

## **ZEGA Financial, LLC**

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**March 30, 2023**

### **FORM ADV PART 2A BROCHURE**

This brochure provides information about the qualifications and business practices of ZEGA Financial, LLC. If you have any questions about the contents of this brochure, please contact us at 800-380-ZEGA (9342) or via e-mail at [jay.pestrichelli@ZEGAfinancial.com](mailto:jay.pestrichelli@ZEGAfinancial.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 ZEGA Financial, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for ZEGA Financial, LLC is 156803.

ZEGA Financial, LLC is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## Item 2 Summary of Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since the filing of our last annual updating amendment, dated March 10, 2023, we have had the following material changes:

We amended Item 4 to disclose that we maintain an ownership interest in an Exchange Traded Fund. More specifically, we disclose that we are a minority owner in an Exchange Traded Fund ("ETF"), the Yieldmax Innovation Option Income Strategy ETF (hereinafter "OARK"). In addition to the minority ownership, ZEGA is also responsible for the ETF trading function.

The YieldMax Innovation Option Income Strategy ETF (OARK) is an actively managed fund that seeks to generate monthly income by selling/writing call options on ARKK. OARK pursues a strategy that aims to harvest compelling yields, while retaining capped participation in the price gains of ARKK.

We also are a minority owner in the Yieldmax TSLA Option Income Strategy ETF (hereinafter "TSLY"). In addition to the minority ownership, ZEGA is also responsible for the ETF trading function.

The YieldMax TSLA Option Income Strategy ETF (TSLY) is an actively managed fund that seeks to generate monthly income by selling/writing call options on TSLA. TSLY pursues a strategy that aims to harvest compelling yields, while retaining capped participation in the price gains of TSLA.

We are also a part owner in an Exchange Traded Fund. More specifically, we disclose that we are a co-owner in an Exchange Traded Fund ("ETF"), the Nicholas Fixed Income Alternative ETF (hereinafter "FIAX US"). In addition to the ownership interest, ZEGA is also responsible for the ETF trading function.

The ETF invests 60% to 90% of its assets in short-term US Treasuries which serve to generate income and act as collateral for the fund's options-based sleeve which accounts for the remaining 10% to 40%. The options sleeve consists of option spreads on ETFs and indices linked to the performance of equities, fixed income, and commodities. Bull call spreads, bear call spreads, bull put spreads, and bear put spreads may all be employed within the options sleeve.

We will recommend these ETFs to our clients when we deem them suitable and appropriate. Since ZEGA receives compensation for both the ownership interest and the ETF trading responsibilities, this presents a conflict of interest since we have a financial incentive to recommend the ETFs to our clients based on such compensation rather than the client's best interests. However, as a fiduciary, we have an obligation to only recommend investments that are appropriate for clients and to only act in the clients' best interest.

We also amended Item 5 to disclose that, with respect to the OARK ETF, ZEGA receives an additional fee 0.09%. With respect to the TSLY ETF, ZEGA receives an additional fee 0.09% and with respect to the FIAX US ETF, ZEGA receives an additional fee 0.02%.

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## Item 4 Advisory Business

### Description of Services and Fees

ZEGA Financial, LLC is a registered investment adviser with its primary place of business in West Palm Beach, Florida. We are organized as a limited liability company under the laws of the State of Nebraska. We have been registered as an investment adviser since 2011. John ("Jay") Pestrichelli is our principal owner. Currently, we offer Portfolio Management Services which are personalized to each individual client and Sub-Advisor Services for other registered investment advisors.

The following paragraphs describe our services and fees. Please refer to the description of each investment advisory service listed below for information on how we tailor our advisory services to your individual needs. As used in this brochure, the words "we", "our" and "us" refer to ZEGA Financial, LLC and the words "you", "your" and "client" refer to you as either a client or prospective client of our firm. Also, you may see the term Associated Person throughout this brochure. As used in this brochure, our Associated Persons are our firm's officers, employees, and all individuals providing investment advice on behalf of our firm.

### Portfolio Management Services

We offer discretionary and non-discretionary portfolio management services. Our investment advice is tailored to meet our clients' needs and investment objectives. If you retain our firm for portfolio management services, we will meet with you to determine your investment objectives, risk tolerance, and other relevant information (the "suitability information") at the beginning of our advisory relationship. We will use the suitability information we gather to develop a strategy that enables our firm to give you continuous and focused investment advice and/or to make investments on your behalf. As part of our portfolio management services, we may customize an investment portfolio for you in accordance with your risk tolerance and investing objectives. We may also invest your assets using a predefined strategy, or we may invest your assets according to one or more model portfolios developed by our firm. Once we construct an investment portfolio for you, or select a model portfolio, we will monitor your portfolio's performance on an ongoing basis, and will rebalance the portfolio as required by changes in market conditions and in your financial circumstances.

