

**Item 1: Cover Page  
Part 2a Of Form Adv - Firm Brochure  
March 2019**



**CORNERSTONE**  
WEALTH ADVISORS, INC.

Cornerstone Wealth Advisors, Inc.  
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This brochure provides information about the qualifications and business practices of Cornerstone Wealth Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at (952) 920-3900 or [jon@cornerstonewealthadvisors.com](mailto:jon@cornerstonewealthadvisors.com).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any State Securities Authority. Additional information about Cornerstone Wealth Advisors, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) by searching CRD #124947.

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

## Item 2: Material Changes

Cornerstone Wealth Advisors, Inc. is required to advise you in this section of any material changes to our Firm Brochure (“Brochure”) from our last annual update. We must state clearly that we are only discussing material changes since the last annual update of our Brochure, and also provide the date its last annual update.

At this time, there are no material changes to report about the Brochure since the last annual amendment filed on 03/07/2018.

## Item 3: Table of Contents

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## Item 4: Advisory Business

We are dedicated to providing individuals and other types of clients with a wide array of comprehensive financial planning, wealth management and investment advisory services. Our firm is a corporation formed in the State of Minnesota and has been in business as an investment adviser offering such services since 2003 (its predecessor, Retirement Solutions, since 1992) and is one-hundred-percent owned by Jonathan T. Guyton.

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

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#### **Comprehensive Financial Planning and Consulting:**

We begin with a conversation about your financial values and money history before proceeding to understand your specific financial and/or life goals. We then conduct a thorough fact-finding of your situation at a second meeting. Based on what we learn in these meetings, we provide a written analysis and recommendations of planning strategies, techniques, and detailed actions that can enhance your ability to achieve financial and life goals. Our recommendations may address – but are not limited to – cash flow planning, liability management, retirement distribution planning and income generation, investment allocation, portfolio design, analysis of current holdings, education planning, income tax planning and management, stock option exercise, estate planning, charitable giving, family wealth transfer, protection planning and special needs funding. We base our recommendations on the facts and representations that you make to us. These financial planning and consulting services are typically completed within six (6) months of your signing an Agreement with us, assuming you provide requested information in a timely manner. Implementation of our recommendations is at your sole discretion. In our recommendations, we may refer you to an accountant, attorney or other specialist as necessary for non-advisory related services we believe are appropriate. We consider that these Services will have been provided in full by the thirtieth (30<sup>th</sup>) day following the meeting at which we present our written recommendations to you.

#### **Ongoing Comprehensive Financial Advice and Wealth Management:**

Our ongoing advisory services are designed to help you achieve your financial goals in a manner consistent with your values and priorities. We are often engaged to provide these services immediately following the completion of our financial planning work described above. Our Ongoing Comprehensive Financial Advice and Wealth Management services include:

- Semi-annual or annual meetings to review your goals, priorities, changes in your situation, general economic conditions and outlook, progress toward your goals, cash flow, employment compensation and benefits, liabilities, asset protection and insurances, education planning, investment allocation and portfolio performance, retirement income distribution strategies and management, concentrated stock positions, stock option strategy, employer retirement plans, income tax situation and estate or charitable giving plans and other matters that may affect your financial well-being or ability to achieve your financial goals
- Additional meetings as needed for conversations regarding any of the matters mentioned above (We reserve the right to charge additional fees for such meetings, but have never had

reason to do so)

- Creation and maintenance of an Investment Policy Statement that establishes your investment objectives, risk tolerance, appropriate asset classes as well as any restrictions you wish to place on the management of your portfolio, including whether we will have discretion within the parameters of your Investment Policy
- Analysis to determine the appropriate allocation of assets between various asset classes
- Analysis, selection and purchase of investment securities to implement your Investment Policy. In doing this, we may propose an investment portfolio, consisting of exchange traded funds, mutual funds, individual stocks or bonds, or other securities. Upon your agreement to the proposed Investment Policy, we work with you to establish or transfer investment accounts so that we can manage your portfolio accordingly.
- Regular and ongoing monitoring of your portfolio, asset allocation and security selection. Once these accounts are established under our management, we review them on a regular basis and at least quarterly. In accordance with your Investment Policy, we will periodically rebalance your portfolio and/or recommend changes to your Investment Policy based on any changes to your situation. Should you experience any significant changes to your financial or personal circumstances between regular review meetings, we will need you to notify us so that we can consider such information in managing your investment portfolio.
- Quarterly reports detailing your portfolio's holdings, asset allocation, performance and our outlook for the economy and financial markets
- Creation and maintenance of a Withdrawal Policy Statement at the time you require regular distributions from your portfolio that establishes your income requirements and specifies their sources, adjustments for inflation and trigger points for modifications when necessary to maintain your income's sustainability

