



# 1st Discount Brokerage

## **Part 2A of Form ADV: *Firm Brochure***

8927 Hypoluxo Road, Suite A-5

Lake Worth, FL 33467

Telephone: 561-515-3200

Email: [ncheng@1db.com](mailto:ncheng@1db.com)

Web Address: [www.1db.com](http://www.1db.com)

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This brochure provides information about the qualifications and business practices of 1st Discount Brokerage, Inc. If you have any questions about the contents of this brochure, please contact us at 561-515-3200 or [support@1db.com](mailto:support@1db.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 1st Discount Brokerage, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 39164.

Investment Adviser registration does not imply a certain level of skill or training.

## **Item 2 Material Changes**

1<sup>st</sup> Discount Brokerage's last annual update to Part 2A of Form ADV was filed in March 2023.

This Firm Brochure, dated 03/22/2024, is our current disclosure document prepared according to the SEC's requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

After our initial filing of this Brochure, this Item will be used to provide our clients with a summary of new and/or updated information. We will inform you of the revision(s) based on the nature of the updated information.

Consistent with the current rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

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#### **Item 4 Advisory Business**

1st Discount Brokerage, Inc. is a registered investment adviser with its principal place of business located in FL. 1st Discount Brokerage, Inc. began conducting business in 2002.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company).

- 1DB Financial (majority owner of 1DB Financial is William H. Corley, President/CEO of 1<sup>st</sup> Discount Brokerage, Inc.)

1st Discount Brokerage, Inc. offers the following advisory services to our clients:

#### **INVESTMENT SUPERVISORY SERVICES ("ISS") INDIVIDUAL PORTFOLIO MANAGEMENT**

Our firm provides continuous advice to clients regarding the investment of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, we develop a client's personal investment policy and create and manage a portfolio based on that policy. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we also review and discuss a client's prior investment history, as well as family composition and background.

We manage these advisory accounts on a discretionary or non-discretionary basis. Account supervision is guided by the client's stated objectives (i.e., maximum capital appreciation, growth, income, or growth and income), as well as tax considerations.

Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company and will generally include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Warrants
- Corporate debt securities (other than commercial paper)
- Certificates of deposit
- Municipal securities
- Variable life insurance
- Variable annuities
- Mutual fund shares
- United States governmental securities
- Options contracts on securities
- Interests in partnerships investing in real estate

Because some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

### **FREEDOM ACCOUNT**

Our firm offers advisory fee program under the name of "Freedom Account" program. Under this program, individual customer's accounts are managed by 1DB in the same manner as described above in "Individual Portfolio Management" section with the noted exceptions:

- Freedom Account program combines advisory fees and trading commissions into one convenient fee charged directly to the account (a low per trade ticket charge may apply when agreed to by client);
- Freedom Accounts are managed on a non-discretionary basis, with exceptions approved by the Compliance Dept.

### **PENSION CONSULTING SERVICES**

We also provide several advisory services separately or in combination. While the primary clients for these services will be pension, profit sharing and 401(k) plans, we offer these services, where appropriate, to individuals and trusts, estates and charitable organizations. Pension Consulting Services are comprised of four distinct services. Clients may choose to use any or all of these services.

#### *Investment Policy Statement Preparation (hereinafter referred to as "IPS"):*

We will meet with the client (in person or over the telephone) to determine an appropriate investment strategy that reflects the plan sponsor's stated investment objectives for management of the overall plan. Our firm then prepares a written IPS detailing those needs and goals, including an encompassing policy under which these goals are to be achieved. The IPS also lists the criteria for selection of investment vehicles as well as the procedures and timing interval for monitoring of investment performance.

#### *Selection of Investment Vehicles:*

We assist plan sponsors in constructing appropriate asset allocation models. We will then review various mutual funds (both index and managed) to determine which investments are appropriate to implement the client's IPS. The number of investments to be recommended will be determined by the client, based on the IPS.

#### *Monitoring of Investment Performance:*

We monitor client investments continually, based on the procedures and timing intervals delineated in the Investment Policy Statement. Although our firm is not involved in any way in the purchase or sale of these investments, we supervise the client's portfolio and will make recommendations to the client as market factors and the client's needs dictate.

#### *Employee Communications:*

For pension, profit sharing and 401(k) plan clients with individual plan participants exercising control over assets in their own account ("self-directed plans"), we may also provide quarterly

educational support and investment workshops designed for the plan participants. The nature of the topics to be covered will be determined by us and the client under the guidelines established in ERISA Section 404(c). The educational support and investment workshops will NOT provide plan participants with individualized, tailored investment advice or individualized, tailored asset allocation recommendations.

