

**Item 1: Cover Page  
Part 2A of Form ADV: Firm Brochure  
October 2023**

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**Firm Contact:  
Audra Nay  
Chief Compliance Officer**

This brochure provides information about the qualifications and business practices of Traverso Chambers Private Wealth Management, LLC. If clients have any questions about the contents of this brochure, please contact us at 707-523-1111. 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 our firm is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) by searching CRD #294019.

Please note that the use of the term "registered investment adviser" and description of our firm and/or our associates as "registered" does not imply a certain level of skill or training. Clients are encouraged to review this Brochure and Brochure Supplements for our firm's associates who advise clients for more information on the qualifications of our firm and our employees.

## Item 2: Material Changes

Traverso Chambers Private Wealth Management, LLC is required to make clients aware of information that has changed since the last annual update to the Firm Brochure ("Brochure") and that may be important to them. Clients can then determine whether to review the brochure in its entirety or to contact us with questions about the changes.

Since our last annual amendment filing on February 15<sup>th</sup>, 2023, we have the following material change(s) to disclose:

- Charles Schwab & Co., Inc. ("Schwab") has completed its acquisition of our previously recommended custodian, TD Ameritrade, Inc. As a result of the acquisition, we have amended Items 12 and 14 to disclose that we currently only recommend Schwab as a custodian for client accounts.

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## Item 4: Advisory Business

Our firm is dedicated to providing individuals and other types of clients with a wide array of investment advisory services. Our firm is a limited liability company formed under the laws of the State of California. Our firm is wholly owned by Marc Traverso and Timothy Chambers.

The purpose of this Brochure is to disclose the conflicts of interest associated with the investment transactions, compensation and any other matters related to investment decisions made by our firm or its representatives. As a fiduciary, it is our duty to always act in the client's best interest. This is accomplished in part by knowing our client. Our firm has established a service-oriented advisory practice with open lines of communication for many different types of clients to help meet their financial goals while remaining sensitive to risk tolerance and time horizons. Working with clients to understand their investment objectives while educating them about our process, facilitates the kind of working relationship we value.

### **Types of Advisory Services Offered**

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#### **Comprehensive Portfolio Management:**

As part of our Comprehensive Portfolio Management service, clients will be provided asset management and financial planning or consulting services. This service is designed to assist clients in meeting their financial goals through the use of a financial plan or consultation. Our firm conducts client meetings to understand their current financial situation, existing resources, financial goals, and tolerance for risk. Based on what is learned, an investment approach is presented to the client, consisting of individual stocks, bonds, ETFs, options, mutual funds and other public and private securities or investments. Once the appropriate portfolio has been determined, portfolios are continuously and regularly monitored, and if necessary, rebalanced based upon the client's individual needs, stated goals and objectives. Upon client request, our firm provides a summary of observations and recommendations for the planning or consulting aspects of this service.

Our firm may utilize the sub-advisory services of a third-party investment advisory firm or individual advisor to aid in the implementation of an investment portfolio. Before selecting a firm or individual, our firm will ensure that the chosen party is properly licensed or registered.

#### **Asset Management:**

As part of our Asset Management service, a portfolio is created, consisting of individual stocks, bonds, exchange traded funds ("ETFs"), options, mutual funds and other public and private securities or investments. The client's individual investment strategy is tailored to their specific needs and may include some or all of the previously mentioned securities. Portfolios will be designed to meet a particular investment goal, determined to be suitable to the client's circumstances. Once the appropriate portfolio has been determined, portfolios are continuously and regularly monitored, and if necessary, rebalanced based upon the client's individual needs, stated goals and objectives.

Our firm may utilize the sub-advisory services of a third -party investment advisory firm or individual advisor to aid in the implementation of an investment portfolio. Before selecting a firm or individual, our firm will ensure that the chosen party is properly licensed or registered.

## **Financial Planning & Consulting:**

Our firm provides a variety of standalone financial planning and consulting services to clients for the management of financial resources based upon an analysis of current situation, goals, and objectives. Financial planning services will typically involve preparing a financial plan or rendering a financial consultation for clients based on the client's financial goals and objectives. This planning or consulting may encompass Investment Planning, Retirement Planning, Estate Planning, Charitable Planning, Education Planning, Corporate and Personal Tax Planning, Cost Segregation Study, Corporate Structure, Real Estate Analysis, Mortgage/Debt Analysis, Insurance Analysis, Lines of Credit Evaluation, or Business and Personal Financial Planning.

Written financial plans or financial consultations rendered to clients usually include general recommendations for a course of activity or specific actions to be taken by the clients. Implementation of the recommendations will be at the discretion of the client. Our firm provides clients with a summary of their financial situation, and observations for financial planning engagements. Financial consultations are not typically accompanied by a written summary of observations and recommendations, as the process is less formal than the planning service. Assuming that all the information and documents requested from the client are provided promptly, plans or consultations are typically completed within 6 months of the client signing a contract with our firm.

## **Retirement Plan Consulting:**

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

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

In providing services for retirement plan consulting, our firm does not provide any advisory services with respect to the following types of assets: employer securities, real estate (excluding real estate funds and publicly traded REITS), participant loans, non-publicly traded securities or assets, other illiquid investments, or brokerage window programs (collectively, "Excluded Assets"). All retirement plan consulting services shall be in compliance with the applicable state laws regulating retirement consulting services. This applies to client accounts that are retirement or other employee benefit plans ("Plan") governed by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). If the client accounts are part of a Plan, and our firm accepts appointment to provide services to such accounts, our firm acknowledges its fiduciary standard within the meaning of Section 3(21) or 3(38) of ERISA as designated by the Retirement Plan Consulting Agreement with respect to the provision of services described therein.

### **Referrals to Third Party Money Managers:**

In certain cases, our firm may utilize the services of a third party money manager for the management of client accounts. Investment advice and trading of securities will only be offered by or through the chosen third party money manager. Our firm will not offer advice on any specific securities or other investments in connection with this service. Prior to referring clients, our firm will provide initial due diligence on third party money managers and ongoing reviews of their management of client accounts. In order to assist in the selection of a third party money manager, our firm will gather client information pertaining to financial situation, investment objectives, and reasonable restrictions to be imposed upon the management of the account.

Our firm will periodically review third party money manager reports provided to the client at least annually. Our firm will contact clients from time to time in order to review their financial situation and objectives; communicate information to third party money managers as warranted; and, assist the client in understanding and evaluating the services provided by the third party money manager. Clients will be expected to notify our firm of any changes in their financial situation, investment objectives, or account restrictions that could affect their financial standing.

### **Tailoring of Advisory Services**

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Our firm offers individualized investment advice to our Comprehensive Portfolio Management and Asset Management clients. General investment advice will be offered to our Financial Planning & Consulting, Retirement Plan Consulting, and Referrals to Third Party Money Management clients.

Each client has the opportunity to place reasonable restrictions on the types of investments to be held in the portfolio. Restrictions on investments in certain securities or types of securities may not be possible due to the level of difficulty this would entail in managing the account.

### **Participation in Wrap Fee Programs**

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Our firm sponsors a wrap fee program, as further described in Part 2A, Appendix 1 (the "Wrap Fee Program Brochure"), which was previously offered to clients. Our firm does not manage wrap fee accounts in a different fashion than non-wrap fee accounts. All accounts are managed on an individualized basis according to the client's investment objectives, financial goals, risk tolerance, etc.

### **Regulatory Assets Under Management**

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Our firm manages \$447,274,163 on a discretionary basis and \$5,005,057 on a non-discretionary basis as of December 31<sup>st</sup>, 2022.

## **Item 5: Fees & Compensation**

### **Compensation for Our Advisory Services**

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#### **Comprehensive Portfolio Management**

The maximum annual fee charged for this service will not exceed 1.25%. Fees to be assessed will be outlined in the advisory agreement to be signed by the client. Annualized fees are billed on a pro-rata

basis quarterly in arrears based on the time-weighted daily average value of account(s) during the previous quarter. Unless indicated otherwise in writing, our firm may bill on cash balances. In rare cases, our firm will agree to directly invoice. Fees are negotiable and will be deducted from client account(s). As part of this process, Clients understand the following:

- a) The client's independent custodian sends statements at least quarterly showing the market values for each security included in the assets and all account disbursements, including the amount of the advisory fees paid to our firm;
- b) Clients will provide authorization permitting our firm to be directly paid by these terms. Our firm will send an invoice directly to the custodian; and
- c) If our firm sends a copy of our invoice to the client, it will include a disclosure urging the client to compare the information provided in our statement with those from the qualified custodian.