#### **Ongoing Investment Portfolio Management:**

Our Ongoing Investment Portfolio Management services are most typically offered to charitable organizations, trust and individuals who have no financial planning goals on which we advise. These services include:

- Semi-annual or annual review of your investment goals, priorities, changes in your situation, general economic conditions and outlook, investment allocation and portfolio performance
- Creation and maintenance of an Investment Policy Statement that establishes your investment objectives, risk tolerance, appropriate asset classes as well as any restrictions you wish to place on the management of your portfolio, including whether we will have discretion within the parameters of your Investment Policy
- Analysis to determine the appropriate allocation of assets between various asset classes
- Analysis, selection and purchase of investment securities to implement your Investment Policy. In doing this, we may propose an investment portfolio, consisting of exchange traded

funds, mutual funds, individual stocks or bonds, or other securities. Upon your agreement to the proposed Investment Policy, we work with you to establish or transfer investment accounts so that we can manage your portfolio accordingly.

- Regular and ongoing monitoring of your portfolio, asset allocation and security selection. Once these accounts are established under our management, we review them on a regular basis and at least quarterly. In accordance with your Investment Policy, we may periodically rebalance your portfolio. Should you experience any significant changes to your financial or personal circumstances between regular review meetings, we will need you to notify us so that we can consider such information in managing your investment portfolio.
- Quarterly reports detailing your portfolio's holdings, asset allocation, performance and our outlook for the economy and financial markets

### **Tailoring of Advisory Services**

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We offer individualized advice to clients utilizing the following services offered by our firm: Comprehensive Financial Planning; Ongoing Comprehensive Financial Advice and Wealth Management; and Ongoing Investment Portfolio Management.

We usually do not allow clients to impose restrictions on investing in certain securities or types of securities. In the rare instance that we do, it is limited to restrictions that do not unduly impede our ability to otherwise execute their Investment Policy. Such restrictions are limited to the following services: Ongoing Comprehensive Financial Advice and Wealth Management and Ongoing Investment Portfolio Management. We only manage assets through these two advisory services.

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

We do not offer wrap fee programs.

### **Regulatory Assets Under Management**

We manage \$205,200,000 on a discretionary basis and \$35,800,000 on a non-discretionary basis as of December 2018.

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

We are required to describe brokerage, custody fees and fund expenses so you will know how much you are charged and by whom for the advisory services we provide. Fees may be negotiable.

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

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#### **Comprehensive Financial Planning and Consulting:**

We charge a flat fee for financial planning and consulting services. Our fee generally ranges from \$3,000 to \$6,000 and is based on the scope and complexity of your situation and our work on your

behalf. This fee may be discounted when performing these services for clients under the age of 40 and/or for relatives of our existing clients.

We may require a retainer of fifty-percent (50%) of the ultimate financial planning or consulting fee with the remainder of the fee directly billed to you and due to us within thirty (30) days of your financial plan being delivered or consultation rendered to you. In all cases, we will not require a retainer exceeding \$1,200 when services cannot be rendered within 6 (six) months.

### **Ongoing Comprehensive Financial Advice and Wealth Management:**

In most cases, we charge an asset-based fee ranging from 1.00% on the first \$1,000,000 and declining above various thresholds to 0.30% on assets over \$10,000,000. These fees and thresholds are specified in our client Advisory Agreement. Our fees are billed quarterly in arrears and are calculated on a pro-rata annualized basis based on the average daily value of your portfolio throughout the quarter. In lieu of an asset-based fee, we may charge an annual retainer fee, which is billed quarterly. In either case, our minimum annual fee is \$5,000. This fee may be discounted when performing these services for clients under the age of 40 and/or for relatives of our existing clients.

In most cases, these fees are automatically deducted from your investment managed accounts that we manage. In rare cases, we will agree to directly bill clients so that they may pay by check. Accordingly, you understand and acknowledge the following:

- a) Your 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) You 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, a legend urging the comparison of information provided in our statement with those from the qualified custodian will be included.

### **Ongoing Investment Portfolio Management:**

In most cases, we charge an asset-based fee ranging from 0.40% to 0.80% on the first \$1,000,000 and declining above various thresholds to 0.10% to 0.25% on assets over \$10,000,000. These fees and thresholds are specified in our client Advisory Agreement. Our fees are billed quarterly in arrears and are calculated on a pro-rata annualized basis based on the average daily value of your portfolio throughout the quarter. In lieu of an asset-based fee, we may charge an annual retainer fee, which is billed quarterly. In either case, our minimum annual fee is \$5,000.