If you participate in our discretionary portfolio management services, we require you to grant our firm discretionary authority to manage your account. Discretionary authorization will allow our firm to determine the specific securities, and the amount of securities, to be purchased or sold for your account without your approval prior to each transaction. Discretionary authority is typically granted by the investment advisory agreement you sign with our firm, a power of attorney, or trading authorization forms. You may limit our discretionary authority (for example, limiting the types of securities that can be purchased for your account) by providing our firm with your restrictions and guidelines in writing. If you enter into non-discretionary arrangements with our firm, we must obtain your approval prior to executing any transactions on behalf of your account.

### Sub-Advisory Services

We offer sub-advisory services to unaffiliated third party money managers (the "Primary Investment Adviser"). As part of these services, we will provide model portfolios, which the Primary Investment Adviser selects for their clients. We will not directly manage the Primary Investment Adviser's individual client accounts. The Primary Investment Adviser will be responsible for selecting the appropriate model for its clients.

### Advisor to Exchange Traded Funds

We are an investment adviser to our proprietary Exchange Traded Fund ("ETF"), the ZEGA Buy and Hedge ETF (hereinafter "ZHDG"). Our ETF is designed to provide broad U.S. equity large-cap market exposure while seeking to limit downside risk in the event of a material market correction. The ZHDG

portfolio invests in index-based equity options and yield-producing assets. The portion of the portfolio invested in equity options provides long-term exposure to the equity markets, seeking upside potential while mitigating downside risk.

We will recommend this ETF to our clients when we deem it suitable and appropriate. Since ZEGA receives compensation for managing the ETF, this presents a conflict of interest since we have a financial incentive to recommend the ETF to our clients based on such compensation rather than the client's best interests. However, as a fiduciary, we have an obligation to only recommend investments that are appropriate for clients and to only act in the clients' best interest.

We are also a minority owner in an Exchange Traded Fund ("ETF"), the Yieldmax Innovation Option Income Strategy ETF (hereinafter "OARK"). In addition to the minority ownership, ZEGA is also responsible for the ETF trading function.

The YieldMax Innovation Option Income Strategy ETF (OARK) is an actively managed fund that seeks to generate monthly income by selling/writing call options on ARKK. OARK pursues a strategy that aims to harvest compelling yields, while retaining capped participation in the price gains of ARKK.

We will recommend this ETF to our clients when we deem it suitable and appropriate. Since ZEGA receives compensation for both ownership and the ETF trading responsibilities, this presents a conflict of interest since we have a financial incentive to recommend the ETF to our clients based on such compensation rather than the client's best interests. However, as a fiduciary, we have an obligation to only recommend investments that are appropriate for clients and to only act in the clients' best interest.

We also maintain an ownership interest in an Exchange Traded Fund. More specifically, we disclose that we are a minority owner in an Exchange Traded Fund ("ETF"), the Yieldmax TSLA Option Income Strategy ETF (hereinafter "TSLY"). In addition to the minority ownership, ZEGA is also responsible for the ETF trading function.

The YieldMax TSLA Option Income Strategy ETF (TSLY) is an actively managed fund that seeks to generate monthly income by selling/writing call options on TSLA. TSLY pursues a strategy that aims to harvest compelling yields, while retaining capped participation in the price gains of TSLA.

We will recommend this ETF to our clients when we deem it suitable and appropriate. Since ZEGA receives compensation for the both ownership interest and the ETF trading responsibilities, this presents a conflict of interest since we have a financial incentive to recommend the ETF to our clients based on such compensation rather than the client's best interests. However, as a fiduciary, we have an obligation to only recommend investments that are appropriate for clients and to only act in the clients' best interest.

Additionally, we are a part owner in an Exchange Traded Fund. More specifically, we disclose that we are a co-owner in an Exchange Traded Fund ("ETF"), the Nicholas Fixed Income Alternative ETF (hereinafter "FIAX US"). In addition to the ownership interest, ZEGA is also responsible for the ETF trading function.

The ETF invests 60% to 90% of its assets in short-term US Treasuries which serve to generate income and act as collateral for the fund's options-based sleeve which accounts for the remaining 10% to 40%. The options sleeve consists of option spreads on ETFs and indices linked to the performance of equities, fixed income, and commodities. Bull call spreads, bear call spreads, bull put spreads, and bear put spreads may all be employed within the options sleeve.

We will recommend this ETF to our clients when we deem it suitable and appropriate. Since ZEGA receives compensation for both the ownership interest and the ETF trading responsibilities, this presents a conflict of interest since we have a financial incentive to recommend the ETF to our clients based on such compensation rather than the client's best interests. However, as a fiduciary, we have an obligation to only recommend investments that are appropriate for clients and to only act in the clients' best interest.

The fees and expenses associated with the Fund are set forth in the ETF's prospectus. You may obtain a free copy of the ETF's current prospectus by calling the ETF's administrator, Tidal ETF Services LLC, at (833) 415-4006 or by going to <https://www.zegaetfs.com/>. Other fees payable as an investor in the ETF are described in Item 5 (Fees and Compensation) below.