For the sub-advisory services rendered to our clients, our firm compensates third party investment advisory firms or individual advisors a percentage of the overall investment advisory fee charged by our firm. The advisory fee paid to the third party ranges from 0.10 to 0.75%, and shall not exceed the fee published for this service.

### **Asset Management**

The maximum annual fee charged for this service will not exceed 1.25%. Fees to be assessed will be outlined in the advisory agreement to be signed by the client. Annualized fees are billed on a pro-rata basis quarterly in arrears based on the time-weighted daily average value of account(s) during the previous quarter. Unless indicated otherwise in writing, our firm may bill on cash balances. In rare cases, our firm will agree to directly invoice. Fees are negotiable and will be deducted from client account(s). As part of this process, Clients understand the following:

- a) The client's independent custodian sends statements at least quarterly showing the market values for each security included in the Assets and all account disbursements, including the amount of the advisory fees paid to our firm;
- b) Clients will provide authorization permitting our firm to be directly paid by these terms. Our firm will send an invoice directly to the custodian; and
- c) If our firm sends a copy of our invoice to the client, it will include a disclosure urging the client to compare the information provided in our statement with those from the qualified custodian.

For the sub-advisory services rendered to our clients, our firm compensates third party investment advisory firms or individual advisors a percentage of the overall investment advisory fee charged by our firm. The advisory fee paid to the third party ranges from 0.10 to 0.75%, and shall not exceed the fee published for this service.

### **Financial Planning & Consulting:**

Our firm charges on an hourly or flat fee basis for financial planning and consulting services. The total estimated fee, as well as the ultimate fee charged, is based on the scope and complexity of our engagement with the client. The maximum hourly fee to be charged will not exceed \$350. Flat fees will not exceed \$12,000. The fee-paying arrangements will be determined on a case-by-case basis and will be detailed in the signed consulting agreement. Our firm will not require a retainer exceeding \$1,200 when services cannot be rendered within 6 months.

### **Retirement Plan Consulting:**

Our Retirement Plan Consulting services are billed on an hourly or flat fee basis or a fee based on the percentage of Plan assets under management. The total estimated fee, as well as the ultimate fee charged, is based on the scope and complexity of our engagement with the client. The maximum hourly fee to be charged will not exceed \$350. Flat fees will not exceed \$12,000. Fees based on a percentage of managed Plan assets will not exceed 1.25%. The fee-paying arrangements will be determined on a case-by-case basis and will be detailed in the signed consulting agreement.

### **Referrals to Third Party Money Managers:**

The total annual advisory fee for this service shall not exceed 3.00%. A portion of this fee will be paid to our firm and will be outlined in the third party money manager's advisory agreement to be signed by the client. Clients will be provided with a copy of the chosen third party money manager's Form ADV Part 2, all relevant Brochures, a solicitation disclosure statement detailing the fees to be paid to both firms and the third party money manager's privacy policy. All fees that our firm receives from the third party money managers and the written separate disclosures made to clients regarding these fees comply with applicable state statutes and rules.

The billing procedures for this service vary based on the chosen third party money manager. The total fee to be charged, as well as the billing cycle, will be detailed in the third party money manager's ADV Part 2A and separate advisory agreement to be signed by the client.

### **Other Types of Fees & Expenses**

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Wrap clients will not incur transaction costs for trades by their chosen custodian. Clients may, however, pay holdings charges imposed by the chosen custodian for certain investments, charges imposed directly by a mutual fund, index fund, or exchange traded fund, which shall be disclosed in the fund's prospectus (i.e., fund management fees and other fund expenses), initial or deferred sales charges, mutual fund sales loads, 12b-1 fees, surrender charges, variable annuity fees, IRA and qualified retirement plan fees, mark-ups and mark-downs, spreads paid to market makers, fees for trades executed away from custodian, wire transfer fees, and other fees and taxes on brokerage accounts and securities transactions. Our firm does not receive a portion of these fees. More information about this can be found in our separate Wrap Fee Program Brochure. Charles Schwab & Co., Inc. ("Schwab") does not charge transaction fees for U.S. listed equities and exchange traded funds.

### **Termination & Refunds**

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Either party may terminate the advisory agreement signed with our firm for Comprehensive Portfolio Management and Asset Management services at any time. Upon notice of termination, pro-rata advisory fees for services rendered to the point of termination will be charged. If advisory fees cannot be deducted, our firm will send an invoice for due advisory fees to the client.

Financial Planning & Consulting clients may terminate their agreement at any time before the delivery of a financial plan by providing written notice. For purposes of calculating refunds, all work performed by us up to the point of termination shall be calculated at the hourly fee currently in effect. Clients will receive a pro-rata refund of unearned fees based on the time and effort expended by our firm.



Either party to a Retirement Plan Consulting Agreement may terminate at any time by providing written notice to the other party. Full refunds will only be made in cases where cancellation occurs within 5 business days of signing an agreement. After 5 business days from initial signing, either party must provide the other party 30 days written notice to terminate billing. Billing will terminate 30 days after receipt of termination notice. Clients will be charged on a pro-rata basis, which takes into account work completed by our firm on behalf of the client. Clients will incur charges for bona fide advisory services rendered up to the point of termination (determined as 30 days from receipt of said written notice) and such fees will be due and payable.

### **Commissionable Securities Sales**

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Our firm and representatives do not sell securities for a commission in advisory accounts.

## **Item 6: Performance-Based Fees & Side-By-Side Management**

Our firm does not charge performance-based fees.

## **Item 7: Types of Clients & Account Requirements**

Our firm has the following types of clients:

- Individuals and High Net Worth Individuals.
- Trusts, Estates or Charitable Organizations.
- Pension and Profit Sharing Plans.
- Corporations, Limited Liability Companies and/or Other Business Types.

Our firm does not impose requirements for opening and maintaining accounts or otherwise engaging us.

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

The following methods of analysis and investment strategies may be utilized in formulating our investment advice and/or managing client assets, provided that such methods and/or strategies are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations.

### **Methods of Analysis**

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Securities analysis methods rely on the assumption that the companies whose securities are purchased and/or sold, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While our firm is alert to indications that data may be incorrect, there is always a risk that our firm's analysis may be compromised by inaccurate or misleading information.

**Cyclical Analysis:** Statistical analysis of specific events occurring at a sufficient number of relatively predictable intervals that they can be forecasted into the future. Cyclical analysis asserts that cyclical forces drive price movements in the financial markets. Risks include that cycles may invert or disappear and there is no expectation that this type of analysis will pinpoint turning points, instead be used in conjunction with other methods of analysis.

**Fundamental Analysis:** The analysis of a business's financial statements (usually to analyze the business's assets, liabilities, and earnings), health, and its competitors and markets. When analyzing a stock, futures contract, or currency using fundamental analysis there are two basic approaches one can use: bottom up analysis and top down analysis. The terms are used to distinguish such analysis from other types of investment analysis, such as quantitative and technical. Fundamental analysis is performed on historical and present data, but with the goal of making financial forecasts. There are several possible objectives: (a) to conduct a company stock valuation and predict its probable price evolution; (b) to make a projection on its business performance; (c) to evaluate its management and make internal business decisions; (d) and/or to calculate its credit risk; and to find out the intrinsic value of the share.

When the objective of the analysis is to determine what stock to buy and at what price, there are two basic methodologies investors rely upon: (a) Fundamental analysis maintains that markets may misprice a security in the short run but that the "correct" price will eventually be reached. Profits can be made by purchasing the mispriced security and then waiting for the market to recognize its "mistake" and reprice the security; and (b) Technical analysis maintains that all information is reflected already in the price of a security. Technical analysts analyze trends and believe that sentiment changes predate and predict trend changes. Investors' emotional responses to price movements lead to recognizable price chart patterns. Technical analysts also analyze historical trends to predict future price movement. Investors can use one or both of these different but complementary methods for stock picking. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

**Modern Portfolio Theory ("MPT"):** A mathematical framework for assembling a portfolio of assets such that the expected return is maximized for a given level of risk, defined as variance. Its key insight is that an asset's risk and return should not be assessed by itself, but by how it contributes to a portfolio's overall risk and return. MPT assumes that investors are risk averse, meaning that given two portfolios that offer the same expected return, investors will prefer the less risky one. Thus, an investor will take on increased risk only if compensated by higher expected returns. Conversely, an investor who wants higher expected returns must accept more risk. The exact trade-off will be the same for all investors, but different investors will evaluate the trade-off differently based on individual risk aversion characteristics. The implication is that a rational investor will not invest in a portfolio if a second portfolio exists with a more favorable risk-expected return profile – i.e., if for that level of risk an alternative portfolio exists that has better expected returns.