In most cases, these fees are automatically deducted from your investment managed accounts that we manage. In rare cases, we will agree to directly bill clients so that they may pay by check. Accordingly, you understand and acknowledge the following:

- a) Your 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) You 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, a legend urging the comparison of information provided in our statement with those from the qualified custodian will be included.

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

Ongoing Comprehensive Financial Advice and Wealth Management clients and Investment Portfolio Management clients incur transaction charges for trades executed in their accounts. Transaction fees are separate from our fees and are disclosed by the firm through which trades are executed. Clients also pay the following separately incurred expenses, of which we receive no part: charges imposed directly by a mutual fund, index fund, exchange traded fund or unit investment trust which shall be disclosed in the fund's prospectus (i.e., fund management fees and other fund expenses).

## **Termination & Refunds**

We bill our advisory fees quarterly in arrears. Accordingly, we do not collect fees in advance for our Ongoing Comprehensive Financial Advice and Wealth Management and Investment Portfolio Management services that could become unearned. In the event that you wish to terminate our Comprehensive Financial Planning and Consulting services, we will refund the unearned portion of our advisory fee to you. You need to contact us in writing and state that you wish to terminate our services. Upon receipt of your letter of termination, we will proceed to bill your account(s) for unpaid advisory services provided to date and to relinquish any access you may have granted to view or execute transactions in your account(s).

## **Commissionable Securities Sales**

We do not sell securities for a commission. In order to sell securities for a commission, we would need to have our associated persons registered with a broker-dealer. We have chosen not to do so.

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

We do not charge performance fees to our clients.

## **Item 7. Types of Clients and Account Requirements**

We have the following types of clients:

- Individuals
- Trusts, Estates or Charitable Organizations

Our requirements for Ongoing Comprehensive Wealth Management and Ongoing Investment Portfolio Management services are as follows:

- We charge a minimum fee of \$5,000.00 annually (\$1,250.00 quarterly) to all new clients
- There is no minimum asset level or account size to establish an advisory relationship



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

### Methods of Analysis:

Our firm uses a strategic asset allocation approach to design, implement, manage and monitor client portfolios. We utilize analytical factors and historical data such as mean rate of return, standard deviation, risk-adjusted return, relative performance, consistency of performance, relative price and valuation levels, relative earnings growth potential and covariance among asset classes to help understand how an asset has performed and is likely to perform over long periods of time. We believe this is an appropriate process to develop a long-term investment strategy that employs a core mix of investment assets to help clients to fund their long-term financial objectives.

### Investment Strategies:

We use the following strategies in managing client accounts, provided that such 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:

- Core long term purchases (securities held at least a year);
- Strategic short-term purchases (securities sold within a year);

### Risk of Loss:

Investing in securities involves risk of loss that clients should be prepared to bear. While the investment assets you hold may increase in value and your account(s) could enjoy a gain, it is also possible that their values may decline and your account(s) could suffer a loss. It is important that you understand the risks associated with investing in the stock market, are appropriately diversified in your investments, and ask us any questions you may have.

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

We generally maintain small cash balances of 1% or less of your overall portfolio's value (cash balances will be higher if you request portfolio withdrawals). We invest your cash balances in money market funds, FDIC-Insured certificates of deposit, high-grade commercial paper and/or government backed debt instruments. In most cases, at least a portion of your cash balance will be held in a money market account as a source for any anticipated withdrawals and so that our firm may debit advisory fees for our services related to Ongoing Comprehensive Wealth Management and Investment Portfolio Management services.

## 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 and Affiliations

Our firm has an ownership interest in National Advisors Holdings, Inc. This interest represents less than one percent (< 1%) of the company's outstanding shares. For more information about this relationship please see *Item 14 Client Referrals & Other Compensation*.

Our firm is not registered, nor does it have an application pending to register, as a broker-dealer, registered representative of a broker dealer, futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

## Item 11: Code of Ethics, Participation or Interest in Client Transactions And 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, we will promptly provide a copy on 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. 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 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 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 is available upon request. Further, our related persons will refrain from buying or selling the same securities prior to buying or selling for our clients in the same day. If related persons' accounts are included in a block trade, our related persons will always trade personal accounts last.

## Item 12: Brokerage Practices

Our firm does not maintain custody of client assets, although our firm may be deemed to have custody of client assets if given the authority to withdraw assets from client accounts (see Item 15 Custody, below). Client assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. Our firm recommends that clients use Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, as the qualified custodian. Our firm is independently owned and operated, and not affiliated with Schwab. Schwab will hold client assets in a brokerage account and buy and sell securities as instructed by us, in accordance with your Investment Policy. While our firm recommends that clients use Schwab as custodian/broker, clients will decide whether to do so and open an account with Schwab by entering into an account agreement directly with them. Our firm does not open the account. Even though the account is maintained at Schwab, our firm can still use other brokers to execute trades, as described in the next paragraph.

