



**Firm Brochure**  
**For Special Margin and Custody Services**  
(Part 2A of Form ADV)

**J W KORTH & COMPANY, LP**

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This brochure provides information about the qualifications and business practices of J W KORTH & COMPANY with regard to its services setting up custody and margin arrangements. . Our Portfolio Management Brochure deals with other services. If you have any questions about the contents of this brochure, please contact us at: 517 333 4512, or by email at: [info@jwkorth.com](mailto:info@jwkorth.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.

Additional information about J W Korth & Company is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

**Margin Borrowing has risk and you should pay special attention to the Margin Disclosure Statement on Page 5 of this brochure.**

03/31/2023

J W KORTH & COMPANY

## Material Changes

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### Annual Update

This is an annual update to the previous annual update to our brochure.

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### Material Changes since the Last Update

- There have been no material changes since the date of the last brochure.

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### Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochures, please contact us by telephone at: 517 333 4512 or by email at: [info@jwkorth.com](mailto:info@jwkorth.com) or by mail at the address listed in the beginning of this brochure.

# Table of Contents

<b>Material Changes.....</b>	<b>i</b>
Annual Update .....	i
Material Changes since the Last Update .....	i
Full Brochure Available .....	i
<b>Advisory Business .....</b>	<b>1</b>
Firm Description.....	1
Principal Owners.....	1
Types of Advisory Services.....	1
Tailored Relationships .....	1
Types of Agreements.....	1
Investment Advisory Agreement .....	1
Termination of Agreement .....	2
<b>Fees and Compensation .....</b>	<b>2</b>
Description .....	2
Fee Billing .....	2
Other Fees.....	3
Past Due Accounts and Termination of Agreement .....	3
<b>Performance-Based Fees .....</b>	<b>4</b>
Sharing of Capital Gains .....	4
<b>Types of Clients.....</b>	<b>4</b>
Description .....	4
Account Minimums.....	4
<b>Methods of Analysis, Investment Strategies and Risk of Loss.....</b>	<b>5</b>
Methods of Analysis .....	5
Investment Strategies .....	5
Risk of Loss .....	5
<b>Review of Accounts .....</b>	<b>5</b>
Periodic Reviews .....	5
Review Triggers .....	5
<b>Disciplinary Information .....</b>	<b>7</b>
Legal and Disciplinary.....	7

<b>Other Financial Industry Activities and Affiliations .....</b>	<b>7</b>
Financial Industry Activities.....	7
Affiliations .....	7
<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....</b>	<b>8</b>
Code of Ethics.....	8
Participation or Interest in Client Transactions.....	7
Personal Trading.....	7
<b>Brokerage Practices.....</b>	<b>8</b>
Selecting Custodians .....	8
Account Statements.....	8
Discretionary Trading.....	<b>Error! Bookmark not defined.</b>
Regular Reports.....	8
<b>Client Referrals and Other Compensation .....</b>	<b>8</b>
Incoming Referrals.....	8
Referrals Out .....	9
<b>Custody .....</b>	<b>9</b>
SEC “Custody” .....	9
Account Statements.....	9
<b>Investment Discretion.....</b>	<b>9</b>
Discretionary Authority for Trading.....	9
<b>Voting Client Securities .....</b>	<b>10</b>
Proxy Votes .....	10
<b>Financial Information .....</b>	<b>10</b>
Financial Condition .....	10
<b>Business Continuity Plan .....</b>	<b>10</b>
General .....	10
Disasters.....	10
Alternate Offices .....	10
<b>Information Security Program.....</b>	<b>11</b>
Information Security.....	11
Privacy Notice .....	11

## Advisory Business

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### Firm Description

J W Korth & Company was founded in 1982.

While 2011 is the first year the firm has been active as an investment advisor, the Firm has been in the securities business since 1982, primarily specializing in the fixed income market. The firm is both a broker dealer and a financial advisor and as such manages portfolios both as a financial advisor and a market maker, underwriter and principal and agency trader in primarily fixed income securities. This brochure describes a specific activity with a separate contract for services. Our clients need the best custody and margin services and the firm engages various custodians to provide these services. We analyze their product offerings and recommends and negotiates the best arrangements for our clients.