The risk, return, and correlation measures used by MPT are based on expected values, which means that they are mathematical statements about the future (the expected value of returns is explicit in the above equations, and implicit in the definitions of variance and covariance). In practice, investors must substitute predictions based on historical measurements of asset return and volatility for these values in the equations. Very often such expected values fail to take account of new circumstances that did not exist when the historical data were generated. Mathematical risk measurements are also useful only to the degree that they reflect investors' true concerns—there is no point minimizing a variable that nobody cares about in practice. MPT uses the mathematical concept of variance to

quantify risk, and this might be justified under the assumption of elliptically distributed returns such as normally distributed returns, but for general return distributions other risk measures (like coherent risk measures) might better reflect investors' true preferences.

**Mutual Fund and/or Exchange Traded Fund ("ETF") Analysis:** Analysis of the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. The underlying assets in a mutual fund or ETF are also reviewed in an attempt to determine if there is significant overlap in the underlying investments held in another fund(s) in the Client's portfolio. The funds or ETFs are monitored in an attempt to determine if they are continuing to follow their stated investment strategy. A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as our firm does not control the underlying investments in a fund or ETF, managers of different funds held by the Client may purchase the same security, increasing the risk to the Client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the holding(s) less suitable for the Client's portfolio.

**Technical Analysis:** A security analysis methodology for forecasting the direction of prices through the study of past market data, primarily price and volume. A fundamental principle of technical analysis is that a market's price reflects all relevant information, so their analysis looks at the history of a security's trading pattern rather than external drivers such as economic, fundamental and news events. Therefore, price action tends to repeat itself due to investors collectively tending toward patterned behavior – hence technical analysis focuses on identifiable trends and conditions. Technical analysts also widely use market indicators of many sorts, some of which are mathematical transformations of price, often including up and down volume, advance/decline data and other inputs. These indicators are used to help assess whether an asset is trending, and if it is, the probability of its direction and of continuation. Technicians also look for relationships between price/volume indices and market indicators. Technical analysis employs models and trading rules based on price and volume transformations, such as the relative strength index, moving averages, regressions, inter-market and intra-market price correlations, business cycles, stock market cycles or, classically, through recognition of chart patterns. Technical analysis is widely used among traders and financial professionals and is very often used by active day traders, market makers and pit traders. The risk associated with this type of analysis is that analysts use subjective judgment to decide which pattern(s) a particular instrument reflects at a given time and what the interpretation of that pattern should be.

**Third-Party Money Manager Analysis:** The analysis of the experience, investment philosophies, and past performance of independent third-party investment managers in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. Analysis is completed by monitoring the manager's underlying holdings, strategies, concentrations and leverage as part of our overall periodic risk assessment. Additionally, as part of the due-diligence process, the manager's compliance and business enterprise risks are surveyed and reviewed. A risk of investing with a third-party manager who has been successful in the past is that they may not be able to replicate that success in the future. In addition, as our firm does not control the underlying investments in a third-party manager's portfolio, there is also a risk that a manager may deviate from the stated investment mandate or strategy of the portfolio, making it a less suitable investment for our clients. Moreover, as our firm does not control the manager's daily business and compliance operations, our firm may be unaware of the lack of internal controls necessary to prevent business, regulatory or reputational deficiencies.

## Investment Strategies & Asset Classes

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**Alternative Investments:** Hedge funds, commodity pools, Real Estate Investment Trusts ("REITs"), Business Development Companies ("BDCs"), and other alternative investments involve a high degree of risk and can be illiquid due to restrictions on transfer and lack of a secondary trading market. They can be highly leveraged, speculative and volatile, and an investor could lose all or a substantial amount of an investment. Alternative investments may lack transparency as to share price, valuation and portfolio holdings. Complex tax structures often result in delayed tax reporting. Compared to mutual funds, hedge funds and commodity pools are subject to less regulation and often charge higher fees. Alternative investment managers typically exercise broad investment discretion and may apply similar strategies across multiple investment vehicles, resulting in less diversification.

**Asset Allocation:** The implementation of an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals and investment time frame. Asset allocation is based on the principle that different assets perform differently in different market and economic conditions. A fundamental justification for asset allocation is the notion that different asset classes offer returns that are not perfectly correlated, hence diversification reduces the overall risk in terms of the variability of returns for a given level of expected return. Although risk is reduced as long as correlations are not perfect, it is typically forecast (wholly or in part) based on statistical relationships (like correlation and variance) that existed over some past period. Expectations for return are often derived in the same way.

An asset class is a group of economic resources sharing similar characteristics, such as riskiness and return. There are many types of assets that may or may not be included in an asset allocation strategy. The "traditional" asset classes are stocks (value, dividend, growth, or sector-specific [or a "blend" of any two or more of the preceding]; large-cap versus mid-cap, small-cap or micro-cap; domestic, foreign [developed], emerging or frontier markets), bonds (fixed income securities more generally: investment-grade or junk [high-yield]; government or corporate; short-term, intermediate, long-term; domestic, foreign, emerging markets), and cash or cash equivalents. Allocation among these three provides a starting point. Usually included are hybrid instruments such as convertible bonds and preferred stocks, counting as a mixture of bonds and stocks. Other alternative assets that may be considered include: commodities: precious metals, nonferrous metals, agriculture, energy, others.; Commercial or residential real estate (also REITs); Collectibles such as art, coins, or stamps; insurance products (annuity, life settlements, catastrophe bonds, personal life insurance products, etc.); derivatives such as long-short or market neutral strategies, options, collateralized debt, and futures; foreign currency; venture capital; private equity; and/or distressed securities.

**Debt Securities (Bonds):** Issuers use debt securities to borrow money. Generally, issuers pay investors periodic interest and repay the amount borrowed either periodically during the life of the security and/or at maturity. Alternatively, investors can purchase other debt securities, such as zero coupon bonds, which do not pay current interest, but rather are priced at a discount from their face values and their values accrete over time to face value at maturity. The market prices of debt securities fluctuate depending on such factors as interest rates, credit quality, and maturity. In general, market prices of debt securities decline when interest rates rise and increase when interest rates fall. Bonds with longer rates of maturity tend to have greater interest rate risks.

Certain additional risk factors relating to debt securities include: (a) When interest rates are declining, investors have to reinvest their interest income and any return of principal, whether scheduled or unscheduled, at lower prevailing rates.; (b) Inflation causes tomorrow's dollar to be

worth less than today's; in other words, it reduces the purchasing power of a bond investor's future interest payments and principal, collectively known as "cash flows." Inflation also leads to higher interest rates, which in turn leads to lower bond prices.; (c) Debt securities may be sensitive to economic changes, political and corporate developments, and interest rate changes. Investors can also expect periods of economic change and uncertainty, which can result in increased volatility of market prices and yields of certain debt securities. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices. (d) Debt securities may contain redemption or call provisions entitling their issuers to redeem them at a specified price on a date prior to maturity. If an issuer exercises these provisions in a lower interest rate market, the account would have to replace the security with a lower yielding security, resulting in decreased income to investors. Usually, a bond is called at or close to par value. This subjects investors that paid a premium for their bond risk of lost principal. In reality, prices of callable bonds are unlikely to move much above the call price if lower interest rates make the bond likely to be called.; (e) If the issuer of a debt security defaults on its obligations to pay interest or principal or is the subject of bankruptcy proceedings, the account may incur losses or expenses in seeking recovery of amounts owed to it.; (f) There may be little trading in the secondary market for particular debt securities, which may affect adversely the account's ability to value accurately or dispose of such debt securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of debt securities.

Our firm attempts to reduce the risks described above through diversification of the client's portfolio and by credit analysis of each issuer, as well as by monitoring broad economic trends and corporate and legislative developments, but there can be no assurance that our firm will be successful in doing so. Credit ratings for debt securities provided by rating agencies reflect an evaluation of the safety of principal and interest payments, not market value risk. The rating of an issuer is a rating agency's view of past and future potential developments related to the issuer and may not necessarily reflect actual outcomes. There can be a lag between the time of developments relating to an issuer and the time a rating is assigned and updated.