### **Wrap Fee Program(s)**

We are a sponsor of a wrap fee program, which is a type of investment program that provides clients with access to several money managers or mutual fund asset allocation models for a single fee that includes administrative fees, management fees, and commissions. If you participate in our wrap fee program, you will pay our firm a single fee, which includes our money management fees, certain transaction costs, and custodial and administrative costs. We receive a portion of the wrap fee for our services. The overall cost you will incur if you participate in our wrap fee program may be higher or lower than you might incur by separately purchasing the types of securities available in the program.

Transactions for your account must be executed by TD Ameritrade, Inc. a securities broker-dealer and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. To compare the cost of the wrap fee program with non-wrap fee portfolio management services, you should consider the frequency of trading activity associated with our investment strategies and the brokerage commissions charged by TD Ameritrade, Inc. or other broker-dealers, and the advisory fees charged by investment advisers. For more information concerning the Wrap Fee Program, please see *Appendix 1* to this Brochure.

### **Types of Investments**

We primarily offer advice on broad market and sector ETFs (exchange traded funds), equities, and index futures, in conjunction with options to create hedging strategies.

Additionally, we may advise you on any type of investment that we deem appropriate based on your stated goals and objectives. We may also provide advice on any type of investment held in your portfolio at the inception of our advisory relationship.

You may request that we refrain from investing in particular securities or certain types of securities. You must provide these restrictions to our firm in writing.

We manage wrap and non-wrap fee accounts on both a discretionary and non-discretionary basis. Wrap accounts are usually managed using a shorter-term investment strategy. A short-term investment strategy will typically involve purchasing and selling securities within a relatively short period of time based on these securities' short-term price fluctuations. Wrap accounts consequently involve more frequent trading which would typically incur higher transaction costs if the account was in a non-wrap program. We generally manage non-wrap fee accounts using a long-term investment strategy, although occasionally there may be some short term trades if market circumstances warrant. A long-term investment strategy will typically involve investing in securities that are anticipated to grow in value over a relatively long period of time and it would be expected that there would be lower turnover (i.e., fewer overall trades) than in an account using a shorter-term strategy.

If you participate in our wrap fee program, we will provide you with a separate Wrap Fee Program Brochure explaining the program and costs associated with the program.

### **Assets Under Management**

As of December 31, 2022, we provide continuous management services for \$513,397,123 in client assets on a discretionary basis, and \$0 in client assets on a non-discretionary basis.

## **Item 5 Fees and Compensation**

### **Portfolio Management Services**

Our fee for portfolio management services is based on a percentage of your assets we manage and ranges from 0.50% to 1.7% with a \$1,000 minimum fee.

The fee is negotiable depending upon the complexity and scope of the plan, your financial situation, and your objectives. Various factors may affect the fee we charge and will be discussed with you prior to the engagement. In general, these factors include, but are not limited to: the types of investments you own and mix of products you hold; the size and value of your account; your service preferences; the frequency with which you trade; and, whether the account is discretionary or non-discretionary. When calculating our fee, these factors are analyzed much as you would expect. So, for example, if the investments you own and the services you require from us require more skill and expertise on our part, you could expect your fee to be higher.

Depending on the arrangements made at the inception of the engagement, we may agree to either bill our annual portfolio management fee quarterly or monthly, in advance or arrears, based on either the average balance over the prior billing period or based on the value of your account on the last day of the previous billing period.

If the portfolio management agreement is executed at any time other than the first day of a calendar quarter, our fees will apply on a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the quarter for which you are a client. Our advisory fee is negotiable, depending on individual client circumstances.

At our discretion, we may combine the account values of family members living in the same household to determine the applicable advisory fee. For example, we may combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts. Combining account values may increase the asset total, which may result in your paying a reduced advisory fee based on the available breakpoints in our fee schedule stated above.

We will 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 our firm 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. You should review all statements for accuracy. We will also receive a duplicate copy of your account statements.

The Client may terminate the portfolio management agreement within five business days of the date of acceptance without penalty to the Client. After the five-day period, you may terminate the portfolio management agreement upon 30-days' written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the portfolio management agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter for which you are a client. If you have pre-paid advisory fees that we have not yet earned, you will receive a prorated refund of those fees.



We encourage you to reconcile our invoices with the statement(s) you receive from the qualified custodian. If you find any inconsistent information between our invoice and the statement(s) you receive from the qualified custodian please call our main office number located on the cover page of this brochure.

### **Sub-Advisory Services**

Fees and payment arrangements are negotiable and will vary on a case-by-case basis. Depending on the arrangements made at the time of the engagement with the Primary Adviser, our fee may be included as part of the fee charged by the Primary Adviser (in which case we could be said to "share" in the fee charged by the Primary Adviser, or our fee may be in addition to that charged by the Primary Adviser. In either case the fee charged is generally a fixed percentage of assets under management.