### **MANAGER SELECTION PROGRAMS**

We also offer advisory management services to our clients through the Manager Selection Programs (hereinafter, "Programs").

Our firm provides the client with an asset allocation strategy developed through personal discussions in which goals and objectives based on the client's particular circumstances are established. This asset allocation strategy is drafted into the client's Personal Investment Policy Statement ("PIPS").

Based on the client's individual circumstances and needs (as exhibited in the client's PIPS) we will then perform management searches of various unaffiliated registered investment advisers to identify which registered investment adviser's portfolio management style is appropriate for that client. Factors considered in making this determination include account size, risk tolerance, the opinion of each client and the investment philosophy of the selected registered investment adviser. Clients should refer to the selected registered investment adviser's Firm Brochure or other disclosure document for a full description of the services offered. We are available to meet with clients on a regular basis, or as determined by the client, to review the account.

Once we determine the most suitable investment adviser(s) for the client, we provide the selected adviser(s) with the client's PIPS. The adviser(s) then creates and manages the client's portfolio based on the client's individual needs as exhibited in the PIPS.

We monitor the performance of the selected registered investment adviser(s). If we determine that a particular selected registered investment adviser(s) is not providing sufficient management services to the client, or is not managing the client's portfolio in a manner consistent with the client's PIPS, we may suggest that the client contract with a different registered investment adviser and/or program sponsor. Under this scenario, our firm assists the client in selecting a new registered investment adviser and/or program. However, any move to a new registered investment adviser and/or program is solely at the discretion of the client.

### **FINANCIAL PLANNING**

We provide financial planning services. Financial planning is a comprehensive evaluation of a client's current and future financial state by using currently known variables to predict future cash flows, asset values and withdrawal plans. Through the financial planning process, all questions, information and analysis are considered as they impact and are impacted by the entire financial and life situation of the client. Clients purchasing this service receive a written report which provides the client with a detailed financial plan designed to assist the client achieve his or her financial goals and objectives.

In general, the financial plan can address any or all of the following areas:

- **PERSONAL:** We review family records, budgeting, personal liability, estate information and financial goals.
- **TAX & CASH FLOW:** We analyze the client's income tax and spending and planning for past, current and future years; then illustrate the impact of various investments on the client's current income tax and future tax liability.
- **INVESTMENTS:** We analyze investment alternatives and their effect on the client's portfolio.
- **INSURANCE:** We review existing policies to ensure proper coverage for life, health, disability, long-term care, liability, home and automobile.
- **RETIREMENT:** We analyze current strategies and investment plans to help the client achieve his or her retirement goals.
- **DEATH & DISABILITY:** We review the client's cash needs at death, income needs of surviving dependents, estate planning and disability income.
- **ESTATE:** We assist the client in assessing and developing long-term strategies, including as appropriate, living trusts, wills, review estate tax, powers of attorney, asset protection plans.

We gather required information through in-depth personal interviews. Information gathered includes the client's current financial status, tax status, future goals, returns objectives and attitudes towards risk. We carefully review documents supplied by the client, including a questionnaire completed by the client, and prepare a written report. Should the client choose to implement the recommendations contained in the plan, we suggest the client work closely with his/her attorney, accountant, insurance agent, and/or stockbroker. Implementation of financial plan recommendations is entirely at the client's discretion.

We also provide general non-securities advice on topics that may include tax and budgetary planning, estate planning and business planning.

Typically the financial plan is presented to the client within six months of the contract date, provided that all information needed to prepare the financial plan has been promptly provided.

Financial Planning recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. All recommendations are of a generic nature.

### **ADVISORY REFERRAL SERVICES**

1st Discount Brokerage, Inc. acts as a solicitor on behalf of various independent registered investment advisers. Based on a client's individual circumstances and needs, we will assist the client in determining which independent adviser's portfolio management services are appropriate for that client. Factors considered in making this determination, including account size, risk tolerance, and a client's investment experience, are discussed during our consultation with the client.

1st Discount Brokerage, Inc. will meet with the client on a regular basis, or as determined by the client, to review the account. We will, when needed, suggest changes in the client's portfolio ("rebalancing"), to more effectively address each client's goals. The client may then instruct the independent adviser to make any or all of the changes we recommended. These recommendations are our own, and are neither recommended nor approved by any independent advisers.