**Exchange Traded Funds ("ETFs"):** An ETF is a type of Investment Company (usually, an open-end fund or unit investment trust) whose primary objective is to achieve the same return as a particular market index. The vast majority of ETFs are designed to track an index, so their performance is close to that of an index mutual fund, but they are not exact duplicates. A tracking error, or the difference between the returns of a fund and the returns of the index, can arise due to differences in composition, management fees, expenses, and handling of dividends. ETFs benefit from continuous pricing; they can be bought and sold on a stock exchange throughout the trading day. Because ETFs trade like stocks, you can place orders just like with individual stock-s - such as limit orders, good-until-canceled orders, stop loss orders etc. They can also be sold short. Traditional mutual funds are bought and redeemed based on their net asset values ("NAV") at the end of the day. ETFs are bought and sold at the market prices on the exchanges, which resemble the underlying NAV but are independent of it. However, arbitrageurs will ensure that ETF prices are kept very close to the NAV of the underlying securities. Although an investor can buy as few as one share of an ETF, most buy in board lots. Anything bought in less than a board lot will increase the cost to the investor. Anyone can buy any ETF no matter where in the world it trades. This provides a benefit over mutual funds, which generally can only be bought in the country in which they are registered.

One of the main features of ETFs are their low annual fees, especially when compared to traditional mutual funds. The passive nature of index investing, reduced marketing, and distribution and accounting expenses all contribute to the lower fees. However, individual investors must pay a

brokerage commission to purchase and sell ETF shares; for those investors who trade frequently, this can significantly increase the cost of investing in ETFs. That said, with the advent of low-cost brokerage fees, small or frequent purchases of ETFs are becoming more cost efficient.

**Exchange Traded Notes ("ETN"):** An ETN is a senior, unsecured, unsubordinated debt security by an underwriting bank whose primary objective is to achieve the same return as a particular market index. Similar to other debt securities, the credit of the issuer is the only backing for ETNs, which have a maturity date. Although performance is contractually tied to whatever index the ETN is intended to track, ETNs do not have any assets, other than a claim against their issuer for payment according to the terms of the contract. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETNs trade throughout the day on an exchange. ETNs, as debt instruments, are subject to risk of default by the issuing bank as counter party. This is the major design difference between ETFs and ETNs: ETFs are only subject to market risk whereas ETNs are subject to both market risk and the risk of default by the issuing bank.

**Equity Securities:** Equity securities represent an ownership position in a company. Equity securities typically consist of common stocks. The prices of equity securities fluctuate based on, among other things, events specific to their issuers and market, economic and other conditions. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices. There may be little trading in the secondary market for particular equity securities, which may adversely affect Our firm's ability to value accurately or dispose of such equity securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of equity securities. Investing in smaller companies may pose additional risks as it is often more difficult to value or dispose of small company stocks, more difficult to obtain information about smaller companies, and the prices of their stocks may be more volatile than stocks of larger, more established companies. Clients should have a long-term perspective and, for example, be able to tolerate potentially sharp declines in value.

**Fixed Income:** Fixed income is a type of investing or budgeting style for which real return rates or periodic income is received at regular intervals and at reasonably predictable levels. Fixed-income investors are typically retired individuals who rely on their investments to provide a regular, stable income stream. This demographic tends to invest heavily in fixed-income investments because of the reliable returns they offer. Fixed-income investors who live on set amounts of periodically paid income face the risk of inflation eroding their spending power.

Some examples of fixed-income investments include treasuries, money market instruments, corporate bonds, asset-backed securities, municipal bonds and international bonds. The primary risk associated with fixed-income investments is the borrower defaulting on his payment. Other considerations include exchange rate risk for international bonds and interest rate risk for longer-dated securities. The most common type of fixed-income security is a bond. Bonds are issued by federal governments, local municipalities and major corporations. Fixed-income securities are recommended for investors seeking a diverse portfolio; however, the percentage of the portfolio dedicated to fixed income depends on your own personal investment style. There is also an opportunity to diversify the fixed-income component of a portfolio. Riskier fixed-income products, such as junk bonds and longer-dated products, should comprise a lower percentage of your overall portfolio.

The interest payment on fixed-income securities is considered regular income and is determined based on the creditworthiness of the borrower and current market rates. In general, bonds and fixed-

income securities with longer-dated maturities pay a higher rate, also referred to as the coupon rate, because they are considered riskier. The longer the security is on the market, the more time it has to lose its value and/or default. At the end of the bond term, or at bond maturity, the borrower returns the amount borrowed, also referred to as the principal or par value.

**Individual Stocks:** A common stock is a security that represents ownership in a corporation. Holders of common stock exercise control by electing a board of directors and voting on corporate policy. Investing in individual common stocks provides us with more control of what you are invested in and when that investment is made. Having the ability to decide when to buy or sell helps us time the taking of gains or losses. Common stocks, however, bear a greater amount of risk when compared to certificate of deposits, preferred stock and bonds. It is typically more difficult to achieve diversification when investing in individual common stocks. Additionally, common stockholders are on the bottom of the priority ladder for ownership structure; if a company goes bankrupt, the common stockholders do not receive their money until the creditors and preferred shareholders have received their respective share of the leftover assets.

**Inverse Exchange Traded Funds:** An ETF traded on a public stock market, which is designed to perform as the inverse of whatever index or benchmark it is designed to track. These funds work by using short selling, trading derivatives such as futures contracts, and other leveraged investment techniques. Investing in inversion ETFs is similar to holding various short positions, or using a combination of advanced investment strategies to profit from falling prices. Also known as a "Short ETF," or "Bear ETF." Inverse ETF along with other ETFs that use derivatives typically are not used as long-term investments. Many inverse ETFs utilize daily futures contracts to produce their returns, and this frequent trading often increases fund expenses. Inverse and leveraged inverse ETFs tend to have higher expense ratios than standard index ETFs, since the funds are by their nature actively managed; these costs can eat away at performance. An inverse ETF needs to buy when the market rises and sell when it falls in order to maintain a fixed leverage ratio. This results in a volatility loss proportional to the market variance. Compared to a short position with identical initial exposure, the inverse ETF will therefore usually deliver inferior returns. The exception is if the market declines significantly on low volatility so that the capital gain outweighs the volatility loss. Such large declines benefit the inverse ETF because the relative exposure of the short position drops as the market fall. Since the risk of the inverse ETF and a fixed short position will differ significantly as the index drifts away from its initial value, differences in realized payoff have no clear interpretation. It may therefore be better to evaluate the performance assuming the index returns to the initial level. In that case an inverse ETF will always incur a volatility loss relative to the short position. As with synthetic options, leveraged ETFs need to be frequently rebalanced. These strategies are generally designed for intra-day trading, however may be held for longer durations in cases we deem it prudent to do so.

**Compounding Risk:** Compounding risk is one of the main types of risks affecting inverse ETFs. Inverse ETFs held for periods longer than one day are affected by compounding returns. Since an inverse ETF has a single-day investment objective of providing investment results that are one times the inverse of its underlying index, the fund's performance likely differs from its investment objective for periods greater than one day. Investors who wish to hold inverse ETFs for periods exceeding one day must actively manage and rebalance their positions to mitigate compounding risk. The effect of compounding returns becomes more conspicuous during periods of high market turbulence. During periods of high volatility, the effects of compounding returns cause an inverse ETF's investment results for periods longer than one single day to substantially vary from one times the inverse of the underlying index's return.

*Derivative Securities Risk:* Many inverse ETFs provide exposure by employing derivatives. Derivative securities are considered aggressive investments and expose inverse ETFs to more risks, such as correlation risk, credit risk and liquidity risk. Swaps are contracts in which one party exchanges cash flows of a predetermined financial instrument for cash flows of a counterparty's financial instrument for a specified period. Swaps on indexes and ETFs are designed to track the performances of their underlying indexes or securities. The performance of an ETF may not perfectly track the inverse performance of the index due to expense ratios and other factors, such as negative effects of rolling futures contracts. Therefore, inverse ETFs that use swaps on ETFs usually carry greater correlation risk and may not achieve high degrees of correlation with their underlying indexes compared to funds that only employ index swaps. Additionally, inverse ETFs using swap agreements are subject to credit risk. A counterparty may be unwilling or unable to meet its obligations and, therefore, the value of swap agreements with the counterparty may decline by a substantial amount. Derivative securities tend to carry liquidity risk, and inverse funds holding derivative securities may not be able to buy or sell their holdings in a timely manner, or they may not be able to sell their holdings at a reasonable price.

*Correlation Risk:* Inverse ETFs are also subject to correlation risk, which may be caused by many factors, such as high fees, transaction costs, expenses, illiquidity and investing methodologies. Although inverse ETFs seek to provide a high degree of negative correlation to their underlying indexes, these ETFs usually rebalance their portfolios daily, which leads to higher expenses and transaction costs incurred when adjusting the portfolio. Moreover, reconstitution and index rebalancing events may cause inverse funds to be underexposed or overexposed to their benchmarks. These factors may decrease the inverse correlation between an inverse ETF and its underlying index on or around the day of these events.