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### Principal Owners

J W Korth & Company is a partnership organized under Michigan law and is owned by Korth Direct Mortgage Inc. ("KDM"). James Korth is the CEO and majority shareholder of KDM and is also the Managing Partner of J W Korth & Company L.P

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### Types of Advisory Services

This brochure addresses only our Special Margin and Custody services. Our clients seek the best custody and margin services and the firm engages various custodians to provide these services. We analyze their product offerings and recommends and negotiates the best arrangements for our clients. Other advisory services are described in our Portfolio Management Firm Brochure.

As of the date of this brochure, J W Korth & Company has \$202 million in regulatory assets managed within its Investment Advisory business (all programs), which was started in 2011.

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### Types of Agreements

#### Special Margin and Custody Advisory Agreement

This agreement memorializes a relationship with the client whereby we analyze the custody and margin services offered by various custodians and based on the client's portfolio of securities and specific needs we identify the best custodian, arrange for the opening and management of custody and margin accounts. The fees for these arrangements are negotiable based on the level of margin borrowing for each account. Fees for these arrangements can be as high as 1.50% for smaller accounts \$100,000 or less and as low as .25% for larger institutional accounts.

The length of service to the client is at the client's discretion. The client or the investment manager may terminate an Agreement by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the quarter completed. The debit balance of the portfolio value at the completion of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.

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**Termination of Agreement**

A Client may terminate any of the aforementioned agreements at any time by notifying J W Korth & Company in writing and paying the rate for the time spent on the investment advisory engagement prior to notification of termination. If the client made an advance payment, J W Korth & Company will refund any unearned portion of the advance payment.

J W Korth & Company may terminate any of the aforementioned agreements at any time by notifying the client in writing. If the client made an advance payment, J W Korth & Company will refund any unearned portion of the advance payment.

## **Fees and Compensation**

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**Description**

J W Korth & Company bases its fees on the margin balances in the custodial accounts it manages.

Fees are negotiable based on the total client relationship.

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**Fee Billing**

Investment management fees are billed quarterly, in advance, meaning that we invoice you before the three-month billing period has concluded. Payment in full is expected upon invoice presentation. Depending on the custodian being used, fees may be deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of their investment account.

Investment Advisory clients may terminate the agreement at any time by providing written notice to J.W. Korth. If the agreement is terminated prior to the last day of the billing quarter, a prorated portion of the fees paid will be refunded to the client based on the remaining number of days in the quarter.

*For example, if an account's debit balance is valued at \$1,000,000 at the onset of the quarter, it would be billed in advance \$2,465.75 (1.0% annualized fee based on a 365 day year). If the quarter holds 90 days, the prorated refund would be \$27.397 per day (\$2,465.75/90). If the client terminates the contract 10 days prior to the end of the quarter, the refund would be \$273.97.*

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**Other Fees**

Investment advisory fees paid to J W Korth strictly cover advice and portfolio management services. The client is responsible for covering the following fees:

- Custodial fees
- Investment management fees and expenses charged by pooled investments such as mutual funds, exchange traded funds, and REITS
- Commissions associated with brokerage transactions in equities or other agency based trades, including bond trades
- Mark-ups or mark-downs associated with brokerage transactions in fixed income trades executed on a principal or riskless principal basis

J W Korth & Company, in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.). J W Korth & Company, in its sole discretion, may reimburse the Client for certain brokerage and custodial fees.

New Advisory Service Agreement fees are calculated on a formula basis and adjusted for complexity of individual situations.

As noted above, Investment Advisory fees paid to J W Korth cover advice and portfolio management services and do not cover costs associated with trade execution or custody. For example, if advisory clients hold their covered assets or execute their transactions in a J W Korth brokerage account (as the firm is also a broker dealer), commissions, concessions, trails, mark-ups, and mark-downs associated with trading may be paid to the broker dealer arm of J W Korth in addition to the investment advisory fees.

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**Past Due Accounts and Termination of Agreement**

J W Korth & Company reserves the right to stop work on any account that is more than 30 days overdue. Any unused portion of fees collected in advance will be refunded within 30 days.

