquidate account assets to cover those expenses, which may result in a loss to Client.

## **FINANCIAL PLANNING FEES**

Prior to engaging KAI to provide financial planning services, you will be required to enter into a written financial planning agreement with us. The financial planning agreement will set forth the terms and conditions of the engagement and will describe the scope of the services to be provided, and the agreed upon, negotiable, estimated fee to be paid. In some cases, a portion of the estimated fee may be payable in advance, upon execution of the financial planning agreement with the balance due upon presentation of the completed financial plan. Other fee payment arrangements may be negotiated on a case-by-case basis. All such arrangements will be clearly set forth in the financial planning agreement signed by you and us.

For an initial plan consultation, KAI will charge an hourly or a fixed fee that is calculated by multiplying our negotiable, maximum hourly rate of \$350 by the estimated amount of time needed to complete the financial planning project.

For investment advice on assets that are held away from KAI ("outside assets"), such as employer sponsored plans (e.g., 401k, 457, etc.), the fee will be determined by an agreed upon based on a percentage of the value of the advised assets, an agreed upon a fixed fee, or an hourly fee not to exceed \$350 per hour, as agreed upon and set forth in the financial planning agreement.



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For an annual review and update of Client's previously provided financial plan, we typically charge an hourly, negotiable, maximum hourly rate of \$350 plus out-of-pocket expenses (i.e., long-distance calls, overnight mailings, travel expenses). Prior to executing the financial planning agreement, the requested services will be assessed, and an estimate of the hours needed to complete the financial plan review and update will be set forth in the financial planning agreement.

If Client requests an annual review and update of the plan, the fee will be based on the complexity of each year's review. The fee will be due and payable at the completion of the financial plan review and update and will be in accordance with the agreed upon fee schedule.

KAI does not permit the prepayment of over \$1,200, six or more months in advance.

Either party may terminate the financial planning agreement by written notice to the other. Any pre-paid, unearned fees will be promptly refunded to the Client.

Financial planning services are generally separate and distinct from advisory asset management services, and generally do not include the implementation of transactions on your behalf. You can engage your IAR to implement their recommendations, and your IAR will earn fees or commissions in addition to the fees charged for financial planning services. Since you may consider engaging your IAR for the implementation of their recommended strategies and products, your IAR has an incentive to recommend strategies and products that will result in additional fees or commissions.

## **ADDITIONAL FEES AND EXPENSES**

The fees KAI charges may be negotiable based on the amount of assets under management, the complexity of Client goals and objectives, and the level of services rendered.

All fees paid to KAI for investment advisory services are separate and distinct from the fees and expenses charged to shareholders by mutual funds or exchange traded funds. These fees and expenses are described in each fund's prospectus. These fees generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, you may pay an initial or deferred sales charge.

You could invest in a mutual fund directly, without the services of KAI. In which case, you would not receive the services provided by KAI, which are designed, among other things, to assist you in determining which mutual fund or funds are most appropriate to your financial condition and objectives. Accordingly, you should review both the fees charged by the funds and the fees charged by KAI to fully understand the total amount of fees to be paid by you to evaluate the advisory services being provided.

## **COMPENSATION FOR THE SALE OF INVESTMENT PRODUCTS**

As described in Item 10 Other Financial Industry Activities or Affiliations below, Associated Persons of our firm, including owners, officers, managers, and IARs, are Registered Representatives ("RRs") of Kovack Securities, Inc. ("KSI") an introducing broker-dealer registered with the Financial Industry Regulatory Authority ("FINRA"). KSI is affiliated with KAI through common control and ownership.

In their capacities as RRs, RRs receive commission-based compensation in connection with the purchase and sale of securities, including 12b-1 fees for the sale of investment company products. Compensation earned by these persons in their capacities as RRs is separate and in addition to our advisory fees. This practice presents a conflict of interest because persons providing investment advice on behalf of our firm who are RRs have an incentive to effect securities transactions for the purpose of generating commissions rather than solely based on your needs.

Additionally, certain owners, officers, managers, IARs, and RRs associated with KAI and/or KSI are licensed as independent insurance agents. These persons will earn commission-based compensation for selling insurance products. Insurance commissions earned by these persons are separate and in addition to our advisory fees. This practice presents a conflict of interest because persons providing investment advice on behalf of our firm who are insurance agents have an incentive to recommend insurance products to you for the purpose of generating commissions rather than solely based on your needs.

Clients of our firm are under no obligation, contractually or otherwise, to purchase insurance products through any person affiliated with our firm.

## **OTHER FEES AND EXPENSES**

Some recommended custodians charge additional charges or transactional fees, foreign transaction costs charged by the executing broker-dealer, or step-out/trade away fees charged by a prime broker for certain transactions, which would be paid by the Client.



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For Clients investing in mutual funds, KAI requires that Clients purchase the share class most beneficial to the Client, generally the institutional or advisory share class. In some cases, these share classes are not made available by the sponsor fund. Here, KAI will direct the IAR to seek a comparable, similar mutual fund that provides an advisory share class, and offer the fund and share class to the Client. If no comparable fund with an advisory share class is available, the Client may pay higher fees that include 12b-1 fees. KAI will refund the Client 12b-1 fees received, but this share class may still have higher costs to the Client.

Class A shares that transfer into Client accounts are periodically converted to the advisory or institutional share class. The firm requires advisory or institutional share classes in accounts and does not permit purchases of Class A, B, or C shares in advisory accounts unless there is no advisory share class available, and no similar mutual fund with an advisory share class. Although we anticipate that this would occur infrequently, the purchase would be made at Net Asset Value ("NAV") or the commission would be credited to the Client.

Certain open-end, closed-end and exchange-traded funds ("fund" or "funds") that may be acquired in Client's account may assess other internal expenses, such as 12b-1 fees or "trails," administrative fees, and "other expenses" in addition to assessing management fees. The nature and amount of this additional compensation are usually determined by the type of "share class" of each mutual fund that is purchased. Additionally, issuers of securities may pay concession fees on new issues or may provide other forms of compensation to KSI or to IARs who are dually registered as RRs of KSI. To the extent that KAI, KSI, and/or its dually registered IARs/RRs might receive 12b-1 fees, trails, concessions, or other compensation from funds or issuers of securities acquired in Client's account, Client will receive a credit to the account in an amount equal to such fees received from the funds or issuer. 12b-1 fees and trails are generally included in the calculation of operating expenses of a fund and are disclosed in the fund prospectus. In addition, KAI or KSI may enter into arrangements with funds or their affiliates in connection with the sale and/or maintenance of assets in certain funds that result in additional direct or indirect compensation being received by KAI, KSI, and/or its dually registered IARs/RRs. These additional arrangements create a conflict of interest in that KAI, KSI, and/or its dually registered IARs/RRs have a financial incentive to recommend buying and/or holding certain funds or securities over other funds or securities and in some instances might select or recommend, mutual fund investments in share classes that pay 12b-1 fees when Clients are eligible to purchase share classes of the same funds that do not pay such fees and are less expensive.

