



# WEDBUSH SECURITIES INC. FORM ADV PART 2A (“Brochure”)

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

Additional information about Wedbush Securities Inc. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

The following describes the material changes that WS has made to sections of the Brochure since our last update on January 13<sup>th</sup>, 2022:

- Item 5 (Fees and Compensation) has been updated to reflect additional advisory accounts offered by WS.

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

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## **Item 4: Advisory Business**

### **WEDBUSH SECURITIES' ADVISORY BUSINESS**

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

Through its Wealth Management division, WS provides investment advice and management services on discretionary and non-discretionary basis to institutional and individual clients. This brochure provides description of its investment advisory services. Additionally, WS offers wrap fee programs to its clients. More details about the wrap fee program can be found in the WS Wrap Fee Program Brochure. A description of our non-wrap fee programs are found in this Brochure.

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

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

Your Financial Consultant acts as a portfolio manager, and manages your accounts on a discretionary basis, which allows your Financial Consultant to make the investment decision regarding the purchase or sale of investments in your account, however, you may inform your Financial Consultant to not invest in certain securities or types of securities, or to invest only in certain securities or types of securities. Your Financial Consultant will purchase or sell securities in your portfolio on a discretionary basis based on a set of criteria such as investment objectives, risk tolerance, liquidity needs and time horizon. Before managing your account under a discretionary authority, your Financial Consultant must obtain approval from you, as well as from his or her Branch Office Manager. The Branch Office Manager has knowledge of your Financial Consultant's licenses/credentials, past work experience, and disclosure history and these factors are used in the review process.

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

## *Financial Planning Services*

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

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

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

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

## **Advisory Wrap Fee Programs**

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

## **Assets Under Management**

As of June 30, 2022, WS had assets under management of \$3,857,311,726, of which \$2,636,909,879 was managed on a discretionary basis and \$1,220,401,847 was managed on a non-discretionary basis.

## **Item 5: Fees and Compensation**

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

For Financial Planning services, clients pay a fee for the advisory services that WS provides. The fee may be a combination of a flat fee, hourly fee, and/or annual basis point fee that is charged directly for

the Plan. The fee charged is documented on the Financial Planning and Consulting Agreement. Fees charged for the Plan may depend upon the anticipated time allocated to provide the services requested or the complexity of the plan. In addition to the Plan fees which are generally negotiable, clients pay commissions, advisory fees, and/or other execution fees for each transaction conducted in accounts.

### **Discretionary Managed Account – Independent Contractor (DMI-IC)**

The fee, which is based on the amount of assets under management, covers investment advisory discretionary services provided by Independent Contractor Financial Consultants and commissions and markups charged for securities transactions effected through or with WS, provided that the number of transactions does not exceed certain amount as set forth in the account agreement. Clients will pay commissions, markups, markdowns or commission equivalent, at a discounted rate, for any transaction in excess of the maximum annual trades.

The minimum amount necessary to open the account is \$25,000 in assets; however, the Financial Consultant can request an exception to accept lower minimum account size. The fees charged for participation in DMI-IC may be higher than if the client were to purchase the individual securities without participation in DMI-IC. Fees are negotiable and billed in advance on a quarterly basis. The accounts are subject to a minimum quarterly fee of \$62.50 (\$250 annually). There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred.

Financial Consultants on the DMI-IC platform typically assess (1) transactional charges of \$14.00 per trade and (2) an activity assessment fee of \$5.95 per trade. These costs are deducted from the account based upon the frequency stated above. The transactional charge plus the activity assessment charge may be avoided by engaging a WS Financial Consultant who is not on the Independent Contractor platform. For those Financial Consultants on the Independent Contractor platform who absorb these charges rather than assessing these charges to clients, the Financial Consultant will have a potential conflict of interest in that they have an incentive to place fewer trades in the client's account in order to avoid these costs and thereby increase their own compensation.