### **Advisor to Exchange Traded Funds**

ZEGA receives a variable fee of 0.48% based on the ETF's average daily net assets. Additionally, under the Services Agreement, ZEGA receives an additional fee of 0.02%.

With respect to the OARK ETF, ZEGA receives an additional fee 0.09%.

With respect to the TSLY ETF, ZEGA receives an additional fee 0.09%.

With respect to the FIAX US ETF, ZEGA receives an additional fee 0.02%.

Generally, Clients of Zega should understand that the fees and expenses paid in connection with an investment in an ETF are separate and in addition to the fees that are payable to ZEGA for its advisory services. Clients may, at the direction of ZEGA, have a portion of their portfolio invested in the ETF. Any such allocation will be done with the specific knowledge of each such Client. With respect to any such investments in the ETF, ZEGA will not assess a separate account fee in addition to the fees and expenses of the ETF. Instead, the Client will only pay the fees and expenses that are associated with the investment in the ETF. This carve out does not apply to any other investments of a Client that are invested in securities not affiliated with, or advised by, ZEGA. As a Client, you should be aware that the fees and expenses associated with an investment in the ETF may be more than the fees and expenses paid to ZEGA if a portion of the Client's assets were not allocated to the ETF.

### **Additional Fees and Expenses**

As part of our investment advisory services to you, we may invest, or recommend that you invest, in mutual funds and exchange traded funds. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds or exchange traded funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses. You will also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through whom your account transactions are executed. We do not share in any portion of the brokerage fees/transaction charges imposed by the broker-dealer or custodian. To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, exchange traded funds, our firm, and others. For information on our brokerage practices, please refer to the *Brokerage Practices* section of this brochure.

Although we may use margin on occasion, the fees we charge are based on the net asset value of your account and we do not include the margin or credit line in that valuation.



## Item 6 Performance-Based Fees and Side-By-Side Management

We do not accept performance-based fees or participate in side-by-side management. Performance-based fees are fees that are based on a share of a capital gains or capital appreciation of a client's account. 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. Our fees are calculated as described in the *Fees and Compensation* section above, and are not charged on the basis of a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

## Item 7 Types of Clients

We offer investment advisory services to individuals, other investment advisers, trusts, estates, charitable organizations, corporations, and other business entities.

In general, we do not require a minimum dollar amount to open and maintain an advisory account; however, we do charge a minimum of \$1,000 for portfolio management and have the right to terminate your Account if it falls below a minimum size which, in our sole opinion, is too small to effectively manage. We will not accept or retain an account that falls below \$33,334 without adjusting our fee in order to avoid charging a fee of 3% or more than the account value.

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

We will use one or more of the following methods of analysis or investment strategies when providing investment advice to you:

**Charting Analysis** – involves the gathering and processing of price and volume pattern information for a particular security, sector, broad index or commodity. This price and volume pattern information is analyzed. The resulting pattern and correlation data is used to detect departures from expected performance and diversification and predict future price movements and trends.

- **Risk:** Our charting analysis may not accurately detect anomalies or predict future price movements. Current prices of securities may reflect all information known about the security and day-to-day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy.

**Technical Analysis** – involves studying past price patterns, trends, and interrelationships in the financial markets to assess risk-adjusted performance and predict the direction of both the overall market and specific securities.

- **Risk:** The risk of market timing based on technical analysis is that our analysis may not accurately detect anomalies or predict future price movements. Current prices of securities may reflect all information known about the security and day-to-day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy.

**Fundamental Analysis** – involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience and expertise of the company's management, and the outlook for the company and its industry. The resulting data is used to measure the true value of the company's stock compared to the current market value.

- **Risk:** The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's

value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.

**Cyclical Analysis** – a type of technical analysis that involves evaluating recurring price patterns and trends. Economic/business cycles may not be predictable and may have many fluctuations between long term expansions and contractions.

- **Risk:** The lengths of economic cycles may be difficult to predict with accuracy and therefore the risk of cyclical analysis is the difficulty in predicting economic trends and consequently the changing value of securities that would be affected by these changing trends.

**Risk Analysis and Probability Pricing Analysis** - refers to the uncertainty of forecasted future cash flow streams, variance of portfolio /stock returns and statistical analysis to determine the probability of possible future economic states and can be used in conjunction with options trading in order to create hedging strategies to try and minimize future negative unforeseen effects. While prices and time intervals are easy enough to measure, what cannot be known with certainty is the volatility of the underlying asset, and therefore, the probability that an option will be "in the money" or by how much, before expiration.

- **Risk:** Various pricing models have been developed in an attempt to more accurately gauge the true worth of options, or to price them better initially, when they are first created. These models, however, are only as good as the assumptions used to fill in the variables.