The additional financial arrangements may not necessarily be reflected in a fund's expenses and may be paid solely out of the assets of an affiliate of the fund. Client should understand that the annual advisory fee charged in the account is in addition to the management fees and operating expenses charged by open-end, closed-end and exchange-traded funds. To the extent that Client intends to hold fund shares for an extended period of time, these internal fund expenses should be added to the annual advisory fee when evaluating the total costs of a KAI account. Furthermore, certain mutual fund families impose short-term trading charges (typically 1% to 2% of the original amount invested) which may not be waived for fee-based accounts.

In addition to KAI's and/or the Third-Party Asset Manager's annual management fee, Client shall also incur, relative to certain mutual fund and exchange traded fund ("ETF") purchases, charges imposed directly at the mutual fund or ETF level (e.g., advisory fees and other fund expenses).

Client may incur other charges imposed by unaffiliated third parties and/or KAI's affiliates including, but are not limited to: (i) any dealer markups and odd-lot differentials, SEC imposed fees, and transfer taxes; (ii) charges imposed by broker-dealers and custodians other than clearing agent and its affiliates and fees for other products and services that KAI and its affiliates may offer; (iii) offering discounts and related fees in connection with an underwritten public offering of securities; (iv) margin interest and operation fees and charges; (v) custodial and other IRA fees; and (vi) any redemption fees, exchange fees or similar fees imposed in connection with certain mutual fund transactions. Client is directed to the Custodian's account opening documents and/or information package provided by the broker-dealer/custodian and/or made available on the broker-dealer/custodian's website for specific information regarding the exact nature and amount of such additional fees and costs. The Client is encouraged to speak with their KAI IAR for more information.

**ERISA Plans:** With ERISA Clients, KAI may be subject to certain conflicts of interest—specifically, receiving additional compensation from third parties (such as 12b-1 fees, sub-transfer agent fees, and revenue sharing payments), and providing marketing, recordkeeping, or other services in connection with certain investments. KAI adopted these policies and procedures, designed to ensure compliance with the prohibited transaction rules under the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. KAI addresses the potential conflict of interest of advisors who receive compensation for services provided to ERISA plans with the following steps:

- The IAR negotiates the compensation with ERISA plan sponsors or participants. The compensation is either an annual fee for ongoing services based on a percentage of assets under management, a flat fee, or an hourly rate.

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AN SEC REGISTERED INVESTMENT ADVISOR

- To the extent that an IAR receives additional compensation from a third party, the IAR must report it to KAI to enable the additional compensation to be offset against the fees that the ERISA Clients would otherwise pay for the advisor representative's services.
- KAI has supervisory measures in place to oversee that the IAR's advice or management of assets at any time or for any reason is not based on any compensation that KAI or the IAR might receive from third parties. KAI does not allow IARs to provide advice or manage assets for ERISA Clients if they have conflicts of interest that KAI believes are prohibited by ERISA.

Since KAI and its IARs may be considered covered service providers, KAI and its IARs will disclose direct compensation received from ERISA Clients.

KAI will make these fee disclosures before entering into, renewing, or extending the advisory services with the ERISA Client.

## **ADDITIONAL COMPENSATION**

KSI receives a portion of the costs charged to clients for various brokerage and custodial services performed by Pershing or NFS, including but not limited to placing transactions, ticket charges, custodial fees, execution fees, interest charges, annual maintenance fees, and asset transfer fees. Thus, we have an incentive to recommend you hold your account at either of our custodians (Pershing and NFS), as KSI will receive a portion of the costs charged to you. You have no obligation to use Pershing or NFS and may use a custodian of your own choosing or our relationships with IWS or TD Ameritrade, where we do not receive any portion of costs accrued by you. It should be noted that IARs are not paid any portion of this revenue received by us, other than possible ticket charge reduction or waiver, and do not receive any additional fee incentives to open and trade accounts at Pershing or NFS. However, if you select the account option wherein your account management fee includes ticket charges, your IAR has an incentive to recommend and utilize custodians where the ticket charges are lower. You are under no obligation to use any of the custodians that we recommend, and comparable custodial services may be available elsewhere for lower costs.

Independent, third-party mutual fund money managers may purchase No Transaction Fee Class A shares. You will not pay a transaction cost, but in some cases, you will pay 12b-1 fees for as long as you hold the shares. KAI does not receive any portion of these 12b-1 fees. However, KAI receives revenue from these mutual fund managers and therefore has an incentive to recommend them to you. Other third-party mutual fund managers may use mutual funds that do not pay 12b-1 fees or transaction costs, or mutual funds that pay transaction costs but no 12b-1 fees. You are under no obligation to use the services of any third-party mutual fund money manager that we recommend.

From independent, third-party money managers and turnkey asset management programs, KAI, an individual IAR or a branch office may receive preferential pricing and/or other cost reductions, preferential servicing and/or accommodations, marketing assistance, or other benefits. KAI, the branch, or IAR is therefore incentivized to recommend the money manager(s) and/or turn-key asset management program to you to receive the pricing discount, other cost reductions, preferential service, lower account minimums, special account accommodations, or other benefits. Our IARs negotiate the fees charged to you, within the firm parameters, and you may or may not receive the savings of the lower branch or IAR costs. Ask your IAR if their branch receives any such discounts and if the discount is applied to your account. You are under no obligation to accept the recommendations of your IAR, and lower fees and/or comparable services may be available elsewhere.