Further details with respect to the specific fees and additional costs charged by WS are described and disclosed in the Managed Assets Client Agreement.

Typical Client Fee Schedule is as follows:

<b>Account Size</b>	<b>Annualized Overall Fees (% of assets)</b>
Up to \$250,000	3.00%
\$250,001 to \$500,000	2.80%
\$500,001 to \$1,000,000	2.50%
\$1,000,001 to \$3,000,000	1.90%
\$3,000,001 to \$5,000,000	1.60%
\$5,000,001 and above	Negotiable

## Self-Directed Investment Advisory Accounts – Independent Contractor (SDI-IC)

SDI-IC is a non-discretionary program offered by Independent Contractor Financial Consultants in which the client has the sole authority to purchase and/or sell securities. The SDI-IC program will assess clients an annual fee, charged in quarterly installments. SDI-IC accounts are designed for investors who regularly conduct transactions in their portfolio and want their Financial Consultants to provide active management. These investors prefer to approve all transactions before execution instead of granting discretion to their Financial Consultant. This type of account is not for clients who are primarily interested in purchasing money market or mutual funds or in holding inactively traded securities.

The minimum amount necessary to open the SDI-IC account is \$25,000 in assets; however, the independent contractor Financial Consultant can request an exception to accept lower minimum account size. The fees charged for participation in SDI-IC may be higher than if the client were to purchase the individual securities without participation in SDI-IC. Clients will pay an annual fee based on the value of the amount of eligible assets held in the account. Fees are negotiable and billed in advance on a quarterly basis. There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred.

### Maximum Annual Trades

The SDI fee covers an annual maximum number of trades on eligible assets without brokerage commission for all WS trades directed by the client in client's account ("Maximum Annual Trades"). For purposes of determining Maximum Annual Trades, "trade" means any purchase or sale of a security. The initial Maximum Annual Trades are based on the SDI account value (which includes cash and money market funds) as of the opening day. Thereafter, the Maximum Annual Trades will be re-established annually, based on the SDI account value on each annual anniversary of the opening day, or revised immediately upward to include eligible assets received into the SDI account. Any unused portion of Maximum Annual Trades will not be carried over to the following anniversary year. The Maximum Annual Trades per SDI account value are as shown below.

If client directs trades in excess of the Maximum Annual Trades, such additional trades will be charged a commission at a 30% discount to WS's standard commission schedule.

<u>Account Value</u>	<u>Maximum Annual Trades</u>
\$100,000 to \$249,999	50
\$250,000 to \$499,999	60
\$500,000 to \$999,999	70
\$1,000,000 to \$2,999,999	100
\$3,000,000 to \$4,999,999	120
\$5,000,000 and above	Negotiable

### SDI-IC Fee

Clients will pay an annual fee based on the value of the amount of eligible assets held in the account. Should the SDI-IC account value be less than the required minimum opening value on any payment date

as the result of withdrawals by the client, the minimum charge (agreed upon fee percentage x \$25,000) shall apply. Should the SDI-IC account value be less than the required minimum account size on any payment date solely due to market fluctuations, the SDI-IC fee shall be the SDI-IC account value x the agreed upon fee percentage. In all instances, the client understands and agrees that WS shall be entitled to a minimum quarterly fee of \$125 (\$500 annually) per account.

Financial Consultants on the SDI-IC platform typically assess (1) transactional charges of \$14.00 per trade and (2) an activity assessment fee of \$5.95 per trade. These costs are deducted from the account based upon the frequency stated above. The transactional charge plus the activity assessment charge may be avoided by engaging a WS Financial Consultant who is not on the Independent Contractor platform. For those Financial Consultants on the Independent Contractor platform who absorb these charges rather than assessing these charges to clients, the Financial Consultant will have a potential conflict of interest in that they have an incentive to place fewer trades in the client's account in order to avoid these costs and thereby increase their own compensation.