Futures contracts are exchange-traded derivatives that have a predetermined delivery date of a specified quantity of a certain underlying security, or they may settle for cash on a predetermined date. With respect to inverse ETFs using futures contracts, during times of backwardation, funds roll their positions into less-expensive, further-dated futures contracts. Conversely, in contango markets, funds roll their positions into more-expensive, further-dated futures. Due to the effects of negative and positive roll yields, it is unlikely for inverse ETFs invested in futures contracts to maintain perfectly negative correlations to their underlying indexes on a daily basis.

*Short Sale Exposure Risk:* Inverse ETFs may seek short exposure through the use of derivative securities, such as swaps and futures contracts, which may cause these funds to be exposed to risks associated with short selling securities. An increase in the overall level of volatility and a decrease in the level of liquidity of the underlying securities of short positions are the two major risks of short selling derivative securities. These risks may lower short-selling funds' returns, resulting in a loss.

**Leveraged Exchange Traded Funds:** Leverage is the investment strategy of using borrowed money: specifically, the use of various financial instruments or borrowed capital to increase the potential return of an investment. Leverage can also refer to the amount of debt used to finance assets. When one refers to something (a company, a property or an investment) "s "highly leveraged," it means that item has more debt than equity. Like other ETFs, leveraged ETFs are individual securities that trade on an exchange and can be bought and sold in intraday trading. But leveraged ETFs differ from their traditional cousins in that they typically invest in one or more derivatives, which will cause their prices to rise or fall exponentially farther than the underlying benchmark against which they trade. For example, an ETF that is double leveraged against the S&P 500 Index would rise and fall twice as much in price as the index itself. If the index rises 2% in a day, then this fund would rise by 4% in value. These funds can be leveraged at different rates, with some moving twice as much as the



underlying market or index and others rising or falling three, four or more times as much as the benchmark. There are also leveraged ETFs that move inversely to their benchmarks, where the fund will fall in price by a given exponential rate when the benchmark rises and vice-versa. Those that move with the markets are referred to as long or bullish funds and those that move inversely are short or bearish. It is important to note that many leveraged ETFs are rebalanced daily. This characteristic renders many of them inappropriate for use as long-term holdings in an investment portfolio. They are more appropriately used by short-term traders who buy and sell them within a matter of minutes or hours with protective stop-loss orders. These strategies are generally designed for intra-day trading, however may be held for longer durations in cases we deem it prudent to do so.

**Long-Term Purchases:** Our firm may buy securities for your account and hold them for a relatively long time (more than a year) in anticipation that the security's value will appreciate over a long horizon. The risk of this strategy is that our firm could miss out on potential short-term gains that could have been profitable to your account, or it's possible that the security's value may decline sharply before our firm make a decision to sell.

**Margin Transactions:** Margin transactions refer to the practice of using funds borrowed from a margin account as collateral to generate cash per a client's request. Margin accounts, transactions, and loans are risky and not necessarily appropriate for every client. The potential risks associated with margin transactions are (1) You can lose more funds than are deposited into the margin account; (2) the forced sale of securities or other assets in your account; (3) the sale of securities or other assets without contacting you; and (4) you may not be entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call.

**Master Limited Partnerships ("MLPs"):** MLPs are publicly traded partnerships that trade mainly on the New York Stock Exchange and/or the NASDAQ, the same as stocks. With a few exceptions, MLPs hold and operate assets related to the transportation and storage of energy (certain MLPs may have commodity risk). Most publicly traded companies are corporations. Corporate earnings are usually taxed twice. The business entity is taxed on any money it makes and then shareholders are taxed on the earnings the company distributes to them. In the 1980s, Congress allowed public trading of certain types of companies as partnerships instead of corporations. The main advantage a partnership has over a corporation is that partnerships are "pass through" entities for tax purposes. This means that the company does not pay any tax on its earnings. Distributions are still taxed, but this avoids the problem of double taxation that most publicly traded companies face. Congress requires that any company designated as an MLP has to produce 90% of its earnings from "qualified resources" (natural resources and real estate). Most MLPs are involved in energy infrastructure, i.e. things like pipelines. MLPs are required to pay minimum quarterly distributions to limited partners. A contract establishes the payments, so distributions are predictable. Otherwise, the shareholders could find the company in breach of contract.

MLPs bear three primary risks: (a) The government could step in and change the rules of the game. That can always happen. Since one of the main advantages of these securities is their tax advantages, this poses a considerable risk for an investor.; (b) It is commonly thought that these types of investments do better when interest rates are low, making their yield higher in relation to the safest investments, such as Treasury bills and securities that are guaranteed by the U.S. government. Consequently, MLPs may perform better during periods of declining or relative low interest rates and more poorly during periods of rising or high interest rates.; and (c) MLPs are pass-through entities, passing earnings through to the limited partners. Investors must be aware that there are potentially

significant tax implications of investing in MLPs and they should consult with their tax advisor before investing in these securities.

**Mutual Funds:** A mutual fund is a company that pools money from many investors and invests the money in a variety of differing security types based the objectives of the fund. The portfolio of the fund consists of the combined holdings it owns. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. The price that investors pay for mutual fund shares is the fund's per share net asset value ("NAV") plus any shareholder fees that the fund imposes at the time of purchase (such as sales loads). Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades. With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or your investment adviser. Investors can also monitor how a stock's price changes from hour to hour—or even second to second. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund's NAV, which is calculated daily after market close.

The benefits of investing through mutual funds include: (a) Mutual funds are professionally managed by an investment adviser who researches, selects, and monitors the performance of the securities purchased by the fund; (b) Mutual funds typically have the benefit of diversification, which is an investing strategy that generally sums up as "Don't put all your eggs in one basket." Spreading investments across a wide range of companies and industry sectors can help lower the risk if a company or sector fails. Some investors find it easier to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.; (c) Some mutual funds accommodate investors who do not have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.; and (d) At any time, mutual fund investors can readily redeem their shares at the current NAV, less any fees and charges assessed on redemption.

Mutual funds also have features that some investors might view as disadvantages: (a) Investors must pay sales charges, annual fees, and other expenses regardless of how the fund performs. Depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive. This includes instances where the fund went on to perform poorly after purchasing shares.; (b) Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.; and (c) With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or your investment adviser. Investors can also monitor how a stock's price changes from hour to hour—or even second to second. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund's NAV, which the fund might not calculate until many hours after the investor placed the order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

When investors buy and hold an individual stock or bond, the investor must pay income tax each year on the dividends or interest the investor receives. However, the investor will not have to pay any capital gains tax until the investor actually sells and makes a profit. Mutual funds are different. When an investor buys and holds mutual fund shares, the investor will owe income tax on any ordinary dividends in the year the investor receives or reinvests them. Moreover, in addition to owing taxes on any personal capital gains when the investor sells shares, the investor may have to pay taxes each

year on the fund's capital gains. That is because the law requires mutual funds to distribute capital gains to shareholders if they sell securities for a profit, and cannot use losses to offset these gains.

**Municipal Bond:** Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Municipal bonds pay a lower rate of return than most other types of bonds. Because of a municipal bond's tax-favored status, investors should compare the relative after-tax return to the after-tax return of other bonds, depending on the investor's tax bracket. Investing in municipal bonds carries the same general risks as investing in bonds in general. Those risks include interest rate risk, reinvestment risk, inflation risk, market risk, call or redemption risk, credit risk, and liquidity and valuation risk. Investing in municipal bonds carries risk unique to these types of bonds, which may include: (a) Legislative risk includes the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income.; (b) Municipal bonds generate tax-free income, and therefore pay lower interest rates than taxable bonds. Investors who anticipate a significant drop in their marginal income-tax rate may benefit from the higher yield available from taxable bonds.; (c) The risk that investors may have difficulty finding a buyer when they want to sell and may be forced to sell at a significant discount to market value. Liquidity risk is greater for thinly traded securities such as lower-rated bonds, bonds that were part of a small issue, bonds that have recently had their credit rating downgraded or bonds sold by an infrequent issuer. Municipal bonds may be less liquid than other bonds.; (d) Credit risk includes the risk that a borrower will be unable to make interest or principal payments when they are due and therefore default. To reduce investor concern, insurance policies that guarantee repayment in the event of default back many municipal bonds.