**Hedge Strategy** - Hedging against investment risk means strategically using instruments in the market to offset the risk of any adverse price movements. In other words, investors hedge one investment by making another. Hedging, for the most part, is a technique not by which you will make money but by which you can reduce potential loss. If the investment you are hedging against makes money, you will have typically reduced the profit that you could have made, and if the investment loses money, your hedge, if successful, will reduce that loss.

- **Risk:** Hedging techniques generally involve the use of complicated financial instruments known as derivatives, the two most common of which are options and futures. For more information on the risks involved in options and futures, see below.

**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.

- **Risk:** Using a long-term purchase strategy generally assumes the financial markets will go up in the long-term which may not be the case. There is also the risk that the segment of the market that you are invested in or perhaps just your particular investment will go down over time even if the overall financial markets advance. Purchasing investments long-term may create an opportunity cost - "locking-up" assets that may be better utilized in the short-term in other investments.

**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.

- **Risk:** Using a short-term purchase strategy generally assumes that we can predict how financial markets will perform in the short-term which may be very difficult and will incur a disproportionately higher amount of transaction costs compared to long-term trading. There are many factors that can affect financial market performance in the short-term (such as short-term interest rate changes, cyclical earnings announcements, etc.) but may have a smaller impact over longer periods of times.

**Short Sales** – securities transaction in which an investor sells securities that were borrowed in anticipation of a price decline. The investor is then required to return an equal number of shares at some point in the future.

- **Risk:** A short seller will profit if the stock goes down in price, but if the price of the shares increase, the potential losses are unlimited.

**Margin Transactions** – a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan.

- **Risk:** If the value of the shares drops sufficiently, the investor will be required to either deposit more cash into the account or sell a portion of the stock in order to maintain the margin requirements of the account. This is known as a "margin call." An investor's overall risk includes the amount of money invested plus the amount that was loaned to them.

**Option Writing** – a securities transaction that involves selling an option. An option is the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. When an investor sells an option, he or she must deliver to the buyer a specified number of shares if the buyer exercises the option. The seller pays the buyer a premium (the market price of the option at a particular time) in exchange for writing the option.

- **Risk:** Options are complex investments and can be very risky, especially if the investor does not own the underlying stock. In certain situations, an investor's risk can be unlimited.

Our investment strategies and advice may vary depending upon each client's specific financial situation. As such, we determine investments and allocations based upon your predefined objectives, risk tolerance, time horizon, financial horizon, financial information, liquidity needs, and other various suitability factors. Your restrictions and guidelines may affect the composition of your portfolio.

We may use short-term trading (in general, selling securities within 30 days of purchasing the same securities) as an investment strategy when managing your account(s). Short-term trading is not a fundamental part of our overall investment strategy, but we may use this strategy occasionally when we determine that it is suitable given your stated investment objectives and tolerance for risk.

### **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 investing of your assets.

Moreover, as a result of revised IRS regulations, custodians and broker-dealers will begin reporting the cost basis of equities acquired in client accounts on or after January 1, 2011. Your custodian will default to the FIFO (First-In First-Out) accounting method for calculating the cost basis of your investments. You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, please provide written notice to our firm immediately and we will alert your account custodian of your individually selected accounting method. Please note that decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

## **Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

## **Recommendation of Particular Types of Securities**

As disclosed under the *Advisory Business* section in this Brochure, we primarily recommend broad market and sector ETFs (exchange traded funds), equities, and index futures, in conjunction with options to create hedging strategies; however, we may recommend other types of investments as appropriate for you since each client has different needs and different tolerance for risk. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with it.

**Equities:** There are numerous ways of measuring the risk of equity securities (also known simply as "equities" or "stock"). In very broad terms, the value of a stock depends on the financial health of the company issuing it. However, stock prices can be affected by many other factors including, but not limited to: the class of stock (for example, preferred or common); the health of the market sector of the issuing company; and, the overall health of the economy. In general, larger, more well established companies ("large cap") tend to be safer than smaller start-up companies ("small cap") but the mere size of an issuer is not, by itself, an indicator of the safety of the investment.

**Mutual Funds and Exchange Traded Funds:** Mutual funds and exchange traded funds are professionally managed collective investment systems that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities or any combination thereof. The fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. While mutual funds and ETFs generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market, primarily invests in small cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of security (i.e., equities) rather than balancing the fund with different types of securities. Exchange traded funds differ from mutual funds since they can be bought and sold throughout the day like stock and their price can fluctuate throughout the day. The returns on mutual funds and ETFs can be reduced by the costs to manage the funds. Also, while some mutual funds are "no load" and charge no fee to buy into, or sell out of, the fund, other types of mutual funds do charge such fees which can also reduce returns. Mutual funds can also be "closed end" or "open end". So-called "open end" mutual funds continue to allow in new investors indefinitely which can dilute other investors' interests.