## **FORGIVABLE LOANS**

KAI has established a forgivable loan (the "Forgivable Loan") with certain of our IARs, some of whom are also licensed registered representatives of KSI. This constitutes an additional economic benefit. The terms of the Forgivable Loan require these IARs to remain affiliated with KAI and/or KSI for a specified period of time in order to qualify for loan forgiveness; otherwise, the loan must be repaid in accordance with the terms of the loan. The Forgivable Loan incentivizes such IARs to remain affiliated with KAI and/or KSI; thereby directing clients to utilize the advisory services offered through KAI and/or the brokerage services offered through KSI, even though comparable services may be available through other similar firms for lower fees. The receipt of the Forgivable Loan, therefore, presents a conflict of interest because these IARs are incentivized to recommend that clients utilize the services of KAI and/or KSI due to their ongoing affiliation, rather than basing recommendations on a client's particular needs. Clients are therefore reminded that they are not under any obligation to purchase advisory services through KAI or commission-based investment products through KSI and that they may purchase such services and products through other, non-affiliated investment advisers and/or broker-dealers. The terms of the loan vary and are negotiated individually with the IAR on a case-by-case basis taking into consideration the anticipated assets under management, commissions, and expenses associated with bringing clients to KAI and/or KSI. Forgiveness of the loan, in whole or in part, is conditioned on the IAR remaining affiliated with KAI and/or KSI, as well as the amount of business the IAR engages in through

KAI and/or KSI, including, but not limited to, the amount of client assets under management at KAI or commissions generated for KSI. For information on loans received by specific IARs, please see Item 5 of the relevant IAR's Form ADV Part 2B brochure supplement for

detailed information regarding the IAR's receipt of any additional compensation, including any forgivable loan(s), and related conflicts of interest.

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

Performance-based fees are fees that are based on a share of capital gains or appreciation of the assets of a Client. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. The fees paid to KAI are calculated as described above and are not charged on the basis of a share of capital gains upon, or capital appreciation of, the funds, or any portion of the funds of an advisory Client (15 U.S.C. §80b-5(a)(1)).

KAI does not directly charge performance-based fees or participate in side-by-side management. However, some recommended Third-Party Asset Managers charge performance-based fees to certain qualified Clients and may participate in side-by-side management. Please carefully review the disclosures provided by the recommended Third-Party Asset Managers for information regarding such practices. Where KAI recommends a Third-Party Asset Manager that charges performance-based fees, it does NOT share in the performance-based compensation paid to the recommended Third-Party Asset Managers. However, as paying agent for such recommended Third-Party Asset Managers, the recommended Third-Party Asset Manager will send KAI an invoice showing the calculation of the fee, KAI will verify the amount and then send the account custodian instructions to debit the performance-based fee from the relevant Client account on behalf of the recommended Third-Party Asset Manager.

## ITEM 7: TYPES OF CLIENTS

**KAI generally provides investment advice to the following types of Clients:**

- Individuals
- High net worth individuals
- Bank or thrift institutions
- Pension and profit-sharing plans
- Charitable organizations
- Corporations or other businesses

KAI generally has account minimums, depending on the account option selected. Household accounts can be aggregated to meet minimums, and the minimums can be waived. Minimums generally range from \$10,000 to \$100,000. Third-Party Asset Managers' accounts may have different minimums.

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

Investing in securities involves a risk of loss that you should be prepared to bear. We do not represent, warrant, or imply that the services or methods of analysis employed by us can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines.

KAI employs a wide range of methods to manage portfolios and evaluate investments and uses research when making investment decisions. KAI's methods of analysis and investment strategies incorporate the Client's financial needs and investment objectives, time horizon, and risk tolerance. KAI is not bound to a specific investment strategy for the management of investment portfolios and instead considers the risk tolerance levels determined at the account opening, as well as monitoring risk tolerance on an on-going basis. Examples of methodologies that KAI's investment strategies may incorporate include:

- **Asset Allocation:** Asset Allocation is a broad term used to define the process of selecting a mix of asset classes and the efficient allocation of capital to those assets by matching rates of return to a specified and quantifiable tolerance for risk.
- **Dollar-Cost Averaging:** Dollar-cost averaging is the technique of buying a fixed dollar amount of securities at regularly scheduled intervals, regardless of the price per share. This will gradually, over time, decrease the average share price of the security. Dollar-cost averaging lessens the risk of investing a large amount in a single investment at the wrong time.

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- **Technical Analysis:** Involves studying past price patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks.
- **Long-Term Purchases:** Securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.
- **Short-Term Purchases:** Securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.

Strategies and investments may have unique and significant tax implications. Regardless of account size or other factors, the firm strongly recommends continuous consultation with a tax professional prior to investing, and throughout investing.

Investing in securities involves a risk of loss that Clients should be prepared to bear. Although KAI manages Client portfolios with strategies and in a manner consistent with risk tolerances, there can be no guarantee that the firm's efforts will be successful. A Client may lose all, or some, of their investment.

All investments involve the risk of loss, including, but not limited to, loss of principal, loss of earnings (including interest, dividends, and other distributions), and loss of other opportunities. These risks include market risk, interest rate risk, issuer risk, political risk, and general economic risk. Regardless of the methods of analysis or strategies suggested for particular investment goals, risks that may be associated with each investment or strategy should be carefully considered.

**KAI believes in diversified asset class exposure obtained primarily through a diversified mix of securities in various asset classes, such as:**

- Mutual Funds
- ETFs
- U.S. Stocks (Small-, Mid- or Large-Capitalization)
- Foreign Stocks, including Emerging Markets
- Investment Grade Fixed Income Securities
- Non-Investment Grade Fixed Income Securities
- Tax-Exempt Municipal Bonds
- U.S. Government and Government Agency Securities
- Derivatives
- Real Estate Investment Trusts (Domestic and Foreign)
- Business Development Companies, among others

## SOURCES OF INFORMATION

The main sources of information utilized by KAI in making its investment decisions are financial publications, research materials, corporate rating services, annual reports, prospectuses, and other SEC filings. KAI also conducts its own due diligence of independent, Third-Party Asset Managers that the firm approves for its IARs to recommend to Clients. Through these sources and the Client's goals and objectives, KAI will determine what type of investments and investment strategies to recommend to Clients.

## PRINCIPAL INVESTMENT STRATEGIES

KAI typically recommends mutual funds and ETFs to implement its recommended investment strategies. However, KAI also may recommend exchange-listed stocks, investment grade corporate bonds and other debt securities, municipal securities, U.S. Government securities, or alternative investments, depending upon the particular Client's financial profile and investment objectives.

KAI may give advice and take action with respect to Clients that is different from the advice, timing, and nature of action taken with respect to other Clients. Timing, allocation, and types of investments are determined as part of each Client's overall financial strategy.

## PRINCIPAL RISKS

Investing in securities involves a risk of loss that Clients should be prepared to bear. Although Client portfolios are managed with strategies and in a manner consistent with risk tolerances, there can be no guarantee that the firm's efforts will be successful. A Client may lose all, or some, of their investment. All investments involve the risk of loss, including, but not limited to, loss of principal, loss of earnings (including interest, dividends, and other distributions), and loss of other opportunities. Regardless of the methods of analysis or strategies suggested for particular investment goals, risks that may be associated with each investment or strategy should be carefully considered. Below is a non-inclusive explanation of risks Clients may face:

**Market Risk.** The prices of securities in which Clients invest may decline in response to certain events taking place around the world, including those directly involving the companies whose securities are owned by the Client or an underlying fund; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency, interest rate, and commodity price fluctuations. Investors should have a long-term perspective and be able to tolerate potentially sharp declines in market value.