**Options:** An option is a financial derivative that represents a contract sold by one party (the option writer) to another party (the option holder). The contract offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security or other financial asset at an agreed-upon price (the strike price) during a certain period of time or on a specific date (exercise date). Options are extremely versatile securities. Traders use options to speculate, which is a relatively risky practice, while hedgers use options to reduce the risk of holding an asset. In terms of speculation, option buyers and writers have conflicting views regarding the outlook on the performance of a:

- *Call Option:* Call options give the option to buy at certain price, so the buyer would want the stock to go up. Conversely, the option writer needs to provide the underlying shares in the event that the stock's market price exceeds the strike due to the contractual obligation. An option writer who sells a call option believes that the underlying stock's price will drop relative to the option's strike price during the life of the option, as that is how he will reap maximum profit. This is exactly the opposite outlook of the option buyer. The buyer believes that the underlying stock will rise; if this happens, the buyer will be able to acquire the stock for a lower price and then sell it for a profit. However, if the underlying stock does not close above the strike price on the expiration date, the option buyer would lose the premium paid for the call option.
- *Put Option:* Put options give the option to sell at a certain price, so the buyer would want the stock to go down. The opposite is true for put option writers. For example, a put option buyer is bearish on the underlying stock and believes its market price will fall below the specified strike price on or before a specified date. On the other hand, an option writer who shorts a put option believes the underlying stock's price will increase about a specified price on or before the expiration date. If the underlying stock's price closes above the specified strike price on the expiration date, the put option writer's maximum profit is achieved. Conversely, a put option holder would only benefit from a fall in the underlying stock's price

below the strike price. If the underlying stock's price falls below the strike price, the put option writer is obligated to purchase shares of the underlying stock at the strike price.

The potential risks associated with these transactions are that (1) all options expire. The closer the option gets to expiration, the quicker the premium in the option deteriorates; and (2) Prices can move very quickly. Depending on factors such as time until expiration and the relationship of the stock price to the option's strike price, small movements in a stock can translate into big movements in the underlying options.

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

**Private Equity:** Private equity is an equity investment into non-quoted companies. The private equity investor looks at an investment prospect as investing in a company as opposed to investing in a company's stock. Private equity funds hold illiquid positions (for which there is no active secondary market) and typically only invest in the equity and debt of target companies, which are generally taken private and brought under the private equity manager's control. Risks associated with private equity include:

- **Funding Risk:** The unpredictable timing of cash flows poses funding risks to investors. Commitments are contractually binding and defaulting on payments results in the loss of private equity partnership interests. This risk is also commonly referred to as default risk.
- **Liquidity Risk:** The illiquidity of private equity partnership interests exposes investors to asset liquidity risk associated with selling in the secondary market at a discount on the reported NAV.
- **Market Risk:** The fluctuation of the market has an impact on the value of the investments held in the portfolio.
- **Capital Risk:** The realization value of private equity investments can be affected by numerous factors, including (but not limited to) the quality of the fund manager, equity market exposure, interest rates and foreign exchange.

**Real Estate Investment Trusts ("REITs"):** REITs primarily invest in real estate or real estate-related loans. Equity REITs own real estate properties, while mortgage REITs hold construction, development and/or long-term mortgage loans. Changes in the value of the underlying property of the trusts, the creditworthiness of the issuer, property taxes, interest rates, tax laws, and regulatory requirements, such as those relating to the environment all can affect the values of REITs. Both types of REITs are dependent upon management skill, the cash flows generated by their holdings, the real

estate market in general, and the possibility of failing to qualify for any applicable pass-through tax treatment or failing to maintain any applicable exemptive status afforded under relevant laws.

**Short-Term Purchases:** When utilizing this strategy, our firm may also purchase securities with the idea of selling them within a relatively short time (typically a year or less). Our firm does this in an attempt to take advantage of conditions that our firm believes will soon result in a price swing in the securities our firm purchase.

**Structured Products:** Structured products are designed to facilitate highly customized risk-return objectives. While structured products come in many different forms, they typically consist of a debt security that is structured to make interest and principal payments based upon various assets, rates or formulas. Many structured products include an embedded derivative component. Structured products may be structured in the form of a security, in which case these products may receive benefits provided under federal securities law, or they may be cast as derivatives, in which case they are offered in the over-the-counter market and are subject to no regulation.

Investing in structured products includes significant risks, including valuation, lack of liquidity, price, credit and market risks. The relative lack of liquidity due to the highly customized nature of the investment. Moreover, the full extent of returns from the complex performance features is often not realized until maturity. As such, structured products tend to be more of a buy-and-hold investment decision rather than a means of getting in and out of a position with speed and efficiency.

Another risk with structured products is the credit quality of the issuer. Although the cash flows are derived from other sources, the products themselves are legally considered to be the issuing financial institution's liabilities. The vast majority of structured products are from high-investment-grade issuers only. Also, there is a lack of pricing transparency. There is no uniform standard for pricing, making it harder to compare the net-of-pricing attractiveness of alternative structured product offerings than it is, for instance, to compare the net expense ratios of different mutual funds or commissions among broker-dealers.

## **Risk of Loss**

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Investing in securities involves risk of loss that clients should be prepared to bear. While the stock market may increase and the account(s) could enjoy a gain, it is also possible that the stock market may decrease and the account(s) could suffer a loss. It is important that clients understand the risks associated with investing in the stock market, and that their assets are appropriately diversified in investments. Clients are encouraged to ask our firm any questions regarding their risk tolerance.

**Capital Risk:** Capital risk is one of the most basic, fundamental risks of investing; it is the risk that you may lose 100% of your money. All investments carry some form of risk and the loss of capital is generally a risk for any investment instrument.

**Company Risk:** When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives unfavorable media attention for its actions, the value of the company may be reduced.

**Credit Risk:** Credit risk can be a factor in situations where an investment's performance relies on a borrower's repayment of borrowed funds. With credit risk, an investor can experience a loss or unfavorable performance if a borrower does not repay the borrowed funds as expected or required. Investment holdings that involve forms of indebtedness (i.e. borrowed funds) are subject to credit risk.

**Currency Risk:** Fluctuations in the value of the currency in which your investment is denominated may affect the value of your investment and thus, your investment may be worth more or less in the future. All currency is subject to swings in valuation and thus, regardless of the currency denomination of any particular investment you own, currency risk is a realistic risk measure. That said, currency risk is generally a much larger factor for investment instruments denominated in currencies other than the most widely used currencies (U.S. Dollar, British Pound, German Mark, Euro, Japanese Yen, French Franc, etc.).

**Economic Risk:** The prevailing economic environment is important to the health of all businesses. Some companies, however, are more sensitive to changes in the domestic or global economy than others. These types of companies are often referred to as cyclical businesses. Countries in which a large portion of businesses are in cyclical industries are thus also very economically sensitive and carry a higher amount of economic risk. If an investment is issued by a party located in a country that experiences wide swings from an economic standpoint or in situations where certain elements of an investment instrument are hinged on dealings in such countries, the investment instrument will generally be subject to a higher level of economic risk.

**Equity (Stock) Market Risk:** Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.

**ETF & Mutual Fund Risk:** When investing in an ETF or mutual fund, you will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. Clients will also incur brokerage costs when purchasing ETFs.

**Financial Risk:** Financial risk is represented by internal disruptions within an investment or the issuer of an investment that can lead to unfavorable performance of the investment. Examples of financial risk can be found in cases like Enron or many of the dot com companies that were caught up in a period of extraordinary market valuations that were not based on solid financial footings of the companies.

**Fixed Income Securities Risk:** Typically, the values of fixed-income securities change inversely with prevailing interest rates. Therefore, a fundamental risk of fixed-income securities is interest rate risk, which is the risk that their value will generally decline as prevailing interest rates rise, which may cause your account value to likewise decrease, and vice versa. How specific fixed income securities may react to changes in interest rates will depend on the specific characteristics of each security. Fixed-income securities are also subject to credit risk, prepayment risk, valuation risk, and liquidity risk. Credit risk is the chance that a bond issuer will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of a bond to decline.

**Inflation Risk:** Inflation risk involves the concern that in the future, your investment or proceeds from your investment will not be worth what they are today. Throughout time, the prices of resources and end-user products generally increase and thus, the same general goods and products today will likely be more expensive in the future. The longer an investment is held, the greater the chance that the proceeds from that investment will be worth less in the future than what they are today. Said another way, a dollar tomorrow will likely get you less than what it can today.

**Interest Rate Risk:** Certain investments involve the payment of a fixed or variable rate of interest to the investment holder. Once an investor has acquired or has acquired the rights to an investment that pays a particular rate (fixed or variable) of interest, changes in overall interest rates in the market will affect the value of the interest-paying investment(s) they hold. In general, changes in prevailing interest rates in the market will have an inverse relationship to the value of existing, interest paying investments. In other words, as interest rates move up, the value of an instrument paying a particular rate (fixed or variable) of interest will go down. The reverse is generally true as well.

**Legal/Regulatory Risk:** Certain investments or the issuers of investments may be affected by changes in state or federal laws or in the prevailing regulatory framework under which the investment instrument or its issuer is regulated. Changes in the regulatory environment or tax laws can affect the performance of certain investments or issuers of those investments and thus, can have a negative impact on the overall performance of such investments.