**Short Selling:** Short selling is very risky. Unlike a straightforward investment in stocks where you buy shares with the expectation that their price will increase so you can sell at a profit, in a "short sale" you borrow stocks from your brokerage firm and sell them immediately, hoping to buy them later at a lower price. Thus, a short seller hopes that the price of a stock will go down in the near future. A short seller thus uses declines in the market to his advantage. He makes money when the stock prices fall and loses when prices go up. The SEC has strict regulations in place regarding short selling. There is no ceiling on how much a short seller can lose in a trade. The share price may keep going up and the short seller will have to pay whatever the prevailing stock price is to buy back the shares. However, his gains have a ceiling level because the stock price cannot fall below zero. A short seller has to undertake to pay the earnings on the borrowed securities as long as he chooses to keep his short

position open. If the company declares huge dividends or issues bonus shares, the short seller will have to pay that amount to the lender. Any such occurrence can skew the entire short investment and make it unprofitable. The broker can use the funds in the short seller's margin account to buy back his loaned shares or issue a 'call away' to get the short seller to return the borrowed securities. If the broker makes this call when the stock price is much higher than the price at the time of the short sale, then the investor can end up making huge losses.

**Short Sales:** Short selling (also known as shorting or going short) is the practice of selling assets, usually securities, that have been borrowed from a third party (usually a broker) with the intention of buying identical assets back at a later date to return to the lender. It is a form of reverse trading. Mathematically, it is equivalent to buying a "negative" amount of the assets. The short seller hopes to profit from a decline in the price of the assets between the sale and the repurchase, as the seller will pay less to buy the assets than the seller received on selling them. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets. "Shorting" and "going short" also refer to entering into any derivative or other contract under which the investor profits from a fall in the value of an asset.

**Margin:** Buying on margin means borrowing money from a broker to purchase stock. Margin trading allows you to buy more stock than you'd be able to normally. An initial investment of at least \$2,000 is required for a margin account, though some brokerages require more. This deposit is known as the minimum margin. Once the account is opened and operational, you can borrow up to 50% of the purchase price of a stock. This portion of the purchase price that you deposit is known as the initial margin. Some brokerages require you to deposit more than 50% of the purchase price. Not all stocks qualify to be bought on margin. When you sell the stock in a margin account, the proceeds go to your broker against the repayment of the loan until it is fully paid. There is also a restriction called the maintenance margin, which is the minimum account balance you must maintain before your broker will force you to deposit more funds or sell stock to pay down your loan. When this happens, it's known as a margin call. If for any reason you do not meet a margin call, the brokerage has the right to sell your securities to increase your account equity until you are above the maintenance margin. Additionally, your broker may not be required to consult you before selling. Under most margin agreements, a firm can sell your securities without waiting for you to meet the margin call and you can't control which stock is sold to cover the margin call. You also have to pay the interest on your loan. The interest charges are applied to your account unless you decide to make payments. Over time, your debt level increases as interest charges accrue against you. As debt increases, the interest charges increase, and so on. Therefore, buying on margin is mainly used for short-term investments. The longer you hold an investment, the greater the return that is needed to break even. In volatile markets, prices can fall very quickly. You can lose more money than you have invested.

**Options:** Options are complex securities that *involve risks and are not suitable for everyone. Option trading can be speculative in nature and carry substantial risk of loss. However, option investing can also be used to protect investment capital when used as a hedging strategy which is the approach primarily deployed by ZEGA Financial when using Options.*

An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date (the "expiration date"). The two types of options are calls and puts:

A call gives the holder the right to buy an asset at a certain price within a specific period of time. Calls are similar to having a long position on a stock. Buyers of calls hope that the stock will increase substantially before the option expires.



A put gives the holder the right to sell an asset at a certain price within a specific period of time. Puts are very similar to having a short position on a stock. Buyers of puts hope that the price of the stock will fall before the option expires.

Selling options is more complicated and can be even riskier. The option trading risks pertaining to options buyers are:

- Risk of losing your entire investment in a relatively short period of time.
- The risk of losing your entire investment increases if, as expiration nears, the stock is below the strike price of the call (for a call option) or if the stock is higher than the strike price of the put (for a put option).
- European style options which do not have secondary markets on which to sell the options prior to expiration can only realize its value upon expiration.
- Specific exercise provisions of a specific option contract may create risks.
- Regulatory agencies may impose exercise restrictions, which stops you from realizing value.

The option trading risks pertaining to options sellers are:

- Options sold may be exercised at any time before expiration.
- Covered Call traders forgo the right to profit when the underlying stock rises above the strike price of the call options sold and continues to risk a loss due to a decline in the underlying stock.
- Writers of Naked Calls risk unlimited losses if the underlying stock rises.
- Writers of Naked Puts risk unlimited losses if the underlying stock drops.
- Writers of naked positions run margin risks if the position goes into significant losses. Such risks may include liquidation by the broker.
- Writers of call options can lose more money than a short seller of that stock on the same rise on that underlying stock. This is an example of how the leverage in options can work against the option trader.
- Writers of Naked Calls are obligated to deliver shares of the underlying stock if those call options are exercised.
- Call options can be exercised outside of market hours such that effective remedy actions cannot be performed by the writer of those options.
- Writers of stock options are obligated under the options that they sold even if a trading market is not available or that they are unable to perform a closing transaction.
- The value of the underlying stock may surge or ditch unexpectedly, leading to automatic exercises.