Any rebalancing of the portfolio is done with the client's approval, and will be reviewed and implemented by the independent investment adviser. At the time of conducting the advisory solicitation, 1st Discount Brokerage, Inc. will ensure that all federal and/or state specific requirements governing solicitation activities are met.

### **CONSULTING SERVICES**

Clients can also receive investment advice on a more focused basis. This may include advice on only an isolated area(s) of concern such as estate planning, retirement planning, or any other specific topic. We also provide specific consultation and administrative services regarding investment and financial concerns of the client.

Consulting recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. All recommendations are of a generic nature.

### **MYCFO AND TAX PREPARATION SERVICES**

MyCFO provides taxes, accounting and bookkeeping services to individual and business clients.

### **AMOUNT OF MANAGED ASSETS**

As of 12/31/2023, we were actively managing \$10,709,004 of clients' assets on a discretionary basis plus \$40,729,4482 of clients' assets on a non-discretionary basis in traditional advisory program.



**Item 5 Fees and Compensation****INVESTMENT SUPERVISORY SERVICES ("ISS")  
INDIVIDUAL PORTFOLIO MANAGEMENT FEES**

The annualized fees for Investment Supervisory Services are charged as a percentage of assets under management, according to the following schedules:

**Freedom Account Fees:****Assets Under Management**

| Average Equities      | Percentage Fees |
|-----------------------|-----------------|
| 100,000 – 250,000     | 2.00%           |
| 250,000 – 500,000     | 1.75%           |
| 500,000 – 1,000,000   | 1.50%           |
| 1,000,000 – 2,500,000 | 1.00%           |
| 2,500,000 – 5,000,000 | 0.75%           |
| > 5,000,000           | 0.50%           |

In addition to the above annual fees, 1<sup>st</sup> Discount Brokerage, Inc. also assess \$10 per trade for equities transaction and \$0.75 per option contract, and \$40 mutual fund processing fee for each order executed through Apex Clearing Corporation.

Plus \$150 Annual Administration Fee

In addition, account holder is responsible for a fee of \$10.00 per transaction. A fee of \$0.75 per contract will also be levied on options contracts. Mutual Fund transactions are subject to a \$40.00 mutual fund processing fee.

**Note:** The fees are negotiable and may differ for each advisory client

**1DB RIA Discretionary Account/Commission Based:**

Equities under \$2/share-Commission less than or equal to 5%

Equities over \$2/share-Commission less than or equal to 2.5%

Options-Commission less than or equal to 5%

**Note:** The fees are negotiable and may differ for each advisory client

**1DB RIA Discretionary Account/Fee Based:**

| Average Equities      | Percentage Fees |
|-----------------------|-----------------|
| 100,000 – 250,000     | 2.00%           |
| 250,000 – 500,000     | 1.75%           |
| 500,000 – 1,000,000   | 1.50%           |
| 1,000,000 – 2,500,000 | 1.00%           |
| 2,500,000 – 5,000,000 | 0.75%           |
| > 5,000,000           | 0.50%           |

In additional to the above annual fees, 1<sup>st</sup> Discount Brokerage, Inc. also assess \$10 per transaction and \$0.75 per option contract, and \$40 mutual fund processing fee for each order executed through Apex Clearing Corporation.

Plus \$150 Annual Administration Fee

In addition, account holder is responsible for a fee of \$10.00 per transaction. A fee of \$0.75 per contract will also be levied on options contracts. Mutual Fund transactions are subject to a \$40.00 mutual fund processing fee.

**Note:** The fees are negotiable and may differ for each advisory client

**1DB RIA Discretionary Account/Individual 401K:**

1% of assets under management

**Note:** The fees are negotiable and may differ for each advisory client

***Annual Advisory Fees***

The Fee will be payable monthly (or quarterly, if agreed upon by the client and 1DB) in advance upon deposit of any funds or securities in the account. The first payment is due upon acceptance of this agreement and will be based upon the opening value of the Account. The first payment will be prorated to cover the period from the date the Account is opened through the end of the next full calendar month. Thereafter, the fee will be based on the average Account equity value during the preceding calendar month and will be due the following business day. When customer authorizes 1DB to deduct fees directly from the customer's account, an invoice will be sent to the account custodian (with a copy to customer) and fees will be deducted from the account. Otherwise, an invoice will be sent to customer for all periodic fees due for 1DB services.