**Liquidity Risk:** Certain assets may not be readily converted into cash or may have a very limited market in which they trade. Thus, you may experience the risk that your investment or assets within your investment may not be able to be liquidated quickly, thus, extending the period of time by which you may receive the proceeds from your investment. Liquidity risk can also result in unfavorable pricing when exiting (i.e. not being able to quickly get out of an investment before the price drops significantly) a particular investment and therefore, can have a negative impact on investment returns.

**Manager Risk:** There is always the possibility that poor security selection will cause your investments to underperform relative to benchmarks or other funds with a similar investment objective.

**Market Risk:** The value of your portfolio may decrease if the value of an individual company or multiple companies in the portfolio decreases or if our belief about a company's intrinsic worth is incorrect. Further, regardless of how well individual companies perform, the value of your portfolio could also decrease if there are deteriorating economic or market conditions. It is important to understand that the value of your investment may fall, sometimes sharply, in response to changes in the market, and you could lose money. Investment risks include price risk as may be observed by a drop in a security's price due to company specific events (e.g. earnings disappointment or downgrade in the rating of a bond) or general market risk (e.g. such as a "bear" market when stock values fall in general). For fixed-income securities, a period of rising interest rates could erode the value of a bond since bond values generally fall as bond yields go up. Past performance is not a guarantee of future returns.

**Market Timing Risk:** Market timing can include high risk of loss since it looks at an aggregate market versus a specific security. Timing risk explains the potential for missing out on beneficial movements in price due to an error in timing. This could cause harm to the value of an investor's portfolio because of purchasing too high or selling too low.

**Mid-Sized Companies Risk:** Investments in securities issued by mid-sized companies may involve greater risks than are customarily associated with larger, more established companies. Securities issued by mid-sized companies tend to be more volatile than securities issued by larger or more established companies and may underperform as compared to the securities of larger companies.

**Money Market Risk:** An investment in a money market fund is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in a money market fund.

**Operational Risk:** Operational risk can be experienced when an issuer of an investment product is unable to carry out the business it has planned to execute. Operational risk can be experienced as a result of human failure, operational inefficiencies, system failures, or the failure of other processes critical to the business operations of the issuer or counter party to the investment.

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

**Past Performance:** Charting and technical analysis are often used interchangeably. Technical analysis generally attempts to forecast an investment's future potential by analyzing its past performance and other related statistics. In particular, technical analysis often times involves an evaluation of historical pricing and volume of a particular security for the purpose of forecasting where future price and volume figures may go. As with any investment analysis method, technical analysis runs the risk of not knowing the future and thus, investors should realize that even the most diligent and thorough technical analysis cannot predict or guarantee the future performance of any particular investment instrument or issuer thereof.

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

**Small-Sized Companies Risk:** Investments in securities issued by small-sized companies, which tend to be smaller, start-up companies offering emerging products or services, may involve greater risks than are customarily associated with larger, more established companies. Securities issued by small-sized companies tend to be more volatile and somewhat more speculative than securities issued by larger or more established companies and may underperform as compared to the securities of larger companies.



**Strategy Risk:** There is no guarantee that the investment strategies discussed herein will work under all market conditions and each investor should evaluate his/her ability to maintain any investment he/she is considering in light of his/her own investment time horizon. Investments are subject to risk, including possible loss of principal.

### **Description of Material, Significant or Unusual Risks**

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Our firm generally invests client cash balances in money market funds, FDIC Insured Certificates of Deposit, high-grade commercial paper and/or government backed debt instruments. Ultimately, our firm tries to achieve the highest return on client cash balances through relatively low-risk conservative investments. In most cases, at least a partial cash balance will be maintained in a money market account so that our firm may debit advisory fees for our services related to our services, as applicable.

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

There are no legal or disciplinary events that are material to the evaluation of our advisory business or the integrity of our management.

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

Representatives of our firm are licensed insurance agents. As a result of these transactions, they receive normal and customary commissions. A conflict of interest exists as these commissionable sales create an incentive to recommend products based on the compensation earned. To mitigate this potential conflict, our firm will act in the client's best interest.

Our firm has entered into an agreement with, Mutual Securities Inc., member FINRA/SIPC, whereby Mutual Securities will provide operational support services as a platform provider of clients directly held investments. These might include mutual funds, 529 plans, and variable annuities. This contractual engagement does not include assuming discretionary authority over brokerage accounts or the monitoring of securities positions. Clients will be solicited to utilize Mutual Securities, but are under no obligation to move their mutual funds, 529 plans, and variable annuities. For clients of Mutual Securities who provide Mutual Securities with written consent requesting ongoing investment advisory services, our firm will be engaged to provide ongoing advisory services which may include a general review of client investment holdings, general investment advice, and specific securities recommendations on client's investment holdings. For our advisory services, our firm is compensated by Mutual Securities through a percentage of the overall assets under management not to exceed 1.00%.

Please see Item 4 above for more information about the selection of third party money managers. The compensation paid to our firm by third party managers may vary, and thus, creates a conflict of interest in recommending a manager who shares a larger portion of its advisory fees over another manager. Prior to referring clients to third party advisors, our firm will ensure that third party advisors are licensed or notice filed with the respective authorities. A potential conflict of interest for our firm in utilizing a third party advisor is receipt of discounts or services not available to us from

other similar advisers. In order to minimize this conflict our firm will make our recommendations/selections in the best interest of our clients.

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

As a fiduciary, it is an investment adviser's responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. Our fiduciary duty is the underlying principle for our firm's Code of Ethics, which includes procedures for personal securities transaction and insider trading. Our firm requires all representatives to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment with our firm, and at least annually thereafter, all representatives of our firm will acknowledge receipt, understanding and compliance with our firm's Code of Ethics. Our firm and representatives must conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients. This disclosure is provided to give all clients a summary of our Code of Ethics. If a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.

Our firm recognizes that the personal investment transactions of our representatives demands the application of a Code of Ethics with high standards and requires that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, our firm also believes that if investment goals are similar for clients and for our representatives, it is logical, and even desirable, that there be common ownership of some securities.

In order to prevent conflicts of interest, our firm has established procedures for transactions effected by our representatives for their personal accounts<sup>1</sup>. In order to monitor compliance with our personal trading policy, our firm has pre-clearance requirements and a quarterly securities transaction reporting system for all of our representatives.

Neither our firm nor a related person recommends, buys or sells for client accounts, securities in which our firm or a related person has a material financial interest without prior disclosure to the client.

Related persons of our firm may buy or sell securities and other investments that are also recommended to clients. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request.

Likewise, related persons of our firm buy or sell securities for themselves at or about the same time they buy or sell the same securities for client accounts. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request. Further, our related persons will refrain from buying

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<sup>1</sup> For purposes of the policy, our associate's personal account generally includes any account (a) in the name of our associate, his/her spouse, his/her minor children or other dependents residing in the same household, (b) for which our associate is a trustee or executor, or (c) which our associate controls, including our client accounts which our associate controls and/or a member of his/her household has a direct or indirect beneficial interest in.

or selling the same securities prior to buying or selling for our clients in the same day unless included in a block trade.

## Item 12: Brokerage Practices

### Selecting a Brokerage Firm

Our firm does not maintain custody of client assets. Client assets must be maintained by a qualified custodian. Our firm seeks to recommend a custodian who will hold client assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. The factors considered, among others, are these:

- Timeliness of execution
- Timeliness and accuracy of trade confirmations
- Research services provided
- Ability to provide investment ideas
- Execution facilitation services provided
- Record keeping services provided
- Custody services provided
- Frequency and correction of trading errors
- Ability to access a variety of market venues
- Expertise as it relates to specific securities
- Financial condition
- Business reputation
- Quality of services

Our firm recommends the custodial services of Charles Schwab & Co., Inc. ("Schwab"), member FINRA/SIPC. Schwab is an independent [and unaffiliated] SEC-registered broker-dealer. Schwab offers independent investment advisors services, which include custody of securities, trade execution, clearance and settlement of transactions. Schwab enables us to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Schwab do not charge client accounts separately for custodial services.

Schwab may make certain research and brokerage services available at no additional cost to our firm. Research products and services provided by Schwab may include: research reports on recommendations or other information about particular companies or industries; economic surveys, data and analyses; financial publications; portfolio evaluation services; financial database software and services; computerized news and pricing services; quotation equipment for use in running software used in investment decision-making; and other products or services that provide lawful and appropriate assistance by Schwab to our firm in the performance of our investment decision-making responsibilities. The aforementioned research and brokerage services qualify for the safe harbor exemption defined in Section 28(e) of the Securities Exchange Act of 1934.