Further details with respect to the specific fees and additional costs charged by WS are described and disclosed in the Managed Assets Client Agreement.

Typical Client Fee Schedule is as follows:

<b>Account Size</b>	<b>Annualized Overall Fees (% of assets)</b>
Up to \$250,000	3.00%
\$250,001 to \$500,000	2.80%
\$500,001 to \$1,000,000	2.50%
\$1,000,001 to \$3,000,000	1.90%
\$3,000,001 to \$5,000,000	1.60%
\$5,000,001 and above	Negotiable

### Third party Managed Accounts

The Managed Model Account (MMA) offering is WS's dedicated separate account management service designed to deliver long-term investment solutions to institutional and private clients. The MMA accounts are administered by WS's Wealth Management division, by the Wedbush Asset Management Group (WAM). The services provided by WAM may include performing due diligence on investment managers, monitoring investment managers for performance, style consistency, and organizational stability. WS provides trade execution, custodial services, trade confirmations, and periodic client account statements.

The Separately Managed Account (SMA) offering is WS's dedicated separate account management service designed to deliver customized long-term investment solutions to institutional and private clients. The SMA accounts are administered by WAM. The services provided by WAM may include performing due diligence on investment managers, monitoring investment managers for performance, style



consistency, and organizational stability. WS provides trade execution, custodial services, trade confirmations, and periodic client account statements. This program allows a single third-party manager to execute investment orders directly in client accounts.

The Unified Managed Account (UMA) offering allows multiple third-party MMA strategies in a single WS account. The UMA accounts are administered by WAM. The services provided by WAM may include performing due diligence on investment managers, monitoring investment managers for performance, style consistency, and organizational stability. WS provides trade execution, custodial services, trade confirmations, and periodic client account statements.

The Independent Manager Account (IMA) offering allows independent portfolio managers to manage WS client assets on a discretionary basis. Clients evaluate and select investment managers based on an independent evaluation of the money manager's disclosure documents and other information furnished by the manager. WS does not perform any due diligence on the managers in the IMA accounts. WS relies upon the investment managers to provide accurate information, including performance data, and does not independently verify the accuracy of information provided. Transactions for IMA accounts are generally effected through or with WS.

#### Fees and compensation for MMA, SMA, and UMA accounts

WS's fee schedule, as set forth below, is a sliding scale based on the size of the client assets under management. The fees charged for participation in a Managed Account Program may be higher than if the client were to purchase the individual securities without participation in the managed program. The fees listed in the schedule below are negotiable but will typically not exceed 3% per year. WS deducts management fees from client accounts quarterly, in advance, retains its portion of the fees, and forwards the appropriate portion of these fees (pre-negotiated with the underlying investment manager based on assets under management) to the investment manager. The management fee is typically 50 basis points but can be higher or lower based on manager requirements and investment category (i.e., equity, fixed income, etc.). Of the remaining wrap fee, your Financial Consultant will generally receive up to 50% (and up to 90% for Financial Consultants on the Independent Contractor platform). The accounts are subject to a minimum quarterly fee of \$250 (\$1,000 annually). Account terminations result in a pro-rata return of fees billed but not yet incurred. Financial Consultants on the Independent Contractor platform may assess a transactional charge plus an activity assessment charge per trade in addition to the wrap fee.

The transactional charge plus the activity assessment charge may be avoided by engaging a WS Financial Consultant who is not on the Independent Contractor platform. For those Financial Consultants on the Independent Contractor platform who absorb these charges rather than assessing these charges to clients, the Financial Consultant will have a potential conflict of interest in that they have an incentive to place fewer trades in the client's account in order to avoid these costs and thereby increase their own compensation.