***Limited Negotiability of Advisory Fees:*** Although 1st Discount Brokerage, Inc. has established the aforementioned fee schedule(s), we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs are considered in determining the fee schedule. These include the complexity of the client assets

to be placed under management, anticipated future additional assets, related accounts, portfolio style, account composition, reports, among other factors. The specific annual fee schedule is identified in the contract between the adviser and each client.

We may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

Discounts, not generally available to our advisory clients, may be offered to family members and friends of associated persons of our firm.

### ***Minimum Account Requirement***

Current minimum account requirement for 1DB advisory services is \$50,000 (in individual or combined family "household" accounts).

## **ADVISORY REFERRAL SERVICES FEES**

We do not charge a fee to any client for referrals to another Adviser(s).

In the event that the firm decided to starting charging such fee, our fees for such referrals will be paid by the referred Adviser(s) who shares with our firm a percentage of the fees received from the client. Client advisory fees will not be increased in any way as a result of our referral of any clients to another Adviser(s). We expect to receive **15%** of the advisory management fee paid by the client to that Adviser. Clients will receive a separate disclosure document describing the fee paid to us by such Adviser(s). Clients should refer to that Adviser's' disclosure document for information regarding its fees, billing practices, minimum required investments and termination of advisory agreements.

## **FINANCIAL PLANNING FEES**

1st Discount Brokerage, Inc.'s Financial Planning fee is determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

Our Financial Planning fees are calculated and charged on an hourly basis at a rate of up to \$500. Although the length of time it will take to provide a Financial Plan will depend on each client's personal situation, we will provide an estimate at the start of the advisory relationship.

The client is for the amount of the full fee upon completion of the plan.

## **CONSULTING SERVICES FEES**

1st Discount Brokerage, Inc.'s Consulting Services fee is determined based on the nature of the services being provided and the complexity of each client's circumstances. Fees are negotiable and agreed upon prior to entering into a contract with any client.

Our Consulting Services fees are calculated and charged on an hourly basis at a rate of up to \$500. An estimate is determined at the start of the advisory relationship.

Management personnel and other related persons of our firm are licensed as registered representatives of a broker-dealer and/or licensed as insurance agents or brokers. In their separate capacity(ies), these individuals are able to implement investment recommendations for advisory clients for separate and typical compensation (i.e., commissions, 12b-1 fees or other sales-related forms of compensation). This presents a conflict of interest to the extent that these individuals recommend that a client invest in a security which results in a commission being paid to the individuals. Clients are not under any obligation to engage these individuals when considering implementation of advisory recommendations. The implementation of any or all recommendations is solely at the discretion of the client.

### **MYCFO AND TAX PREPARATION SERVICE FEES**

Clients who choose to use tax preparation services described below will be charged a separate fee. Tax preparation fees will vary with a minimum charge of \$500.00 and \$250.00 hourly rate depending on the complexity of each tax return to be prepared. The fee will be estimated and disclosed to the client(s) prior to services to be provided.

### **GENERAL INFORMATION**

***Termination of the Advisory Relationship:*** A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will pro rate the reimbursement according to the number of days remaining in the billing period.

***Mutual Fund Fees:*** All fees paid to 1st Discount Brokerage, Inc. for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

***Wrap Fee Programs and Separately Managed Account Fees:*** Clients participating in separately managed account programs may be charged various program fees in addition to the advisory fee charged by our firm. Such fees may include the investment advisory fees of the independent advisers, which may be charged as part of a wrap fee arrangement. In a wrap fee arrangement, clients pay a single fee for advisory, brokerage and custodial services. Client's portfolio transactions may be executed without commission charge in a wrap fee arrangement. In evaluating such an arrangement, the client should also consider that, depending upon the level of the wrap fee charged by the broker-dealer, the amount of portfolio activity in the client's account, and other factors, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately. We will review with clients any separate program fees that may be charged to clients.

***Additional Fees and Expenses:*** In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s). Please

refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

**Administrative Fee.** The Advisory Account will incur an annual administrative fee of \$150, as compensation for processing and reporting all transactions in the Account and for administering the Account during each 12-month period. The initial prorated administrative fee is due upon execution of this Agreement and, for subsequent periods, the annual fee will be charged each January for the following year.

**Grandfathering of Minimum Account Requirements:** Pre-existing advisory clients are subject to 1st Discount Brokerage, Inc.'s minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our firm's minimum account requirements will differ among clients.

**Advisory Fees in General:** Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

**Limited Prepayment of Fees:** Under no circumstances do we require or solicit payment of fees in excess of \$500 more than six months in advance of services rendered.