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**Compensation**

For the services described herein, only a percentage of the margin balance is charged to the client as a fee. When acting as the broker dealer and soliciting transactions for margin advisory clients, a conflict of interest may be present when J W Korth personnel chooses which securities to recommend because different securities may carry different margin requirements.

## Performance-Based Fees

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### Sharing of Capital Gains

J.W. Korth does not accept performance based fees as part of the firm's own investment advisory services. However, J W Korth & Company may engage sub-advisors or invest in funds or separately managed accounts for its clients that are managed by advisers that do charge performance based fees. Such fees will be disclosed to and approved by clients before any new such investment arrangement is made. J W Korth & Company, via its broker dealer that is under common ownership, may indirectly accept a portion of performance based fees from performance based fee programs of other Advisors to which it refers clients.

## Types of Clients

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### Description

J W Korth & Company's advisory services generally are available to the following types of clients:

- Individuals
- Banks, Credit Unions, and Insurance Companies
- Family Offices
- Pension and Profit Sharing Plans
- Trusts and Estates
- Charitable Organizations
- Corporations and other business entities

Client relationships vary in scope and length of service.

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### Account Minimums

The minimum account size for the Special Margin Advisory Program is \$100,000 of assets under management, which equates to an annual fee as high as 1.50% on the margin balances.

J W Korth & Company has the discretion to waive the account minimum. Accounts of less than \$100,000 may be set up when the client and the advisor anticipate the client will add additional funds to the accounts bringing the total to \$100,000 within a reasonable time. Other exceptions will apply to employees of J W Korth & Company and their relatives, or relatives of existing clients.

Clients with a smaller amount of assets under management of this program may pay a higher percentage rate on their annual fees than the fees paid by clients with greater assets under management.



## Methods of Analysis, Investment Strategies and Risk of Loss

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### Methods of Analysis

At least quarterly, J W Korth will review the margin rate our clients are receiving and compare it to published rates from various custodians. A record of the reviews will be maintained by The Firm. If at any point it is warranted, J W Korth may engage in formal requests for proposals from custodians and enter negotiations with them regarding rates and/or the ability to hold and service client positions. Recommendations on transferring assets to or from a particular custodian will be based on the client's particular needs. Factors may include such things as the types of securities margined, the parameters regarding the custodian, the custodian's ability to price securities accurately, the clarity and accessibility of client statements and account information and the overall cost and feasibility of transferring assets.

**Risks** Margin rates are generally negotiable and set by the lending institution. We cannot warrant that we have the best arrangements that any or all institutions offer. Further each institution has some level of credit risk this risk is often mitigated by insurance both from SIPC and outside independent providers. As part of our service we periodically review the insurance arrangements of custodians and will provide material information regarding these arrangements to our clients before an account is established at a particular custodian. It is the client's decision as to which custodian where to place his or her assets. If an institution fails for any reason we cannot be held accountable for recommending safekeeping securities there.

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### Investment Strategies

For our Special Margin and Custody Services we do not employ any investment strategies. Such strategies may be created by our broker dealer or as an investment advisor for portfolio management. Please see our Portfolio Management Services brochure for information regarding these services.

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### Risk of Loss -Margin Disclosure Statement

Margin Borrowing has large risks. When you purchase securities, you may pay for the securities in full or you may borrow part of the purchase price from the Custodian where your securities are held. If you choose to borrow funds, you will need to open a margin account. The securities purchased are the firm's collateral for the loan to you. If the securities in your account decline in value, so does the value of the collateral supporting your loan. As a result, the Custodian can take action, such as issue a margin call and/or sell securities in your account, in order to maintain the required equity in the account. It is important that you fully understand the risks involved in trading securities on margin. These risks include, but are not limited to, the following:

**You can lose more funds than you deposit in the margin account.** A decline in the value of securities that are purchased on margin may require you to provide additional funds to Scottrade to avoid the forced sale of those securities or other securities in your account.

**The Custodian can force the sale of securities in your account.** If the equity in your account falls below the maintenance margin requirements required under the law, or Scottrade's higher "house" requirements, Scottrade can sell the securities in your account to cover the margin deficiency. You also will be responsible for any shortfall in the account after such a sale.