Typical Client Fee Schedule is as follows:

<b>Account Size</b>	<b>Annualized Overall Fees (% of assets)</b>
Up to \$250,000	3.00%

\$250,001 to \$500,000	2.80%
\$500,001 to \$1,000,000	2.50%
\$1,000,001 to \$3,000,000	1.90%
\$3,000,001 to \$5,000,000	1.60%
\$5,000,001 and above	Negotiable

#### Fees and compensation for IMA accounts

The following table is the fee schedule for the IMA accounts. In exchange for services provided under this program, clients will pay a quarterly fee based on the amount of assets held in the account, which covers investment advisory services provided to the account by the independent portfolio manager(s), and to WS for custodial services and trade execution through or with WS. The fees charged for participation in IMA may be higher than if the client were to purchase the individual securities without participation in IMA. WS deducts management fees from client accounts quarterly, in advance. There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred. Generally, the fees assessed by WS are negotiable. Fees charged by WS for their services would be described and disclosed in the client's Managed Assets Client Agreement (the "Account Agreement") but *typically* would not exceed 3%. The portfolio manager will *generally* receive up to 50 basis points of the wrap fees but can be higher or lower based on manager requirements and investment category (i.e., equity, fixed income, etc.). Of the remaining wrap fee, your Financial Consultant will generally receive up to 50% (and up to 90% for Financial Consultants on the Independent Contractor platform). Fees charged by the independent money managers for their services would be described and disclosed separately in the money manager's client agreement and disclosure statement. Financial Consultants on the Independent Contractor platform may assess a transactional charge plus an activity assessment charge per trade in addition to the wrap fee. The transactional charge plus the activity assessment charge may be avoided by engaging a WS Financial Consultant who is not on the Independent Contractor platform. For those Financial Consultants on the Independent Contractor platform who absorb these charges rather than assessing these charges to clients, the Financial Consultant will have a potential conflict of interest in that they have an incentive to place fewer trades in the client's account in order to avoid these costs and thereby increase their own compensation.

Typical Client Fee Schedule is as follows:

<b>Account Size</b>	<b>Annualized Overall Fees (% of assets)</b>
Up to \$250,000	3.00%
\$250,001 to \$500,000	2.80%
\$500,001 to \$1,000,000	2.50%
\$1,000,001 to \$3,000,000	1.90%

\$3,000,001 to \$5,000,000	1.60%
\$5,000,001 and above	Negotiable

In general, quarterly fees are payable to the independent money managers and WS for advisory services. Generally, the fees assessed by WS are negotiable and WS does not charge a termination fee. Fees charged by WS as sponsor for and manager of advisory services would be described and disclosed in the account agreement but typically would not exceed 2%. The portfolio manager will generally receive up to 50 basis points of the wrap fees but can be higher or lower based on manager requirements and investment category (i.e., equity, fixed income, etc.). Of the remaining wrap fee, your Financial Consultant will generally receive up to 50% (and up to 90% for Financial Consultants on the Independent Contractor platform). Fees charged by outside money managers for their services would be separately described and disclosed in the money manager's client agreement and disclosure statement.

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

WS does not charge performance-based fees.

#### **Item 7: Types of Clients**

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

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

##### **Method of Analysis and Investment Strategies**

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

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

##### **Risk of Loss - General**

Investing in securities involves risk of loss, including the possible loss of principle, that you should be prepared to bear. You must understand that we do not guarantee any returns on any investments or

investment strategies. Your investments are not bank deposits, and are not guaranteed by any agency of the U.S. government. Additionally, frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

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

### **Risk of Loss - Other**

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

*Market Risk:* the risk of a security's market value declining, rapidly and unpredictably for short or extended periods. These fluctuations may cause a security to be worth less than the price the investor originally paid

*Liquidity Risk:* the risk that a security is difficult or impossible to sell at the time and price the seller wishes. The seller may have to accept a lower price for the security, sell other securities instead, or forgo a more attractive investment opportunity

*Call Risk:* The risk that a bond investment will be called or purchased back from a client when conditions are favorable to the bond issuer and unfavorable to the client.