### **Custody & Brokerage Costs**

Schwab generally does not charge a separate fee for custody services, but is compensated by charging commissions or other fees to clients on trades that are executed or that settle into the Schwab account. For some accounts, Schwab may charge your account a percentage of the dollar amount of assets in the account in lieu of commissions. Schwab's commission rates and/or asset-based fees applicable to client accounts were negotiated based on our firm's commitment to maintain a minimum threshold of assets statement equity in accounts at Schwab. This commitment benefits clients because the overall commission rates and/or asset-based fees paid are lower than they would be if our firm had not made the commitment. In addition to commissions or asset-based fees Schwab charges a flat dollar amount as a "prime broker" or "trade away" fee for each trade that our firm has executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into a Schwab account. These fees are in addition to the commissions or other compensation paid to the executing broker-dealer. Because of this, in order to minimize client trading costs, our firm has Schwab execute most trades for the accounts.

### **Products & Services Available from Schwab**

Schwab Advisor Services (formerly called Schwab Institutional) is Schwab's business serving independent investment advisory firms like ours. They provide our firm and 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 these services help manage or administer our client accounts while others help manage and grow our business. Schwab's support services are generally available on an unsolicited basis (our firm does not have to request them) and at no charge as long as our firm keeps a total of at least \$10 million of client assets in accounts at Schwab. If our firm has less than \$10 million in client assets at Schwab, our firm may be charged quarterly service fees. Here is a more detailed description of Schwab's support services:

## **Services that Benefit Clients**

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 our firm might not otherwise have access to 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 other products and services that benefit our firm but may not directly benefit clients or their accounts. These products and services assist in managing and administering our clients' accounts. They include investment research, both Schwab's and that of third parties. This research may be used to service all or some substantial number of client 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 (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.

## **Services that Generally Benefit Only Our Firm**

Schwab also offers other services intended to help 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, Schwab will arrange for third-party vendors to provide the services to our firm. Schwab may also discount or waive fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide our firm with other benefits, such as occasional business entertainment for our personnel.

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

## **Our Interest in Schwab's Services**

The availability of these services from Schwab benefits our firm because our firm does not have to produce or purchase them. Our firm does not have to pay for Schwab's services so long as a total of at least \$10 million of client assets in accounts are kept at Schwab. However, to the extent our firm recommends you use Schwab for such services, it is because we believe that it is in your best interest to do so based on the quality and pricing of the execution, benefits of an integrated platform for

brokerage and advisory accounts, and other services provided by Schwab. Our firm does not believe that maintaining at least \$10 million in assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

### **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 Portfolios or Financial Plans**

We review investment portfolios at least six (6) times in any given twelve (12) month period for our Ongoing Comprehensive Financial Advice and Wealth Management and our Investment Portfolio Management clients. In so doing, we determine whether your portfolio is in line with your investment objectives, investment policies, withdrawal needs, income tax situation and appropriately positioned based on market conditions. Our Financial Planners supervise and approve such reviews. These reports, either written or electronic, summarize the portfolio's activity and detail its overall allocation, holdings and performance over multiple time periods. They also include our proprietary commentary and outlook on the state of the financial markets and the global economy. Verbal reports are provided when we meet with clients, who also have access to reporting on their portfolios through our password-protected website.

We may review client portfolios more frequently than described above. Among the factors which may trigger an additional review the client's life are significant or transitional events in a client's life, major financial market or economic events or a request by the client.

Our Financial Planning clients do not receive reviews of their written plans unless they continue their advisory relationship with us by becoming Ongoing Comprehensive Wealth Management clients. We do not provide ongoing services to our Financial Planning Clients.

## Item 14: Client Referrals and Other Compensation

### **Charles Schwab & Co., Inc., and National Advisors Trust Company**

We generally utilize discretion and most often work through Charles Schwab & Co. Inc.'s Institutional Division and/or National Advisors Trust Company, FSB, as the custodian of our clients' assets. We may have the authority under the terms of each client's Investment Policy Statement to determine, without obtaining specific client consent, the securities to be bought or sold, the amount of the securities to be bought or sold, the broker-dealer to be used, and the commission rates to be paid.

We may recommend that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab"), registered broker-dealers, Members SIPC, to maintain custody of their assets and to effect trades for their accounts. Cornerstone Wealth Advisors, Inc. is independently owned and operated and not affiliated with Schwab. We may also recommend that clients establish accounts with firms other than Schwab.