**The Custodian can sell your securities without contacting you.** Some investors mistakenly believe that a firm must contact them for a margin call to be valid and that the Custodian cannot liquidate securities in their accounts to meet calls unless Scottrade has contacted them first. This is not the case. Scottrade will attempt to notify you of margin calls, but is not required to under the regulations or as stated in our margin agreement. Even if the Custodian has contacted a customer and provided a specific date by which the customer can meet a margin call, Scottrade can still take the necessary steps to protect its financial interests, including immediately selling any securities without notice to the customer.

**You are not entitled to choose which security in your margin account is liquidated or sold to meet a margin call.** Because the securities are collateral for the margin loan, The Custodian has the right to decide which security to sell in order to protect its interest.

**The Custodian can increase its "house" maintenance margin requirements at any time and is not required to provide you with advance written notice.** These changes at the Custodian can take effect immediately and may result in the issuance of a maintenance margin call. Your failure to satisfy the call may cause Scottrade to liquidate or sell securities in your account.

**You are not entitled to an extension of time on a margin call.** While an extension of time to meet margin requirements may be available to customers under certain conditions, a customer does not have a right to the extension.

**J W Korth & Company Special Margin and Custody services in part are related to recommending who we believe to be the best Custodian based on margin rates and the level of borrowing provided along with other technical services. J W Korth cannot act for or prevent the actions of any Custodian and therefore cannot be responsible for any activity by any Custodian described above.**

## Disciplinary Information

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### Legal and Disciplinary

By consent order issued on September 13, 2021, the United States Securities and Exchange Commission ("SEC") determined that our firm violated Sections 206(3) and 206(4) of the Investment Advisers Act of 1940 (the "Advisers Act") as well as Rule 206(4)-7.

The SEC determined that 201 transactions executed between March 2015 and October 2018 were riskless principal transactions which would have required us to make certain written disclosures and obtain client consent prior to the completion of the transactions.

The SEC also determined our firm's Managing Partner, James Korth, and our Managing Director, Holly MacDonald-Korth caused the violations due to their supervisory roles.

Pursuant to the consent Order, we were censured and ordered to pay disgorgement of \$46,857, prejudgment interest of \$4,676, and a civil penalty of \$125,000. James Korth and Holly MacDonald-Korth were ordered to pay, respectively, civil fines of \$50,000 and \$25,000. Mr. Korth, Ms. MacDonald-Korth and our firm were ordered to cease and desist from committing or causing any violations and any future violations of Sections 206(3), and 206(4) of the Advisers Act and Rule 206(4)-7 promulgated thereunder.

You can find additional disclosure information about our firm and our registered representatives on the Financial Industry Regulatory Authority's (FINRA) website located at [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

## Other Financial Industry Activities and Affiliations

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### Financial Industry Activities

J W Korth & Company is registered as a securities broker-dealer. J W Korth's parent company, Korth Direct Mortgage Inc. is a commercial real estate finance company that issues securities tied to mortgages it owns.

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### Affiliations

J W Korth & Company is both a broker-dealer and an investment advisor. As such it charges markups, markdowns, commissions and fees to its clients depending on the capacity we are acting with for the transaction

On July 31st, 2020, our firm underwent a reorganization. As a result, Korth Direct Mortgage Inc. ("KDM"), which was previously a wholly owned subsidiary, instead became our owner. KDM makes and services loans on income producing properties. KDM issues debt to fund the loan. J W Korth &

Company underwrites KDM's Mortgage Secured Notes, acting as the lead underwriter or initial purchaser J W Korth also owns a minority stake of World Financial Digest LLC.

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

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### **Code of Ethics**

J W Korth & Company has adopted the National Association of Personal Financial Advisors Code of Ethics as our own and will provide them separately to any client or prospective client upon request. They may also be found at the end of this document.