*Manager Risk:* The risk that an actively managed mutual fund's investment adviser will fail to execute the fund's stated investment strategy.

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

*Purchasing Power Risk:* The risk that, over time, inflation will lower the value of the returned principal. This means that an investor will be able to purchase fewer goods or services with the proceeds received at maturity.

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

*Business Risk:* These risks are associated with a particular industry or a particular company within an industry.

*Financial Risk:* Excessive borrowing to finance a business's operations increases the risk of loss, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value. Senior debt instruments (e.g., secured bonds) generally have a higher priority of payment if an issuer's financial strength declines than equity investments (e.g., common stocks). A company facing financial

challenges generally must stop paying dividends to shareholders before interrupting interest payments to bondholders.

*Correlation Risk:* The risk that the actual correlation (a statistical measure of how two or more variables move in relation to each other) between two assets (or variables) will be different than the correlation that was assumed or expected. Differences between the actual and expected correlation may result in a portfolio being riskier than was anticipated.

*Counterparty/Default Risk:* The risk that a party to a contract will not live up to (or default on) its contractual obligations to the other party to the contract.

*Valuation Risk:* The risk that an asset is improperly valued in relation to what would be received upon its being sold or redeemed at maturity.

*Political and Legislative Risk:* Companies face a complex set of laws and circumstances in each country in which they operate. The political and economic environment can change rapidly and without warning, with significant impact, especially for companies operating internationally or those companies who conduct a substantial amount of their business internationally. Political and legislative events anywhere in the world may have unforeseen consequences to markets around the world.

*Credit Risk:* the risk that the issuer of a security will default or otherwise become unable to honor a financial obligation. Generally, the lower a security's credit rating, the higher its credit risks. If a security's credit rating is downgraded, its price tends to decline sharply, especially as it becomes more probable that the issuer will default. Adverse changes in the creditworthiness of the issuer (whether or not reflected in changes to the issuer's rating) can decrease the current market value and may result in a partial or total loss of an investment.

*Interest Rate Risk:* the risk that debt prices overall will decline over short or long periods due to rising interest rates. Interest rate risk usually is modest for shorter-term securities, moderate for intermediate-term securities, and high for longer-term securities. A change in a central bank's monetary policy or improving economic conditions may result in an increase in interest rates. Rising interest rates could decrease liquidity in the fixed income securities markets, making it more difficult to sell fixed income securities. Additionally, decreased market liquidity also could make it more difficult to value a fixed income security

*Reinvestment Risk:* the risk that the proceeds, dividends, or interest generated from an investment are reinvested in a security that offers a lower rate of return compared to the returns generated by the original investment

*Concentration/Non-diversification Risk:* the risk involved with excessive exposure to securities in any one issuer, industry, or sector

*Management Risk:* the risk that a strategy or investment technique used by your Financial Consultant or WS may fail to produce the intended result or achieve its investment objective

*Tax Risk:* the risk of unfavorable tax consequences to a client that could result from the administration of a client account pursuant to the advisory services described in this Brochure

## **ETFs, Mutual Funds and Other Pooled Vehicles Risk**

In addition to all of the risks associated with investing in securities generally, ETFs, mutual funds and other pooled vehicles are subject to the risk that they may not effectively achieve the performance of the index, industry or other market(s) they are intended to track (if they seek such tracking), in addition to the risks that expenses reduce returns, that management is not successful at its stated program, that there are conflicts of interest, that the investment is illiquid or has low trading volume and that non-investment operations become subject to error and mismanagement, resulting in losses. These securities may also have exposure to derivative instruments, which may not perform as expected, along with other investment risks described in their prospectuses, statements of information and other disclosure documents.