Schwab may provide us access to institutional trading and custody services which are typically not available to Schwab retail investors. These services generally are available at no charge to independent investment advisors on an unsolicited basis so long as a total of at least \$10 million of the advisor's client assets are maintained in accounts at Schwab Institutional; neither are they otherwise contingent upon us committing to Schwab any specific amount of business (assets in custody or trading). Schwab's services include brokerage, custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or require a significantly higher minimum initial investment. For our client accounts maintained in its custody, Schwab generally does not charge separately for custody but is compensated by account holders through commissions and transaction-related or asset based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab also makes available to us other products and services that benefit us but may not directly benefit our clients' accounts. Some of these products and services assist us in managing and administering client portfolios. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitates trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of our advisory fees from our clients' accounts and assist with back-office functions, recordkeeping and reporting to clients.

Many of these services are used to serve all or a substantial number of our clients, including accounts not at Schwab Institutional. From time-to-time we may make an error in submitting a trade order on a client's behalf.

When this occurs, we may place a correcting trade with the broker-dealer which has custody of the client's account. If an investment gain results from the correcting trade, the gain will remain in the client's account unless the same error involved other client account(s) that should have received the gain, it is not permissible for the client to retain the gain, or we confer with the client and the client decides to forego the gain (e.g., for tax reasons). If the gain does not remain in the client's account and Charles Schwab & Co. Inc. ("Schwab") is the custodian, Schwab will donate the amount of any gain \$100 and over to charity. If a loss occurs greater than \$100, we will pay for the loss. Schwab will maintain the loss or gain (if such gain is not retained in the client's account) if it is less

than \$100 to minimize and offset its administrative time and expense. Generally, if related trade errors result in both gains and losses in the client's account, they may be netted together.

We participate in Charles Schwab and Co.'s Schwab Institutional (SI) program. While there is no direct linkage between the investment advice given and participation in the SI program, economic benefits are received which would not be received if we did not give investment advice to clients. These benefits include receipt of client confirmations, electronic duplicate statements, access to a trading desk serving SI participants exclusively, access to block trading which provides the ability to aggregate securities and then allocate them to client accounts, the ability to deduct investment advisory fees directly from client accounts, access, for a fee, to electronic communications network for order entry and account information, receipt of compliance publications, access to mutual funds which generally require significantly higher minimums or are generally available only to institutional investors and access to mutual funds which generally carry a front-end sales charge on a no-load basis.

The benefits received through participation in the SI program do not depend on the amount of transactions directed to Charles Schwab and Co., Inc. Product sponsors and vendors will at times offer to pay – in whole or in part – for associated persons of the firm to attend educational conferences in other cities. We do not accept such offers. We maintain a minority ownership interest in a savings and loan holding company, National Advisors Holdings, Inc. ("NAH") that has formed a federally chartered trust company, "National Advisors Trust Company" ("NATC"). NAH and NATC are regulated by the Office of Thrift Supervision. The trust company intends to provide a low-cost alternative to traditional trust service providers, and we intend to refer clients to NATC for trust and custodial services.

### **Referral Fees**

We do not pay referral fees (non-commission based) to independent solicitors (non-registered representatives) for the referral of their clients to our firm in accordance with Rule 206 (4)-3 of the Investment Advisers Act of 1940.

## **Item 15: Custody**

We do not have custody of client funds or securities. All of our clients receive at least quarterly account statements directly from their qualified custodians upon opening an account. If we decide 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. We encourage our clients to raise any questions with us about the custody, safety or security of their assets.

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 our custodian, Schwab:

- 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**

We manage investment portfolios for our Ongoing Comprehensive Wealth Management and our Investment Portfolio Management clients under the terms of an Investment Policy Statement which they sign as a part of these services. The Investment Policy Statement gives us discretion within its terms unless such discretion is expressly withheld, in whole or in part, as one of its provisions. We do not take or exercise discretion with any other clients.

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

We do not and will not accept the proxy authority to vote client securities. You will receive proxies or other solicitations directly from your custodian or a transfer agent. In the event that proxies are sent to us, we will forward them on to you and ask the sending party to mail them directly to you in the future. You are welcome to contact us to discuss questions you may have about particular proxy votes or other solicitations.

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

We are not required to provide financial information in this Brochure because we do not require the prepayment of more than \$1,200 in fees and six or more months in advance, we do not take custody of client funds or securities. We do not have a financial condition or commitment that impairs our ability to meet contractual and fiduciary obligations to clients. We have never been the subject of a bankruptcy proceeding.