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

1st Discount Brokerage, Inc. does not charge performance-based fees.

## **Item 7 Types of Clients**

1st Discount Brokerage, Inc. provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Corporations or other businesses not listed above
- Pension and profit sharing plans

As previously disclosed in Item 5, our firm has established certain initial minimum account requirements, based on the nature of the service(s) being provided. For a more detailed understanding of those requirements, please review the disclosures provided in each applicable service.

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

### METHODS OF ANALYSIS

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

**Fundamental Analysis.** We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. 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.

**Technical Analysis.** We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement.

Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

**Cyclical Analysis.** In this type of technical analysis, we measure the movements of a particular stock against the overall market in an attempt to predict the price movement of the security.

Cyclical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

**Quantitative Analysis.** We may use mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data.

A risk in using quantitative analysis is that the models used may be based on assumptions that prove to be incorrect.

**Qualitative Analysis.** We subjectively evaluate non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not re

A risk is using qualitative analysis is that our subjective judgment may prove incorrect.

**Asset Allocation.** Rather than focusing primarily on securities selection, we attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals and risk tolerance, and predict changes to share price based on that data.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

**Mutual Fund and/or ETF Analysis.** We look at 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. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in another fund(s) in the client's portfolio. We also monitor the funds or ETFs 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 we do 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.

### What Are Exchange-Traded Funds?

ETFs are typically registered investment companies whose shares represent an interest in a portfolio of securities that track an underlying benchmark or index. (Some ETFs that invest in commodities, currencies, or commodity- or currency-based instruments are not registered as investment companies.) Unlike traditional mutual funds, shares of ETFs typically trade throughout the day on a securities exchange at prices established by the market.

### Things to Consider before Investing in ETFs

ETFs are not mutual funds. Generally, ETFs combine features of a mutual fund, which can be purchased or redeemed at the end of each trading day at its NAV per share, with the intraday trading feature of a closed-end fund, whose shares trade throughout the trading day at market prices. Intraday trading is described in greater detail below in the section on NAV and Intraday Value

Unlike with mutual fund shares, retail investors can only purchase and sell ETF shares in market transactions. That is, unlike mutual funds, ETFs do not sell individual shares directly to, or redeem their individual shares directly from, retail investors. Instead, ETF sponsors enter into contractual relationships with one or more financial institutions known as "Authorized Participants." Authorized Participants typically are large broker-dealers. Only Authorized Participants are permitted to purchase and redeem shares directly from the ETF, and they can do so only in large aggregations or blocks (e.g., 50,000 ETF shares) commonly called "Creation Units."

To purchase shares from an ETF, an Authorized Participant assembles and deposits a designated basket of securities and cash with the fund in exchange for which it receives ETF shares. Once the Authorized Participant receives the ETF shares, the Authorized Participant is free to sell the ETF shares in the secondary market to individual investors, institutions, or market makers in the ETF.

The redemption process is the reverse of the creation process. An Authorized Participant buys a large block of ETF shares on the open market and delivers those shares to the fund. In return, the Authorized Participant receives a pre-defined basket of individual securities, or the cash equivalent.

Other investors purchase and sell ETF shares in market transactions at market prices. An ETF's market price typically will be more or less than the fund's NAV per share. This is



because the ETF's market price fluctuates during the trading day as a result of a variety of factors, including the underlying prices of the ETF's assets and the demand for the ETF, while the ETF's NAV is the value of the ETF's assets minus its liabilities, as calculated by the ETF at the end of each business day. An ETF's market price is generally kept close to the ETF's end-of-day NAV because of the arbitrage function inherent to the structure of the ETF. This is described in greater detail below in the section on Arbitrage.

### NAV and Intraday Value

An ETF (like a mutual fund) must calculate its NAV (the value of all its assets minus all its liabilities) every business day, which is done typically at the close of the New York Stock Exchange. Approximately every 15 seconds throughout the business day, an ETF's estimated NAV is calculated and distributed through quote services. This estimated NAV (called the IIV – for intraday indicative value – or IOPV – for intraday operative value – depending on the exchange on which the ETF lists) is unique to ETFs and is based on the estimated value of the ETF's holdings (minus its liabilities) throughout the trading day. You can find an ETF's intraday value on various financial services websites, many of which are familiar to the general public. Often an ETF's intraday value

### ETF Risks

◦ *Authorized Participants, Market Makers, and Liquidity Providers Limitation Risk.* The Fund has a limited number of financial institutions that may act as Authorized Participants (“APs”). In addition, there may be a limited number of market makers and/or liquidity providers in the marketplace. To the extent either of the following events occur, Shares may trade at a material discount to NAV and possibly face delisting: (i) APs exit the business or otherwise become unable to process creation and/or redemption orders and no other APs step forward to perform these services, or (ii) market makers and/or liquidity providers exit the business or significantly reduce their business activities and no other entities step forward to perform their functions.