**Management Risk.** KAI's investment approach may fail to produce the intended results. If the firm's perception of the performance of a specific asset class or underlying fund is not realized in the expected time frame, the overall performance of Client's portfolio may suffer.

**Equity Risk.** Equity securities tend to be more volatile than other investment choices. The value of an individual mutual fund or ETF can be more volatile than the market as a whole. This volatility affects the value of the Client's overall portfolio. Small- and mid-cap companies are subject to additional risks. Smaller companies may experience greater volatility, higher failure rates, more limited markets, product lines, financial resources, and less management experience than larger companies. Smaller companies may also have a lower trading volume, which may disproportionately affect their market price, tending to make them fall more in response to selling pressure than is the case with larger companies.

**Fixed Income Risk.** The issuer of a fixed income security may not be able to make interest and principal payments when due. Generally, the lower the credit rating of a security, the greater the risk that the issuer will default on its obligation. If a rating agency gives a debt security a lower rating, the value of the debt security will decline because investors will demand a higher rate of return. As nominal interest rates rise, the value of fixed income securities is likely to decrease. A nominal interest rate is the sum of a real interest rate and an expected inflation rate.

**Municipal Securities Risk.** The value of municipal obligations can fluctuate over time and may be affected by adverse political, legislative, and tax changes, as well as by financial developments that affect municipal issuers. Because many municipal obligations are issued to finance similar projects by municipalities (e.g., housing, healthcare, water and sewer projects, etc.), conditions in the sector related to the project can affect the overall municipal market. Payment of municipal obligations may depend on an issuer's general unrestricted revenues, revenue generated by a specific project, the operator of the project, or government appropriation or aid. There is a greater risk if investors can look only at the revenue generated by the project. In addition, municipal bonds generally are traded in the "over-the-counter" market among dealers and other large institutional investors. From time to time, liquidity in the municipal bond market (the ability to buy and sell bonds readily) may be reduced in response to overall economic conditions and credit tightening.

**Investment Company and ETF Risk.** When a Client invests in open-end mutual funds or ETFs, the Client indirectly bears its proportionate share of any fees and expenses payable directly by those funds. Therefore, the Client will incur higher expenses, many of which may be duplicative. In addition, the Client's overall portfolio may be affected by losses of an underlying fund and the level of risk arising from the investment practices of an underlying fund (such as the use of derivatives). ETFs are also subject to the following risks: (i) an ETF's shares may trade at a market price that is above or below their net asset value; (ii) the ETF may employ an investment strategy that utilizes high leverage ratios; or (iii) trading of an ETF's shares may be halted if the listing exchange's officials deem such action appropriate, the shares are de-listed from the exchange, or the activation of market-wide "circuit breakers" (which are tied to large decreases in stock prices) halts stock trading generally. KAI has no control over the risks taken by the underlying funds.

**Derivatives Risk.** Funds in a Client's portfolio may use derivative instruments. The value of these derivative instruments derives from the value of an underlying asset, currency, or index. Derivative investments by mutual funds or ETFs in which the Client invests involve the risk that the value of the underlying fund's derivatives may rise or fall more rapidly than other investments, and the risk that it may lose more than the amount that it invested in the derivative instrument itself. Derivative instruments also involve the risk that other parties to the derivative contract may fail to meet their obligations, which could cause losses.

**Foreign Securities Risk.** Funds in which Clients invest may invest in foreign securities. Foreign securities are subject to additional risks not typically associated with investments in domestic securities. These risks may include, among others, currency risks, country risks (political, diplomatic, regional conflicts, terrorism, war, social and economic instability, currency devaluations, and policies that have the effect of limiting or restricting foreign investment or the movement of assets), different trading practices, less government supervision, less publicly available information, limited trading markets and greater volatility. To the extent that underlying funds invest in issuers located in emerging markets, the risk may be heightened by political changes, changes in taxation, or currency controls that could adversely affect the values of these investments. Emerging markets have been more volatile than the markets of developed countries with more mature economies.



**Structured Products Risk.** Certain Advisory Representatives may recommend that clients invest in, or allocate assets among, various structured products, which are generally unsecured debt obligations of the companies that issue them (each, an "issuer"). As such, any payment on a structured product, including any repayment of principal, is subject to the creditworthiness of the issuer. Structured products may not be suitable for all clients. Investing in structured products involves the use of derivatives and a higher degree of risk factors substantially different than those associated with other traditional investments, including risk of adverse or unanticipated market developments, issuer credit quality risk, risk of counterparty or issuer default, risk of lack of uniform standard pricing, risk of adverse events involving any underlying reference obligations, entity, or other measures, risk of high volatility, and risk of illiquidity. The return on a structured product, including the amount paid at maturity, if any, is linked to the performance of an underlying asset (e.g., single stocks, indices, currencies, commodities, or interest rates) and thus exposed to market and other risks related to the underlying asset(s). Therefore, it is possible that the return may be zero or significantly less than what investors could have earned on an ordinary, interest-bearing debt security. Past performance of an underlying asset class is not indicative of the profit and loss potential on any particular structured product. The value of the underlying assets can experience significant periods of fluctuation and prolonged periods of underperformance. Structured products are not FDIC insured and are not listed on any securities exchange. There may be little or no secondary market for a structured product and information regarding independent market pricing for a structured product may be limited. This is true even if the product has a ticker symbol or has been approved for listing on an exchange. The price, if any, at which structured products can be purchased in secondary market transactions, if at all, will likely be lower than the original issue price, and any sale prior to the maturity date could result in a substantial loss. Structured products are not designed to be short-term trading instruments; clients who purchase structured products should be willing to hold them until maturity. The tax treatment of a structured product may be very different than that of a traditional investment or the underlying asset and significant aspects of the tax treatment of a structured product may be uncertain. It is important that before investing in a structured product, investors should review the accompanying prospectus and prospectus supplement to understand the actual terms of the risks associated with specific structured products. In certain transactions, investors may lose their entire investment i.e., incur an unlimited loss.