Other option trading risks are:

- The complexity of some option strategies is a significant risk on its own.
- Option trading exchanges or markets and option contracts themselves are open to changes at all times.
- Options markets have the right to halt the trading of any options, thus preventing investors from realizing value.
- Risk of erroneous reporting of exercise value.
- If an options brokerage firm goes insolvent, investors trading through that firm may be affected.
- Internationally traded options have special risks due to timing across borders.

Risks that are not specific to options trading include: market risk, sector risk and individual stock risk. Option trading risks are closely related to stock risks as stock options are a derivative of stocks.

**Futures:** Futures are financial contracts obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. The primary difference between options and futures is that options give the holder the *right* to buy or sell the underlying asset at expiration, while the holder of a futures contract is *obligated* to fulfill the terms of his/her contract. Buyers and sellers in the futures market primarily enter into futures contracts to hedge risk or speculate rather than to exchange physical goods. Futures traders are advised to only use funds that have been earmarked as pure "risk capital" since the risks are that high.

## Item 9 Disciplinary Information

ZEGA Financial, LLC has been registered since 2011. Neither our firm nor any of our Associated Persons has any reportable disciplinary information.

## Item 10 Other Financial Industry Activities and Affiliations

We have not provided information on other financial industry activities and affiliations because we do not have any relationship or arrangement that is material to our advisory business or to our clients with any of the types of entities listed below.

1. broker-dealer, municipal securities dealer, or government securities dealer or broker.
2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund).
3. other investment adviser or financial planner.
4. futures commission merchant, commodity pool operator, or commodity trading advisor.
5. banking or thrift institution.
6. accountant or accounting firm.
7. lawyer or law firm.
8. insurance company or agency.
9. pension consultant.
10. real estate broker or dealer.
11. sponsor or syndicator of limited partnerships.

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

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for our Associated Persons. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All of our Associated Persons are expected to adhere strictly to these guidelines. Our Code of Ethics also requires that certain persons associated with our firm submit reports of their personal account holdings and transactions to a qualified representative of our firm who will review these reports on a periodic basis. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

Clients or prospective clients may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this brochure.



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

Neither our firm nor any of our Associated Persons has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this brochure.

### **Personal Trading Practices**

Our firm or persons associated with our firm may buy or sell securities for you at the same time we or persons associated with our firm buy or sell such securities for our own account. We may also combine our orders to purchase securities with your orders to purchase securities ("block trading"). Please refer to the *Brokerage Practices* section in this brochure for information on our block trading practices.

A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To mitigate this conflict of interest, it is our policy that neither our Associated Persons nor we shall have priority over your account in the purchase or sale of securities.

## **Item 12 Brokerage Practices**

We participate in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. member FINRA/SIPC ("TD Ameritrade"). TD Ameritrade is an independent and unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. We receive some benefits from TD Ameritrade through our participation in the program.

We recommend the brokerage and custodial services of TD Ameritrade. We believe that TD Ameritrade provides quality execution services for you at competitive prices. Price is not the sole factor we consider in evaluating best execution. We also consider the quality of the brokerage services provided by TD Ameritrade including the value of research provided, the firm's reputation, execution capabilities, commission rates, and responsiveness to our clients and our firm. In recognition of the value of research services and additional brokerage products and services TD Ameritrade provides, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

### **Research and Other Soft Dollar Benefits**

As disclosed above, we participate in TD Ameritrade's institutional customer program and we may recommend TD Ameritrade to you for custody and brokerage services. There is no direct link between our participation in the program and the investment advice we give to our Clients, although we receive economic benefits through our participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations ; research related products and tools; consulting services; access to a trading desk serving adviser participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to us by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by our related persons. Some of the products and services made available by TD Ameritrade through the program may benefit us but may not benefit our Client accounts. These products or services may assist us in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help us manage and further develop our business

enterprise. The benefits received by us or our personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of our fiduciary duties to you, we endeavor at all times to put your interests first. You should be aware, however, that the receipt of economic benefits by us or our related persons in and of itself creates a potential conflict of interest and may indirectly influence our choice of TD Ameritrade for custody and brokerage services.