- *Authorized Participants, Market Makers, and Liquidity Providers Limitation Risk.* ETF has a limited number of financial institutions that may act as Authorized Participants (“APs”). In addition, there may be a limited number of market makers and/or liquidity providers in the marketplace. To the extent either of the following events occur, Shares may trade at a material discount to NAV and possibly face delisting: (i) APs exit the business or otherwise become unable to process creation and/or redemption orders and no other APs step forward to perform these services, or (ii) market makers and/or liquidity providers exit the business or significantly reduce their business activities and no other entities step forward to perform their functions.
- *Cash Redemption Risk.* ETF's investment strategy may require it to effect redemptions, in whole or in part, for cash. As a result, the Fund may be required to sell portfolio securities to obtain the cash needed to distribute redemption proceeds. This may cause the Fund to recognize investment income and/or capital gains or losses that it might not have recognized if it had completely satisfied the redemption in-kind. As a result, the Fund may be less tax efficient if it includes such a cash payment than if the in-kind redemption process was used exclusively. In addition, cash redemptions may incur higher brokerage costs than in-kind redemptions and these added costs may be borne by the Fund and negatively impact Fund performance.
- *Costs of Buying or Selling Shares.* Due to the costs of buying or selling Shares, including brokerage commissions imposed by brokers and bid/ask spreads, frequent trading of Shares may significantly reduce investment results and an investment in Shares may not be advisable for investors who anticipate regularly making small investments
- *Shares May Trade at Prices Other Than NAV.* As with all ETFs, Shares may be bought and sold in the secondary market at market prices. Although it is expected that the market price of Shares will approximate



the Fund's NAV, there may be times when the market price of Shares is more than the NAV intra-day (premium) or less than the NAV intra-day (discount) due to supply and demand of Shares or during periods of market volatility. This risk is heightened in times of market volatility, periods of steep market declines, and periods when there is limited trading activity for Shares in the secondary market, in which case such premiums or discounts may be significant.

- *Trading.* Although Shares are listed for trading on a national securities exchange, such as the NYSE Arca, Inc. (the "Exchange"), and may be traded on U.S. exchanges other than the Exchange, there can be no assurance that Shares will trade with any volume, or at all, on any stock exchange. In stressed market conditions, the liquidity of Shares may begin to mirror the liquidity of the Fund's underlying portfolio holdings, which can be significantly less liquid than Shares

***Third-Party Money Manager Analysis.*** We examine the experience, expertise, 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. We monitor the manager's underlying holdings, strategies, concentrations and leverage as part of our overall periodic risk assessment. Additionally, as part of our due-diligence process, we survey the manager's compliance and business enterprise risks.

A risk of investing with a third-party manager who has been successful in the past is that he/she may not be able to replicate that success in the future. In addition, as we do 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 we do not control the manager's daily business and compliance operations, we may be unaware of the lack of internal controls necessary to prevent business, regulatory or reputational deficiencies.

***Risks for all forms of analysis.*** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

## **INVESTMENT STRATEGIES**

We use the following strategy(ies) in managing client accounts, provided that such strategy(ies) are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

***Long-term purchases.*** We purchase securities with the idea of holding them in the client's account for a year or longer. Typically we employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

***Short-term purchases.*** When utilizing this strategy, we purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to

take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

A short-term purchase strategy poses risks should the anticipated price swing not materialize; we are then left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss.

In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

**Trading.** We purchase securities with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of brief price swings.

A short-term purchase strategy poses risks should the anticipated price swing not materialize or goes in the opposite direction. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

**Short sales.** We borrow shares of a stock for your portfolio from someone who owns the stock on a promise to replace the shares on a future date at a certain price. Those borrowed shares are then sold. On the agreed-upon future date, we buy the same stock and return the shares to the original owner. We engage in short selling based on our determination that the stock will go down in price after we have borrowed the shares. If we are correct and the stock price has gone down since the shares were purchased from the original owner, the client account realizes the profit.