**Inverse Fund Risk.** Inverse mutual funds, which are sometimes referred to as "short" funds, seek to provide the opposite of the single-day performance of the index or benchmark they track. Inverse funds are often marketed as a way to profit from, or hedge exposure to, downward moving markets. Some inverse funds also use leverage, such that they seek to achieve a return that is a multiple of the opposite performance of the underlying index or benchmark (i.e., -200%, -300%). In addition to leverage, these funds may also use derivative instruments to accomplish their objectives. As such, inverse funds are highly volatile and provide the potential for significant losses.

**Leveraged and Inverse ETF Risk.** A leveraged ETF generally seeks to deliver multiples of the daily performance of the index or benchmark that it tracks. An inverse ETF generally seeks to deliver the opposite of the daily performance of the index or benchmark that it tracks. Inverse ETFs often are marketed as a way for investors to profit from, or at least hedge their exposure to, downward-moving markets. Some ETFs are both inverse and leveraged, meaning that they seek a return that is a multiple of the inverse performance of the underlying index. To accomplish their objectives, leveraged and inverse ETFs use a range of investment strategies, including swaps, futures contracts, and other derivative instruments. Leveraged, inverse, and leveraged inverse ETFs are more volatile and riskier than traditional ETFs due to their exposure to leverage and derivatives, particularly total return swaps and futures. Though not part of our core strategy, some accounts may hold leveraged and/or inverse ETFs, which may amplify gains and losses.

Most leveraged ETFs are typically designed to achieve their desired exposure on a daily (in a few cases, monthly) basis, and reset their leverage daily. A "single day" is measured from the time the leveraged ETF calculates its net asset value ("NAV") to the time of the leveraged ETF's next NAV calculation. The return of the leveraged ETF for periods longer than a single day will be the result of each day's returns compounded over the period. Due to the effect of this mathematical compounding, their performance over longer periods of time can differ significantly from the performance (or inverse performance) of their underlying index or benchmark during the same period of time. For periods longer than a single day, the leveraged ETF will lose money when the level of the Index is flat, and it is possible that the leveraged ETF will lose money even if the level of the Index rises. Longer holding periods, higher index volatility, and greater leverage all exacerbate the impact of compounding on an investor's returns. During periods of higher Index volatility, the volatility of the Index may affect the leveraged ETF's return as much as or more than the return of the Index itself. Therefore, holding leveraged, inverse, and leveraged inverse ETFs for longer periods of time increases their risk due to the effects of compounding and the inherent difficulty in market timing. Leveraged ETFs are riskier than similarly benchmarked ETFs that do not use leverage. Non-traditional ETFs are volatile and not suitable for all investors. Positions in nontraditional ETFs should be monitored closely due to their volatile nature and inability to track the underlying index over an extended period of time.

**Concentrated Position Risk:** Certain Associated Persons may recommend that clients concentrate account assets in an industry or economic sector. In addition to the potential concentration of accounts in one or more sectors, certain accounts may, or may be advised to, hold concentrated positions in specific securities. Therefore, at times, an account may, or may be advised to, hold a relatively small number of securities positions, each representing a relatively large portion of assets in the account. As a result, the account will be

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subject to greater volatility than a more sector diversified portfolio. Investments in issuers within an industry or economic sector that experiences adverse economic, business, political conditions, or other concerns will impact the value of such a portfolio more than if the portfolio's investments were not so concentrated. A change in the value of a single investment within the portfolio will affect the overall value of the portfolio and will cause greater losses than it would in a portfolio that holds more diversified investments.

**Cybersecurity Risks:** Our firm and our service providers are subject to risks associated with a breach in cybersecurity. Cybersecurity is a generic term used to describe the technology, processes, and practices designed to protect networks, systems, computers, programs, and data from cyber-attacks and hacking by other computer users, and to avoid the resulting damage and disruption of hardware and software systems, loss or corruption of data, and/or misappropriation of confidential information. In general, cyber-attacks are deliberate; however, unintentional events may have similar effects. Cyber-attacks may cause losses to clients by interfering with the processing of transactions, affecting the ability to calculate net asset value, or impeding or sabotaging trading. Clients may also incur substantial costs as the result of a cybersecurity breach, including those associated with forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, litigation, and the dissemination of confidential and proprietary information. Any such breach could expose our firm to civil liability as well as regulatory inquiry and/or action. In addition, clients could be exposed to additional losses as a result of unauthorized use of their personal information. While our firm has established a business continuity plan and systems designed to prevent cyber-attacks, there are inherent limitations in such plans and systems, including the possibility that certain risks have not been identified. Similar types of cyber security risks are also present for issuers of securities, investment companies, and other investment advisers in which we invest, which could result in material adverse consequences for such entities.

**Recommendation of Other Advisers:** In the event, we recommend a third-party investment adviser to manage all or a portion of your assets, we will advise you on how to allocate your assets among various classes of securities or third-party investment managers, programs, or managed model portfolios. As such, we will primarily rely on investment model portfolios and strategies developed by third-party investment advisers and their portfolio managers. If there is a significant deviation in characteristics or performance from the stated strategy and/or benchmark, we may recommend changing models or replacing a third-party investment adviser. The primary risk associated with investing with a third party is that while a particular third party may have demonstrated a certain level of success in the past; it may not be able to replicate that success in future markets. In addition, as we do not control the underlying investments in third

party model portfolios, there is also a risk that a third party may deviate from the stated investment mandate or strategy of the portfolio, making it a less suitable investment for our clients. To mitigate this risk, we seek third parties with proven track records that have demonstrated a consistent level of performance and success over time. A third party's past performance is not a guarantee of future results and certain market and economic risks exist that may adversely affect an account's performance that could result in capital losses in your account. Please refer to the third-party investment adviser's advisory agreements, Form ADV Brochure, and associated disclosure documents for details on their specific investment strategies, methods of analysis, and associated risks.

**Preferred Securities Risk:** Preferred Securities have similar characteristics to bonds in that preferred securities are designed to make fixed payments based on a percentage of their par value and are senior to common stock. Like bonds, the market value of preferred securities is sensitive to changes in interest rates as well as changes in issuer credit quality. Preferred securities, however, are junior to bonds with regard to the distribution of corporate earnings and liquidation in the event of bankruptcy. Preferred securities that are in the form of preferred stock also differ from bonds in that dividends on the preferred stock must be declared by the issuer's board of directors, whereas interest payments on bonds generally do not require action by the issuer's board of directors, and bondholders generally have protections that preferred stockholders do not have, such as indentures that are designed to guarantee payments – subject to the credit quality of the issuer – with terms and conditions for the benefit of bondholders. In contrast preferred stocks generally pay dividends, not interest payments, which can be deferred or stopped in the event of credit stress without triggering bankruptcy or default. Another difference is that preferred dividends are paid from the issue's after-tax profits, while bond interest is paid before taxes.