## **High Levels of Trading Risk**

Investment strategies such as portfolio rebalancing can lead to high levels of trading. High levels of trading could result in (a) bid-ask spread expense; (b) trade executions that may occur at prices beyond the bid-ask spread (if quantity demanded exceeds quantity available at the bid or ask); (c) trading that may adversely move prices, such that subsequent transactions occur at worse prices; (d) trading that may disqualify some dividends from qualified dividend treatment; (e) unfulfilled orders or portfolio drift, in the event that markets are disorderly or trading halts altogether and (f) unforeseen trading errors.

## **Investment Style Risk**

Different investment styles tend to shift in and out of favor depending upon market and economic conditions and investor sentiment. Portfolios will outperform or underperform other portfolios that invest in similar asset classes but employ different investment styles.

## **Management Risk**

A portfolio is subject to management risk, which is the risk that the investment process, techniques and analyses applied will not produce the desired results, and those securities or other financial instruments selected for a portfolio has in the past and likely will in the future result in returns that are inconsistent with the portfolio's investment objective. In addition, legislative, regulatory, or tax developments will affect the investment techniques or opportunities, available in connection with managing the portfolio and has in the past and likely will in the future also adversely affect the ability of the portfolio to achieve its investment objective.

## **Underlying Fund Risk**

A portfolio investing in funds (underlying funds), includes, but is not limited to the performance of the underlying fund and investment risk of the underlying funds' investment, as the underlying funds could involve highly speculative investment techniques, including extremely high leverage, highly concentrated portfolios, workouts and startups, control positions and illiquid investments. In particular, the risks for a portfolio operating under a fund of funds structure include, but are not limited to, the following: the performance of the portfolio will depend on the performance of the underlying funds' investments; there can be no assurance that a multi-manager approach will be successful or diversified, or that the collective

performance of underlying fund investments will be profitable; one or more underlying funds will be allocated a relatively large percentage of the portfolio's assets; there can be limited information about or influence regarding the activities of the underlying fund's investment advisors and underlying funds, like any other asset, will be subject to trading restrictions or liquidity risk. Portfolio investments in underlying funds will generally be charged the proportionate share of the expenses of investing in the underlying fund(s).

### **Technology and Cyber Security Risks**

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

### **Business, Terrorism, and Catastrophe Risks**

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

### **Item 9: Disciplinary Information**

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

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

In January 2022, NYSE ARCA Enforcement alleged that: the Firm failed to establish and maintain a reasonable supervisory system as to the Firm's founder and former president, and certain accounts that he actively traded on behalf of customers, himself, and the Firm or its affiliates; the Firm continued to allow the founder to trade for these customer accounts along with his personal and proprietary accounts, without an adequate process or procedures in place to supervise the order entry, trade executions, or trade allocations in these accounts; the founder and his trading assistant used an order management system that was not frequently used by other members of the Firm; the order management system did not provide the ability to assign orders to a specific Firm affiliate accounts before execution and did not interface directly with the Firm's back office system; the founder's trading assistant manually inputted account allocations for trades executed by him after the trades occurred; the method for determining trade allocations for executed orders in the affiliate accounts remained undocumented and unapproved by the Firm, and there continued to be no independent mechanism at the Firm to assess the appropriateness of the allocations;

the founder's trading activity presented conflicts of interest, and these conflicts were compounded by the fact that the founder regularly engaged in day trading for his personal and proprietary accounts in some of the same securities that he trading on behalf of his customers. In addition, NYSE alleged that as a consequence of failing to allocate orders entered on behalf of the affiliate accounts to specific accounts prior to order execution, the Firm continued to inaccurately mark a subset of principal orders in certain proprietary accounts as agency. NYSE acknowledged that the Firm made efforts to provide direct lines of supervision over the founder, but alleged that these efforts were delayed and did not reasonably resolve all of the issues identified herein. NYSE charged the Firm with violations of NYSE ARCA Rules 11.18, 11.1(B), and 9.2010-E.