#### **TD Ameritrade Institutional Trading Panel**

John ("Jay") Pestrighelli, one of our owners, serves on the TD Ameritrade Institutional Trading Panel ("Panel"). The Panel consists of approximately ten independent registered investment advisers that advise TD Ameritrade Institutional ("TDA Institutional") on issues relevant to the independent adviser and their experience with TD Ameritrade's trading platform. The Panel meets in person once a year. Investment advisers are appointed to serve on the Panel for a one year term by TDA Institutional trading, sales, service and senior management. At times, Panel members are provided confidential information about TD Ameritrade initiatives. Panel members are required to sign a confidentiality agreement. TD Ameritrade does not compensate Panel members. However, TD Ameritrade may pay or reimburse Adviser for the travel, lodging and meal expenses Adviser incurs in attending Panel meetings. The benefits received by Adviser or its personnel by serving on the Panel do not depend on the amount of brokerage transactions directed to TD Ameritrade. Clients should be aware, however, that the receipt of economic benefits by Adviser or its related persons in and of itself creates a potential conflict of interest and may indirectly influence Adviser's recommendation of TD Ameritrade for custody and brokerage services.

#### **Brokerage for Client Referrals**

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

#### **Directed Brokerage**

We routinely recommend that you direct our firm to execute transactions through TD Ameritrade. As such, we may be unable to achieve the most favorable execution of your transactions and you may pay higher brokerage commissions than you might otherwise pay through another broker-dealer that offers the same types of services. Not all advisers require their clients to direct brokerage.

In limited circumstances, and at our discretion, some clients may instruct our firm to use one or more particular brokers for the transactions in their accounts. If you choose to direct our firm to use a particular broker, you should understand that this might prevent our firm from aggregating trades with other client accounts or from effectively negotiating brokerage commissions on your behalf. This practice may also prevent our firm from obtaining favorable net price and execution. Thus, when directing brokerage business, you should consider whether the commission expenses, execution, clearance, and settlement capabilities that you will obtain through your broker are adequately favorable in comparison to those that we would otherwise obtain for you.

#### **Block Trades**

We combine multiple orders for shares of the same securities purchased for discretionary accounts; however, we do not combine orders for non-discretionary accounts. Accordingly, non-discretionary accounts may pay different costs than discretionary accounts pay. If you enter into non-discretionary arrangements with our firm, we may not be able to buy and sell the same quantities of securities for you and you may pay higher commissions, fees, and/or transaction costs than clients who enter into discretionary arrangements with our firm.

## Item 13 Review of Accounts

John ("Jay") Pestrighelli, Managing Member of ZEGA, and the investment adviser representative assigned to your account will monitor your accounts on an ongoing basis and will conduct account reviews at least quarterly and upon your request to ensure that the advisory services provided to you and/or the portfolio mix are consistent with your current/stated investment needs and objectives. Additional reviews may be conducted based on various circumstances, including, but not limited to:

- contributions and withdrawals,
- year-end tax planning,
- market moving events,
- security specific events, and/or,
- changes in your risk/return objectives.

We will provide you with additional or regular written reports in conjunction with account reviews. Reports we provide to you will contain relevant account and/or market-related information such as an inventory of account holdings and account performance. We will also provide you with periodic or annual tax reports. In addition, you will receive trade confirmations and monthly or quarterly statements from your account custodian(s).

## Item 14 Client Referrals and Other Compensation

We do not receive any compensation from any third party in connection with providing investment advice to you nor do we compensate any individual or firm for client referrals.

Please refer to the *Brokerage Practices* section above for disclosures on research and other benefits we may receive resulting from our relationship with TD Ameritrade.

## Item 15 Custody

As paying agent for our firm, your independent custodian will directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy.

You should compare our statements with the statements from your account custodian(s) to reconcile the information reflected on each statement. If you have a question regarding your account statement, or if you did not receive a statement from your custodian, please contact us directly at the telephone number on the cover page of this brochure.

## Item 16 Investment Discretion

Before we can buy or sell securities on your behalf, you must first sign our discretionary management agreement, a power of attorney, and/or trading authorization forms.

You may grant our firm discretion over the selection and amount of securities to be purchased or sold for your account(s) without obtaining your consent or approval prior to each transaction. You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters for your account(s). For example, you may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio and/or restrictions or prohibitions of transactions in the securities of a specific industry or security. Please refer to the *Advisory Business* section in this brochure for more information on our discretionary management services.

## **Item 17 Voting Client Securities**

We will not vote proxies on behalf of your advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of applicable securities, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic solicitation to vote proxies.

## **Item 18 Financial Information**

We are not required to provide a balance sheet or other financial information to our clients because we do not require the prepayment of fees in excess of \$1,200 and six months or more in advance; we do not take custody of client funds or securities; and, we have never been the subject of a bankruptcy petition.

## **Item 19 Requirements for State-Registered Advisers**

We are registered with the United States Securities and Exchange Commission and therefore this section is not applicable.

## **Item 20 Additional Information**

### **Your Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any nonpublic personal information about you to any nonaffiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to nonpublic personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Please contact our main office at the telephone number on the cover page of this brochure if you have any questions regarding this policy.

**Trade Errors**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account.

**Class Action Lawsuits**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.