A short selling strategy poses risks should the anticipated move to the downside does not materialize and instead, the stock moves up dramatically. Potential loss associated with a short sale is unlimited as the stock can move to unlimited higher prices. There is also a risk of loss in case of a forced buy-in by a custodian.

**Margin transactions.** We may purchase stocks for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings. Use of margin carries specific risk which is disclosed to you at the time when use of margin in your portfolio is suggested.

**Option writing.** We may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset.

The two types of options are calls and puts:

- A call gives us the right to buy an asset at a certain price within a specific period of time. We will buy a call if we have determined that the stock may increase substantially before the option expires.
- A put gives us the holder the right to sell an asset at a certain price within a specific period of time. We will buy a put if we have determined that the price of the stock may fall before the option expires.

We will use options to speculate on the possibility of a sharp price swing. We will also use options to "hedge" a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside and downside of a security we have purchased for your

portfolio.

We use "covered calls", in which we sell an option on security you own. In this strategy, you receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price.

We use a "spreading strategy", in which we purchase two or more option contracts (for example, a call option that you buy and a call option that you sell) for the same underlying security. This effectively puts you on both sides of the market, but with the ability to vary price, time and other factors.

Investing in options involves risk. Specific risks are described in detail in the OCC "Characteristics & Risks of Standardized Options" brochure which is provided to customers at the time an option investment is discussed; the brochure can also be found at <http://www.optionsclearing.com/about/publications/character-risks.jsp>

### ***Risk of Loss.***

Clients should understand that investing in any securities, including mutual funds, involves a risk of loss of both income and principal. We ask that you work with us to help us understand your tolerance for risk.

### **Item 9 Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

At this time, our management does not have disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

For the purposes of full disclosure to our customers, the following information is found on the Broker-Dealer disclosure record for 1<sup>st</sup> Discount Brokerage, Inc., SEC and FINRA registered broker-dealer:

On January 23, 2012, 1<sup>st</sup> Discount Brokerage, Inc. entered into a settlement agreement with the SEC as a result of SEC-initiated proceedings as follows:

IN ANTICIPATION OF THE INSTITUTION OF THE PROCEEDINGS, RESPONDENT SUBMITTED AN OFFER OF SETTLEMENT (THE "OFFER") WHICH THE COMMISSION DETERMINED TO ACCEPT. SOLELY FOR THE PURPOSE OF THE PROCEEDINGS AND ANY OTHER PROCEEDINGS BROUGHT BY OR ON BEHALF OF THE COMMISSION, OR TO WHICH THE COMMISSION IS A PARTY, AND WITHOUT ADMITTING OR DENYING THE FINDINGS, EXCEPT AS TO THE COMMISSION'S JURISDICTION OVER RESPONDENT AND THE SUBJECT MATTER OF THE PROCEEDINGS, WHICH ARE ADMITTED, RESPONDENT CONSENTED TO THE ENTRY OF THE ORDER INSTITUTING ADMINISTRATIVE PROCEEDINGS PURSUANT TO SECTION 15(B) OF THE SECURITIES EXCHANGE ACT OF 1934 AND SECTIONS 203(E) AND 203(F) OF THE INVESTMENT ADVISERS ACT OF 1940, MAKING FINDINGS, IMPOSING REMEDIAL SANCTIONS AND A CENSURE ORDER AS TO 1ST DISCOUNT BROKERAGE, INC. THE COMMISSION DEEMED IT APPROPRIATE AND IN THE PUBLIC INTEREST TO IMPOSE THE SANCTIONS AGREED TO IN THE RESPONDENT'S OFFER. ACCORDINGLY, PURSUANT TO SECTION 15(B) OF THE EXCHANGE ACT AND SECTIONS 203(E) AND 203(F) OF THE ADVISERS ACT, IT IS HEREBY ORDERED THAT RESPONDENT 1DB SHALL PAY CIVIL PENALTIES OF \$40,000 TO THE UNITED STATES TREASURY. RESPONDENT 1DB IS CENSURED.