In December 2021, the Securities and Exchange Commission ("SEC") accepted an offer of settlement from Wedbush. Pursuant to the settlement offer, Wedbush did not admit or deny the SEC's findings that Wedbush willfully violated sections 5(a) and 5(c) of the Securities Act of 1933 (The "Securities Act"), and section 17(a) of the Exchange Act of 1943 (The "Exchange Act"), and Rule 17A-8 thereunder. Wedbush was ordered to: cease and desist from committing or causing any violations and any future violations of sections 5(a) and 5(c) of the securities act and section 17(A) of the Exchange Act and Rule 17A-8 promulgated thereunder; was censured; was ordered to comply with the undertakings enumerated in the offer; and agreed to pay disgorgement of \$173,508.40, prejudgment interest of \$34,332.16, and a civil penalty \$1,000,000 to the Commission.

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

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

In February 2018, without admitting or denying the allegations, the firm consented to the sanctions and to the entry of findings from the Financial Industry Regulatory Authority, Inc. ("FINRA") that the firm created and/or increased deficits in its segregation requirement through deliveries or returns of securities. The findings also stated that firm improperly calculated its customer reserve formula which resulted in hindsight deficiencies between \$945,000 and \$77 million. The findings also included that the



firm failed to establish and maintain a supervisory system, including written procedures reasonably designed to achieve compliance with both the possession or control requirement and the customer reserve account requirement of the customer protection rule. Under the terms of the offer, the firm has also consented, without admitting or denying the allegations and to the entry of findings and violations arising out of examinations conducted by FINRA in 2014, 2015, and 2016, as described below, and to the imposition of the sanctions. The additional findings are as follows: from positions in certificates of deposit (CDs) issued by major financial institutions for which there was no “ready market,” for over five business days, but failed to deduct the value of each position exceeding 30% of the firm’s tentative net capital. The firm created and maintained inaccurate books and records that inaccurately reported the amounts the firm was required to maintain in its customer reserve account and inaccurately reported its net capital. Without admitting or denying the findings, the firm agreed to a censure and fine of \$1,500,000.

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

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

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

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

##### **Code of Ethics**

WS has adopted the Investment Adviser Code of Ethics (the “Code of Ethics”) pursuant to Rule 204A-1 under the Advisers Act expressing the firm’s commitment to ethical conduct. Access Persons, as defined by Rule 204A-1 under the Advisers Act, must adhere to employee trading policies. Personal trades made by officers, employees, and associated persons, which include Financial Consultants and Portfolio Managers, are reviewed by the WS Compliance Control Room. WS’s Code of Ethics further includes the firm’s policy prohibiting the use of material non-public information.

The foundation of the Firm’s ethical standards is a commitment to observing the letter and the spirit of the law. Access Persons or Supervised Persons, both defined above, shall know and comply with all applicable securities laws, rules, and regulations applicable to WS’ businesses, including among others, the laws governing the acts of investment advisers. Likewise, all Access Persons or Supervised Persons of WS are required to be familiar and comply with the Code of Ethics, with all the foregoing sections,

the WS Investment Adviser written supervisory procedures, and the Code of Ethics, as each applies to their business unit. When in doubt, each Access Person or Supervised Person shall seek advice from their designated supervisor and/or the WS Compliance Department where the Chief Compliance Officer (the “CCO”) sits.

Investment advisers are fiduciaries that owe their undivided loyalty to their clients, are trusted to represent clients’ interests, and must hold themselves to the highest standard of fairness in all such matters.

The Code of Ethics is intended to reflect fiduciary principles that govern the conduct of WS and its Access Persons or Supervised Persons in those situations where WS acts as an investment adviser, as defined under the Advisers Act, in providing investment advice to clients.

It is consistent with WS Policies, the WS Written Supervisory Procedures (“WSP”), and the WS Colleague Handbook, while articulating specific standards of ethics under the Advisers Act. The Code of Ethics does not create or amend any employment contract between WS and any of its Access Persons’ or Supervised Persons’ ‘at will’ employment status. In the event of any conflict between the Code of Ethics and any written employment contract, the terms of the employment contract shall govern, unless otherwise prohibited by law.