### **Participation or Interest in Client Transactions and Personal Trading**

For our Special Margin and Custody Services we do not employ any investment strategies and for accounts held outside of our broker dealer we do not have an interest in the client's margin transactions. There is no personal trading which is related to these services and there is typically no conflict of interest between our client and ourselves regarding these services. When margin advisory accounts are held at J W Korth's broker dealer, a conflict may be present due to a margin debit interest participation agreement between our firm and our clearing firm (RBC Capital Markets).

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### **Regular Reports**

Clients will receive monthly statements if transactions or other activity has occurred (in the month) and quarterly if no transactions or activity has occurred. In addition, clients will receive confirmations for every trade executed in their account by J W Korth acting in a brokerage capacity.

Clients receive periodic communications on at least an annual basis. Communications may be oral or written, depending on the size and complexity of the account and arrangements made with each client.

## **Client Referrals and Other Compensation**

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### **Incoming Referrals**

J W Korth & Company does not have any arrangements in which the Firm will provide or receive economic benefits for referrals of advisory services other than fees and brokerage charges collected from advisory clients.

J W Korth may make arrangements with other broker dealers and Registered Investment Advisors to provide its Special Margin and Custody Services. If such arrangements are made, the complete details of such arrangements including all fees charged and shared will be disclosed to the client.

J W Korth broker dealer employees may refer clients to firm advisory programs as a result they may receive compensation.

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**Referrals Out**

J W Korth & Company does not accept referral fees from other professionals when a prospect or client is referred to them.

J W Korth & Company, via its broker dealer that is under common ownership, may accept a portion of performance based fees from performance based fee programs to which it refers clients. Arrangements for the receipt of these fees will be disclosed to the Client and must be approved by them in accordance with industry regulations.

J W Korth and company may receive monthly rebates from our clearing firm, RBC Capital Markets, for client credit and or margin balances.

## **Custody**

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**SEC "Custody"**

From time to time, J W Korth & Company may be considered to have custody of certain types of accounts, such as when an employee acts as a trustee of an unrelated trust and the firm acts as the investment adviser to that trust. When the firm has such custody, an annual surprise audit of those custodied accounts is performed by an independent CPA firm in compliance with SEC requirements. Neither J W Korth & Company nor any of its related persons currently are investment advisers and trustees to an unrelated trust.

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**Custody and Account Statements**

J W Korth & Company has an established custody and clearing agreement with RBC Capital Markets, a subsidiary of the Royal Bank of Canada, and periodically reviews available options for establishing relationships with other custodians. The use of these custodians will be a large part of the service described in this brochure. Clients will receive specific information regarding a given custodian each time it is recommended they open an account with a different entity. Account statements will be provided at least quarterly by these custodians.

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**Discretionary Authority for Trading**

J W Korth & Company will have no investment discretionary authority as it relates to the Special Margin and Custody Service described in this brochure.

## Voting Client Securities

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### Proxy Votes

Clients will receive their proxies directly from the transfer agent or custodian. J W Korth & Company does not vote proxies on securities. Clients are expected to vote their own proxies.

When assistance on voting proxies is requested, J W Korth & Company will provide recommendations to the Client. If a conflict of interest exists, it will be disclosed to the Client.

## Financial Information

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### Financial Condition

J W Korth & Company does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

J W Korth & Company has not been the subject of a bankruptcy petition at any time.

## Business Continuity Plan

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### General

J W Korth & Company has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

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### Disasters

The Business Continuity Plan covers natural disasters such as snow storms, hurricanes, tornados, flooding as well as unique circumstances such as viral pandemics. Additionally, the Plan covers man-made disasters such as loss of electrical power, loss of water pressure, fire, bomb threat, nuclear emergency, chemical event, biological event, T-1 communications line outage, Internet outage, railway accident and aircraft accident. Electronic files are backed up daily and archived offsite.

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### Alternate Offices

Alternate offices are identified to support ongoing operations in the event the main office is unavailable. It is our intention to contact all clients within five days of a disaster that dictates moving our office to an alternate location.

## Information Security Program

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### Information Security

J W Korth & Company maintains an information security program to reduce the risk that your personal and confidential information may be breached.

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### Privacy Notice

J W Korth & Company is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about transactions between you and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help you meet your personal financial goals.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this Privacy Notice to you annually, in writing.