**Pandemic Risk:** Large-scale outbreaks of infectious disease can greatly increase morbidity and mortality over a wide geographic area, crossing international boundaries, and causing significant economic, social, and political disruption. It is difficult to predict the long-term impact of such events because they are dependent on a variety of factors including the global response of regulators and governments to address and mitigate the worldwide effects of such events. Workforce reductions, travel restrictions, governmental responses and policies, and macroeconomic factors will negatively impact investment returns.

## TAX CONSIDERATIONS

Our strategies and investments may have unique and significant tax implications. However, unless we specifically agree otherwise, and in writing, tax efficiency is not our primary consideration in the management of your assets. Regardless of your account size or any other factors, we strongly recommend that you continuously consult with a tax professional prior to and throughout the investment of your assets.



## RECOMMENDATION OF THIRD-PARTY ASSET MANAGERS

In the event we recommend a Third-Party Asset Manager or program to manage all or a portion of your assets, we will not perform a quantitative or qualitative analysis of individual securities. Instead, we will advise you on how to allocate your assets among various classes of securities or Third-Party Asset Managers or programs. We primarily rely on investment model portfolios and strategies developed by the Third-Party Asset Managers and their portfolio managers. We may replace or recommend replacing a Third-Party Asset Manager if there is a significant deviation in characteristics or performance from the stated strategy and/or benchmark.

## ITEM 9: DISCIPLINARY INFORMATION

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or of the integrity of our management.

In 2018, Kovack Advisors, Inc. (KAI) elected to participate in the Securities and Exchange Commission's Mutual Fund Share Class Selection Disclosure Initiative ("SCSD Initiative"). The SCSD Initiative provided the opportunity for firms to voluntarily self-report to the SEC breaches of fiduciary duty and inadequate disclosures concerning mutual fund share class selection and 12b-1 fees received.

KAI consented to a settlement agreement finding violations of Sections 206(2) and 207 of the Investment Advisers Act and agreed to the entry of an Order in which the firm was censured, agreed to cease and desist from committing further violations, and to pay disgorgement and pre-judgment interest totaling \$898,781.22. The SEC did not impose a fine or civil penalty based on our self-reporting action.

In addition, KAI will distribute the full amount of disgorgement and pre-judgment interest to affected clients. We anticipate that these refunds will be distributed, with the exception of de minimis refunds, in 4Q 2019. "De minimis refunds" refers to refunds of 12b-1 fees paid by accounts when the amount of the 12b-1 to be refunded, plus interest, is less than \$10.00.

On August 26, 2022, KAI settled without admitting or denying the findings with the SEC for failing to review accounts of clients in wrap fee programs to determine whether the program remained suitable for the clients between 2015-2018. The SEC found that certain KAI clients remained in the wrap program despite the lack of activity and that certain fees were not adequately disclosed to wrap clients in addition to the wrap fee.

Without admitting or denying the SEC's findings, KAI consented to a cease-and-desist order and a censure, and agreed to pay disgorgement of \$166,239, prejudgment interest of \$33,274, and a civil money penalty of \$700,000. KAI also agreed to distribute the funds to impacted clients and to comply with certain undertakings. Additionally, KAI no longer offers wrap accounts.

Information regarding such matters is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for KAI is 140808.

See the Form ADV Part 2B brochure supplements for background information regarding KAI management persons and/or your KAI IAR.

## ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES OR AFFILIATIONS

### AFFILIATED BROKER-DEALERS

KAI is affiliated through common control and ownership with Kovack Securities, Inc. ("KSI") an introducing broker-dealer registered with the Financial Industry Regulatory Authority ("FINRA"). KAI IARs, and management personnel of KAI and/or KSI, who are also Registered Representatives ("RRs") of KSI, are eligible to receive commission-based compensation for securities products, including mutual fund 12b-1 fees, that they buy and sell for your KAI advisory account(s). Additionally, KAI may receive services fees, due diligence fees, marketing reimbursements, or other payments relating to a Client's investments. KAI, as the investment adviser, sponsor, or other service provider to investment advisory programs, receives compensation for its services. Clients should be aware that these fees, payments, and other compensation present a conflict of interest since KAI/KSI, its management personnel, and its IARs/RRs may have a greater incentive to recommend those products or programs that provide additional compensation to KAI/KSI or IARs/RRs. Clients are advised that they are under no obligation to utilize the services of KAI, its affiliates, its representatives, or other Associated Persons. To address this conflict of interest, and consistent with fiduciary duty and best execution for Client transactions, where possible advisory or institutional share classes are selected for accounts managed by KAI. In the case where there is no suitable advisory or institutional share class available, and another product is selected based on the Client's investment objectives, any 12b-1 fees or other transactional

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or commission-based compensation will be credited to the Client's account.

## **INSURANCE AND OTHER FINANCIAL INDUSTRY ACTIVITIES**

In addition, IARs, management persons, and other Associated Persons of KAI may be independent insurance agents for various companies, tax professionals, or have other financial related businesses not affiliated with KAI or KSI. These practices represent conflicts of interest because it gives the IAR an incentive to recommend products based on the compensation received from their other business activities. Clients are advised they are not obligated to utilize any services or purchase any insurance or other products or services from any KAI affiliates or its Associated Persons. Clients can purchase products or services through any insurance, tax, or other financial related services provider they choose.

## **AFFILIATED INVESTMENT ADVISERS**

KAI is affiliated through common control and ownership with Kovack International Advisors ("KIA"), an SEC Registered Investment Adviser. However, it is not expected that any KAI advisory Clients will become Clients of KIA or vice versa.

One or more investment adviser representatives (IARs) of KAI own and operate their own registered investment adviser (RIA) firms and are dually registered as IARs with KAI and their RIA. Services offered through and fees paid to another RIA are separate and distinct from the services offered through and the fees paid to KAI. Clients of another RIA may be recommended to KAI for third-party services for which the IAR would be compensated a portion of the fees paid to KAI. However, the fees charged by KAI will not be higher than its typical fees due to this arrangement. Clients are not obligated to utilize the services of KAI or another RIA owned and operated by any person associated with KAI.

## **AFFILIATED LAW FIRM**

KAI is affiliated through common control and ownership with a law firm, Brian J. Kovack, PA. Legal services offered through and fees charged by Mr. Kovack are separate and distinct from advisory services offered through and the fees charged by KAI. Mr. Kovack does not offer legal services to Advisory Clients.