Access Persons and Supervised Persons have fiduciary duties to their advisory clients and must uphold these duties pursuant the aforementioned sections of the Advisers Act. Access Persons and Supervised Persons owe their undivided loyalty, utmost good faith, and investment advice that is in the best interests of their clients. Access Persons and Supervised Persons should not engage in any activity in conflict with the interest of any client, should disclose any conflicts of interests, and should take steps reasonably necessary to fulfill their obligations. Access Persons and Supervised Persons must employ reasonable care to avoid misleading clients and they must provide full and fair disclosure of all material facts to their clients and prospective clients. Departure from this fiduciary standard or violations of WS policies and procedures may constitute “fraud” under Section 206 of the Advisers Act.

Any act that is in violation of the Code of Ethics may result in disciplinary action including written warning, referral to the WS Disciplinary Committee, disgorgement, suspension, and/or termination of employment or independent contractor relationship. An Access Person or Supervised Person who has knowledge of conduct that violates the Code of Ethics must promptly report such conduct to the WS Compliance Department. Failure to report violations may result in disciplinary action, also up to and including termination. Anyone who raises an issue regarding a possible violation of the Code of Ethics will be protected from retaliation, even if the claim turns out to be unfounded, as long as it was made in good faith.

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

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

WS provides full-service investment banking, broker-dealer, and asset management services. As a full-service organization, WS and its directors, officers, and Financial Consultants may have multiple advisory, transactional, financial and other interests in securities, instruments and companies that may be purchased or sold by its advisory clients and may buy or sell securities it also recommends to clients. As a broker or agent, WS effects securities transactions for compensation for any client. WS has

established policies and procedures reasonably designed to address conflicts of interests arising between advisory accounts and the firm's businesses.

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

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

### **Personal Trading**

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

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

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

## **Item 12: Brokerage Practices**

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

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

### **Soft Dollar Arrangements**

WS does not presently engage in any soft dollar arrangements.

### **Brokerage for Client Referrals**

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

### **Directed Brokerage**

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

### **Trade Aggregation**

In order to obtain best execution or to negotiate more favorable commission rates, WS may, to the extent permitted by law, combine or “batch” such orders. In general, aggregating trades may slightly decrease the overall costs of the transaction to you. In such circumstances, all client orders executed with a particular broker-dealer during a day generally will be average priced. Client orders partially filled will, as a general matter, be allocated pro-rata in proportion to each client’s original order. Thus, the effect of aggregation may operate on some occasions to a particular account’s disadvantage. In addition, under certain circumstances, not all clients will be charged the same commission or commission-equivalent rates in connection with bunched or aggregated orders.

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

### **Item 13: Review of Accounts**

Each new account is initially reviewed at account opening by the Financial Consultant and the designated supervisor in the respective offices to determine suitability level. Thereafter, the Financial Consultant and designated supervisors in the offices monitor performance of client accounts on an ongoing basis. Regional Executive and Wealth Management personnel may also monitor and review accounts on an ongoing basis. The WS Managed Assets Department coordinates with the applicable Financial Consultant and client outreach is initiated should an account reach a high cash balance, or if the number of transactions effected on behalf of the account falls below a certain threshold.

Clients receive monthly account statements if there is activity; otherwise, your custodian provides quarterly statements to clients. Quarterly performance reports are made available for all fee-based accounts.

### **Item 14: Client Referrals and Other Compensation**

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

### **Item 15: Custody**

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

### **Item 16: Investment Discretion**

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

When your assets are managed under the Discretionary Advisory Account Program, you grant your Financial Consultant discretionary authority to direct execution of portfolio transactions consistent with your investment objective and risk tolerance.

### **Item 17: Voting Client Securities**

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

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

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

**Item 18: Financial Information**

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