Schwab does not make client brokerage commissions generated by client transactions available for our firm's use. The aforementioned research and brokerage services are used by our firm to manage accounts for which our firm has investment discretion. Without this arrangement, our firm might be compelled to purchase the same or similar services at our own expense.

As part of our fiduciary duty to our clients, our firm will endeavor at all times to put the interests of our clients first. Clients should be aware, however, that the receipt of economic benefits by our firm or our related persons creates a potential conflict of interest and may indirectly influence our firm's choice of Schwab as a custodial recommendation. Our firm examined these potential conflicts of interest when our firm chose to recommend Schwab. We determined that the recommendations are in the best interest of our firm's clients and satisfy our fiduciary obligations, including our duty to seek best execution.

In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Although our firm will seek competitive rates, to the benefit of all clients, our firm may not necessarily obtain the lowest possible commission rates for specific client account transactions.

### **Products & Services Available to Us From Schwab**

Schwab Advisor Services (formerly called Schwab Institutional) is Schwab's business serving independent investment advisory firms like ours. They provide us and our clients with access to its institutional brokerage – trading, custody, reporting and related services – many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts while others help us manage and grow our business. Schwab's support services are generally available on an unsolicited basis and at no charge to us as long as we maintain a total of at least \$10 million of our clients' assets in accounts at Schwab.

### **Services that Benefit Client**

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit clients or their account(s).

### **Services that May Not Directly Benefit Clients**

Schwab also makes available to us other products and services that benefit us but may not directly benefit the client or their account(s). These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or some substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

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

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- educational conferences and events
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees.

Irrespective of direct or indirect benefits to our client through Schwab, we strive to enhance the client's experience, help reach their goals and put their interests before that of our firm or its associated persons.

### **Soft Dollars**

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Our firm does not receive soft dollars in excess of the safe harbor exemption outlined in Section 28(e) of the Securities Exchange Act of 1934.

### **Client Brokerage Commissions**

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Schwab does not make client brokerage commissions generated by client transactions available for our firm's use. Our firm does not direct client transactions to a particular broker-dealer in return for soft dollar benefits.

### **Brokerage for Client Referrals**

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Our firm does not receive brokerage for client referrals.

### **Directed Brokerage**

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Neither our firm nor any of our firm's representatives have discretionary authority in making the determination of the brokers-dealers and/or custodians with whom orders for the purchase or sale of securities are placed for execution, and the commission rates at which such securities transactions are effected. Our firm routinely recommends that clients direct us to execute through a specified broker-dealer.

### **Special Considerations for ERISA Clients**

A retirement or ERISA plan client may direct all or part of portfolio transactions for its account through a specific broker or dealer in order to obtain goods or services on behalf of the plan. Such direction is permitted provided that the goods and services provided are reasonable expenses of the plan incurred in the ordinary course of its business for which it otherwise would be obligated and empowered to pay. ERISA prohibits directed brokerage arrangements when the goods or services purchased are not for the exclusive benefit of the plan. Consequently, our firm will request that plan sponsors who direct plan brokerage provide us with a letter documenting that this arrangement will be for the exclusive benefit of the plan.

## **Client-Directed Brokerage**

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Our firm allows clients to direct brokerage outside our recommendation. Our firm may be unable to achieve the most favorable execution of client transactions. Client directed brokerage may cost clients more money. For example, in a directed brokerage account, clients may pay higher brokerage commissions because our firm may not be able to aggregate orders to reduce transaction costs, or clients may receive less favorable prices.

## **Aggregation of Purchase or Sale**

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Our firm provides investment management services for various clients. There are occasions on which portfolio transactions may be executed as part of concurrent authorizations to purchase or sell the same security for numerous accounts served by our firm, which involve accounts with similar investment objectives. Although such concurrent authorizations potentially could be either advantageous or disadvantageous to any one or more particular accounts, they are affected only when our firm believes that to do so will be in the best interest of the effected accounts. When such concurrent authorizations occur, the objective is to allocate the executions in a manner which is deemed equitable to the accounts involved. In any given situation, our firm attempts to allocate trade executions in the most equitable manner possible, taking into consideration client objectives, current asset allocation and availability of funds using price averaging, proration and consistently non-arbitrary methods of allocation.

## **Item 13: Review of Accounts or Financial Plans**

Our management personnel or financial advisors review accounts on at least an annual basis for our Comprehensive Portfolio Management, Asset Management, and Third Party Money Management clients. The nature of these reviews is to learn whether client accounts are in line with their investment objectives, appropriately positioned based on market conditions, and investment policies, if applicable. Our firm does not provide written reports to clients, unless asked to do so. Verbal reports to clients take place on at least an annual basis when our Comprehensive Portfolio Management, Asset Management, and Third Party Money Management clients are contacted. Our firm may review client accounts more frequently than described above. Among the factors which may trigger an off-cycle review are major market or economic events, the client's life events, requests by the client, etc.

Financial Planning clients do not receive reviews of their written plans unless they take action to schedule a financial consultation with us. Our firm does not provide ongoing services to financial planning clients, but are willing to meet with such clients upon their request to discuss updates to their plans, changes in their circumstances, etc. Financial Planning clients do not receive written or verbal updated reports regarding their financial plans unless they separately engage our firm for a post-financial plan meeting or update to their initial written financial plan.

Retirement Plan Consulting clients receive reviews of their retirement plans for the duration of the service. Our firm also provides ongoing services where clients are met with upon their request to discuss updates to their plans, changes in their circumstances, etc. Retirement Plan Consulting clients receive annual written or verbal updated reports regarding their plans unless they choose to engage our firm for ongoing services.

## Item 14: Client Referrals & Other Compensation

### Schwab

Our firm receives economic benefit from Schwab in the form of the support products and services made available to our firm and other independent investment advisors that have their clients maintain accounts at Schwab. These products and services, how they benefit our firm, and the related conflicts of interest are described above (*see Item 12 – Brokerage Practices*). The availability of Schwab's products and services is not based on our firm giving particular investment advice, such as buying particular securities for our clients.

### Referral Fees

In accordance with Rule 206 (4)-1 of the Investment Advisers Act of 1940, our firm does not provide cash or non-cash compensation directly or indirectly to unaffiliated persons for testimonials or endorsements (which include client referrals).

## Item 15: Custody

Our firm does not have custody of client funds or securities. All of our clients receive account statements directly from their qualified custodians at least quarterly upon opening of an account. If our firm decides to also send account statements to clients, such notice and account statements include a legend that recommends that the client compare the account statements received from the qualified custodian with those received from our firm. Clients are encouraged to raise any questions with us about the custody, safety or security of their assets and our custodial recommendations.

### Third Party Money Movement:

The SEC issued a no-action letter ("Letter") with respect to the Rule 206(4)-2 ("Custody Rule") under the Investment Advisers Act of 1940 ("Advisers Act"). The letter provided guidance on the Custody Rule as well as clarified that an adviser who has the power to disburse client funds to a third party under a standing letter of instruction ("SLOA") is deemed to have custody. As such, our firm has adopted the following safeguards in conjunction with the account custodian:

- The client provides an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.
- The client authorizes the investment adviser, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
- The client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization, and provides a transfer of funds notice to the client promptly after each transfer.
- The client has the ability to terminate or change the instruction to the client's qualified custodian.

- The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client's instruction.
- The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.
- The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

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

Clients have the option of providing our firm with investment discretion on their behalf, pursuant to an executed investment advisory client agreement. By granting investment discretion, our firm is authorized to execute securities transactions, determine which securities are bought and sold, and the total amount to be bought and sold. Should clients grant our firm non-discretionary authority, our firm would be required to obtain the client's permission prior to effecting securities transactions. Limitations may be imposed by the client in the form of specific constraints on any of these areas of discretion with our firm's written acknowledgement. Our firm will obtain client permission prior to effecting securities transactions in client accounts managed on a non-discretionary basis.

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

Our firm does not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. In the event that proxies are sent to our firm, our firm will forward them to the appropriate client and ask the party who sent them to mail them directly to the client in the future. Clients may call, write or email us to discuss questions they may have about particular proxy votes or other solicitations.

### **Item 18: Financial Information**

Our firm is not required to provide financial information in this Brochure because:

- Our firm does not require the prepayment of more than \$1,200 in fees when services cannot be rendered within 6 months.
- Our firm does not take custody of client funds or securities.
- Our firm does not have a financial condition or commitment that impairs our ability to meet contractual and fiduciary obligations to clients.
- Our firm has never been the subject of a bankruptcy proceeding.