## **RECOMMENDATION OF THIRD-PARTY ASSET MANAGERS**

We may recommend that you use a Third-Party Asset Manager or program as part of our asset allocation and investment strategy. In some cases, KAI will share in the compensation charged by the Third-Party Asset Manager. While fees are negotiable, typically, the fees charged by the third-party money manager are higher due to the sharing arrangement. The compensation arrangement presents a conflict of interest due to a financial incentive to recommend the services of a Third-Party Asset Manager with more favorable compensation arrangements than others. Fees could be higher than you would otherwise pay through other providers that do not utilize Third-Party Asset Managers or that have lower fee sharing arrangements. You are not required to use the services of any recommended Third-Party Asset Managers. If you elect to utilize the services of any recommended Third-Party Asset Manager, please carefully review all disclosures and advisory contracts to fully understand the total advisory fees you will pay to both KAI and the Third-Party Asset Manager.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS / PERSONAL TRADING DESCRIPTION OF OUR CODE OF ETHICS**

KAI endeavors at all times to put the interests of its advisory Clients first. However, Clients should be aware that the receipt of economic benefits by KAI (or its Associated Persons and affiliates, such as KSI) creates a conflict of interest. Therefore, KAI has adopted a Code of Ethics, which includes guidelines for professional standards of conduct for the firm and its Associated Persons pursuant to SEC Rule 204A-1.

KAI's goal is to protect Client interests at all times and to demonstrate commitment to fiduciary duties of honesty, good faith, and fair dealing. All of KAI's Associated Persons are expected to strictly adhere to these guidelines. Persons associated with KAI are also required to report any violations of the Code of Ethics. Additionally, the firm maintains and enforces written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about Clients or Client accounts by persons associated with the firm.

## **PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING PRACTICES**

KAI and its employees may buy or sell securities that are also held by Clients, or they may have an interest or position in a certain security, which may also be recommended to the Client. As these situations could present a conflict of interest, KAI has established the following restrictions:

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1. A director, officer, or employee of KAI shall not buy or sell a security for their personal portfolio(s) where their decision is substantially derived, in whole or part, by reason of his or her employment, unless the information is also available to the investing public. No owner/employee of KAI shall prefer their own interest to that of the Client.
2. IARs are required to have duplicate trade confirmations and statements submitted for all brokerage accounts holding stocks and bonds. These confirmations are cross-checked against IARs' Clients' trades on an as-needed basis, and monthly statements are reviewed.
3. KAI requires that all employees must act in accordance with all applicable Federal and State regulations governing registered investment advisers.
4. KAI ensures that Clients are not at a disadvantage if KAI blocks personal trades with those of Clients and allocates the trades in a like manner. Please refer to the "Brokerage Practices" section in this brochure for information on our block trading practices.

KAI's Code of Ethics is available upon request by contacting the Chief Compliance Officer at (954) 782-4771.

## ITEM 12: BROKERAGE PRACTICES

**KAI recommends broker-dealers based on the services provided by the broker-dealer. In considering which independent qualified custodian will be the best fit for KAI's business model, KAI evaluates the following factors, including, but not limited to:**

- Financial strength
- Reputation
- Reporting capabilities
- Execution capabilities
- Pricing
- Types and quality of research

Clients should be aware that KAI and/or KSI receive all or a portion of the transaction costs charged by some clearing firms, which may be higher than those charged by other firms. For example, NFS and Pershing generally charge a transaction ticket charge of \$19.50 per transaction. At times, the ticket charge may be higher or lower. Therefore, KAI has a financial incentive to recommend the services of such recommended clearing firms over those with which it does not receive or share in any additional account transaction fees. IARs who pay transaction costs have an incentive to trade your account less frequently to avoid incurring the transaction costs or to use a broker-dealer or custodian that charges lower transaction charges, although a more favorable transaction might be available through another broker-dealer or custodian. As described in the Item 13 Account Reviews section below, KAI conducts periodic supervisory reviews of advisory accounts for consistency with its fiduciary duties and best execution obligations. You are also hereby advised that you are not required to utilize the services provided by any particular recommended service provider.

### RESEARCH AND OTHER SOFT DOLLAR BENEFITS

While Clients are free to choose any broker-dealer or other service provider, KAI recommends establishing an account with a brokerage firm that the firm has an existing relationship. Such relationships may include benefits provided to the firm, including research, market information, and administrative services that help KAI manage accounts. KAI believes that recommended broker-dealers provide quality execution service at competitive prices. However, price is not the sole factor considered in evaluating best execution. KAI also considers the quality of the brokerage services provided by the recommended broker-dealers, including the value of research provided, the firm's reputation, execution capabilities, commission rates, and Client responsiveness.

KAI does not have any soft dollar credit arrangements with such recommended brokerage firms/custodians.

### BROKERAGE FOR CLIENT REFERRALS

KAI does not receive Client referrals from broker-dealers/custodians in exchange for cash or other compensation, such as brokerage services or research.

### DIRECTED BROKERAGE

Clients may request to use a particular broker-dealer to execute some or all of the transactions for their accounts. In these cases, the Client is responsible for negotiating the terms and arrangements for the account with that broker-dealer. KAI may not be able to negotiate commissions, obtain volume discounts, or best execution. In addition, under these circumstances, a difference in commission

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charges may exist between the commissions charged to Clients who direct KAI to use a particular broker or dealer and other Clients who do not. As a result, the Client may pay more than the rate available through the broker-dealer used by KAI. Where the Client does not otherwise designate a broker-dealer, KAI recommends a broker-dealer with competitive commission rates.

## **TRADE AGGREGATION**

KAI may buy or sell the same security for two or more Clients (including the firm's personal accounts) when concurrent orders are placed to be executed together as a single "block" in order to facilitate orderly and efficient execution. Each Client account will be charged or credited with the average price per unit. KAI receives no additional compensation or remuneration of any kind because we aggregate Client transactions, and no Client is favored over any other Client. The aggregation should, on average, reduce slightly the costs of execution. We will not aggregate a Client's order if in a particular instance we believe that aggregation would cause the Client's cost of execution to be increased. KAI and/or its Associated Persons may participate in block trades with Clients and may also participate on a pro rata basis for partial fills, but only after the determination has been made that Clients will receive fair and equitable treatment.

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

### **ASSET MANAGEMENT ACCOUNT REVIEWS**

KAI monitors Client account holdings on a continuous basis and the IAR assigned to the account conducts formal account reviews generally quarterly but at least annually. Periodic supervisory reviews are conducted by either KAI's Executive Vice President, President, Chairman, Vice President(s), Chief Compliance Officer, and/or Compliance Officer(s). At account opening, Clients will choose a general investment category that reflects their risk tolerance, investment objectives, and financial objectives. In conducting ongoing reviews, KAI will review the allocations in the account against the chosen investment category.

Triggering factors for additional reviews may include, for example, a Client request, significant changes to a Client's financial condition, risk tolerance or investment objectives, and/or changes in economic conditions, etc. Additionally, an activity that raises concerns with regard to anti-money laundering regulations will also result in an account review.

Clients will receive statements of account activity directly from their account custodian(s) at least quarterly. KAI does not provide additional written reports on a regular basis.

A financial plan is a snapshot in time and no ongoing reviews are conducted, unless you have engaged us for a review and/or updates to your financial plan. We recommend a plan review at least annually.

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

KAI may have relationships with unaffiliated persons (individuals or entities) that refer Clients to KAI for a fee. All referring parties sign an agreement with KAI. The referring parties will not provide investment advisory or supervisory services to Clients. The referring party must provide the potential Client with a copy of KAI's Firm Brochure (this document), along with a copy of KAI's solicitor disclosure statement. The referring party will generally receive a referral fee that is a portion of the annual investment advisory fee paid to KAI by the Client. The fee charged to the Client is not greater than it would have been without a referring party.

We receive revenue from certain independent, third-party money managers. KAI receives a portion of the cost of some third-party money managers and thus has an incentive to promote these third-party money managers. It should be noted that IARs do not receive any of this revenue. You are under no obligation to accept the recommendations of your IAR, and lower fees and/or comparable services may be available elsewhere.

We also receive revenue from service providers that the firm may recommend, such as 401(k) fiduciaries. Therefore, we have an incentive to recommend service providers that provide us revenue based on assets referred to or placed with them. IARs do not participate in this revenue and do not receive any incentives to use these service providers. You are under no obligation to use these providers, and lower fees and comparable services may be available elsewhere.

IARs may hold educational and marketing seminars that are paid by an issuer/sponsor to provide information about their product to existing and potential clients, or the IAR may receive other forms of marketing assistance. Additionally, IARs may attend educational, marketing, or due diligence seminars held by issuer/sponsors. Because of these educational seminars and/or marketing assistance, your IAR may recommend the products of that issuer over other issuers. You are under no obligation to purchase any recommended product, and comparable products may be available through other sponsors and issuers.

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Annually, we hold a National Conference. Securities products issuers, third-party money managers, and financial services providers pay KSI and KAI to attend the Conference and to present their products to our financial advisors. We are incentivized to recommend products issued by companies willing to pay to present at the Conference, though IARs are not required by KAI to offer or sell products presented at the Conference. However, the marketing and educational activities by the companies that present at the Conference lead advisors to focus more on these products than those not presented at the Conference. You are under no obligation to purchase any recommended product, and comparable products may be available through other sponsors and issuers.

Some issuers/sponsors provide additional compensation, other than the commissions paid to KSI, for assisting in the distribution of their products. These companies vary from time to time, and a current listing is shown on the firm's website [www.kovacksecurities.com](http://www.kovacksecurities.com) under the "About Us" tab, followed by "Revenue Sharing Agreements." We are incentivized to promote products from these companies. IARs do not receive any portion of this additional compensation and are not required to offer or sell any specific products. Comparable products may be available elsewhere, and you are under no obligation to purchase any product.

## ITEM 15: CUSTODY

KAI does not have physical custody of any Client funds and/or securities. Client funds and securities will be held with a bank, broker-dealer, or other independent qualified custodian. All checks deposited into Client's custodial accounts must be made payable either to the custodian or for the benefit of the account name. However, KAI is deemed to have custody of Client assets in situations where it or a related person, such as an advisory representative or other advisory affiliate of KAI, holds, directly or indirectly, client funds or securities or has any authority to obtain possession of them. Because of the fee deduction authority granted by the Client in the management agreement and in certain situations where we accept standing letters of authorization from Clients to transfer assets to third parties, we are deemed to have "limited" or "constructive" custody. We maintain safeguards in accordance with regulatory requirements regarding custody of Client assets in these limited situations.

We will either send you an invoice for the payment of our advisory fee, or we will deduct our fee directly from your account through the qualified custodian holding your funds and securities. We will deduct our advisory fee only when you have given us written authorization permitting the fees to be paid directly from your account. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account.

The custodian will not verify the calculation of the advisory fees. However, all accounts receive account statements at least quarterly from the independent, qualified custodian holding the investments. We will also receive a duplicate copy of your account statements. The account statement from the custodian will indicate the amount of advisory fees deducted for each billing cycle. Clients should carefully review their account statements and are encouraged to compare any reports received by KAI with their custodial statements and to promptly report any issues.

## ITEM 16: INVESTMENT DISCRETION

KAI will assist Clients in opening an account with an independent custodian or broker-dealer. Pursuant to a written agreement, Clients may grant KAI limited discretionary authority over the Client's account to determine the securities to be bought and sold, to place trades, and periodically rebalance the Client's account back to the recommended allocation. Apart from the ability to withdraw management fees, KAI does not have the ability to withdraw funds or securities from the Client's account. KAI has no obligation to supervise or direct investments held in Client accounts that were not recommended, or that are not subject to review, by KAI and for which the Client does not pay an advisory fee.

Clients grant KAI a limited power of attorney for trading purposes only with respect to the Client's brokerage account. KAI will exercise discretion to place transactions in the Client's account based on a strategy selected by the Client. Discretion also will be exercised when KAI rebalances the allocation of Client's portfolio to ensure that it remains consistent with the Client's investment objectives.

If you wish, you may limit our discretionary authority, for example, by setting a limit on the type of securities that can be purchased for your account. Simply provide us with your restrictions or guidelines in writing. Please refer to the "Advisory Business" section in this Brochure for more information on our discretionary management services.

If you have engaged us for non-discretionary asset management services, KAI will obtain your approval prior to executing all transactions in your account(s).

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## ITEM 17: VOTING CLIENT SECURITIES

KAI does not vote proxies on behalf of advisory accounts or provide advice regarding proxies. It is the Client's responsibility to vote proxies. Clients will receive proxies directly from the issuer of the security or the custodian. Clients should direct all proxy questions to the issuer of the security.

## ITEM 18: FINANCIAL INFORMATION

We are required in this Item to provide you with certain financial information or disclosures about KAI's, financial condition. KAI does not require the prepayment of over \$1,200, six or more months in advance. Additionally, KAI has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to Clients, and it has not been the subject of a bankruptcy proceeding.

## ITEM 19: REQUIREMENTS FOR STATE-REGISTERED ADVISERS

**This section is not applicable because our firm is SEC registered.**