On April 23, 2015, 1<sup>st</sup> Discount Brokerage, Inc. entered into a settlement agreement with

FINRA as a result of the regulatory action as follows:

WITHOUT ADMITTING OR DENYING THE FINDINGS, THE FIRM CONSENTED TO THE SANCTIONS AND TO THE ENTRY OF FINDINGS THAT IT EXECUTED SALES WITHOUT CONDUCTING A REASONABLE SEARCHING INQUIRY TO DETERMINE WHETHER THE SECURITIES WERE REGISTERED OR THE TRANSACTIONS WERE SUBJECT TO AN EXEMPTION FROM REGISTRATION UNDER SECTION OF THE SECURITIES ACT OF 1933 (SECURITIES ACT). THE FINDINGS STATED THAT THE FIRM'S CUSTOMERS ENGAGED IN A PATTERN OF DEPOSITING LARGE BLOCKS OF LOWPRICED SECURITIES IN THEIR ACCOUNTS, OF LIQUIDATING THE LOWPRICED SECURITIES AND WIRING THE SALES PROCEEDS TO AN ACCOUNT OUTSIDE THE FIRM WITHOUT REINVESTMENT. THE FIRM FACILITATED CUSTOMER LIQUIDATIONS OF APPROXIMATELY 7,764,600 SHARES OF NINE DIFFERENT ISSUERS TRADED ON EITHER THE OTC PINK SHEETS OR THE OTC BULLETIN BOARD, OF WHICH EIGHT WERE SHARES OF LOWPRICED SECURITIES. THE FINDINGS ALSO INCLUDED THAT THE FIRM HAD INADEQUATE WRITTEN SUPERVISORY PROCEDURES (WSPS) TO ENSURE COMPLIANCE WITH SECTION 5 OF THE SECURITIES ACT. THE FIRM'S WSPS DID NOT REQUIRE A REASONABLE SEARCHING INQUIRY TO CONFIRM WHETHER A LOWPRICED SECURITY WAS REGISTERED OR THE PROPOSED TRANSACTION WAS SUBJECT TO AN EXEMPTION FROM REGISTRATION. THE FIRM ESSENTIALLY RELIED UPON ITS CLEARING FIRM, AND VARIOUS STOCK TRANSFER AGENTS, TO DETERMINE WHETHER SHARES OF STOCK WERE FREELY TRADABLE. THE FIRM FAILED TO ADEQUATELY UPDATE ITS WSPS TO INCLUDE SPECIFIC PROCEDURES RELATING TO THE DEPOSIT AND LIQUIDATION OF LOWPRICED SECURITIES. FINRA FOUND THAT THE FIRM'S ANTIMONEY LAUNDERING COMPLIANCE PROGRAM WAS ALSO DEFICIENT IN MONITORING FOR POTENTIALLY SUSPICIOUS ACTIVITY RELATED TO THE DEPOSIT AND LIQUIDATION OF LOWPRICED SECURITIES. THE FIRM FAILED TO ESTABLISH AND IMPLEMENT ANTI MONEY LAUNDERING POLICIES AND PROCEDURES THAT COULD REASONABLY BE EXPECTED TO DETECT AND CAUSE THE REPORTING OF POTENTIALLY SUSPICIOUS TRANSACTIONS RELATED TO THE RISKS POSED BY THE DEPOSIT AND LIQUIDATION OF LOWPRICED SECURITIES. THE FIRM FAILED TO PROVIDE ADEQUATE TRAINING RELATED TO THE RISKS POSED BY THE DEPOSIT AND LIQUIDATION OF LOWPRICED SECURITIES, TO RELEVANT PERSONNEL IN OPERATIONS, SALES AND COMPLIANCE TO ALLOW FOR THE DETECTION, INVESTIGATION AND REPORTING, WHERE APPROPRIATE, OF SUSPICIOUS ACTIVITY. 1ST DISCOUNT CONSENTS TO THE IMPOSITION OF THE FOLLOWING SANCTIONS: A CENSURE; AND A FINE IN THE AMOUNT OF \$60,000.00

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

### ***FIRM Registrations:***

In addition to 1st Discount Brokerage, Inc. being a registered investment adviser, our firm is also registered as a FINRA member broker-dealer and is affiliated with an insurance company. 1<sup>st</sup> Discount Brokerage, Inc. management personnel spends approximately 50% of their time on investment advisory business, 45% of their time on broker-dealer business and 5% of time on insurance business.

### ***MANAGEMENT PERSONNEL Registrations:***

Management personnel of our firm are separately licensed as registered representatives of 1st Discount Brokerage, Inc., an affiliated FINRA member broker-dealer. These individuals, in their separate capacity, can effect securities transactions for which they will receive separate, yet customary compensation.

While 1st Discount Brokerage, Inc. and these individuals endeavor at all times to put the interest of the clients first as part of our fiduciary duty, clients should be aware that the receipt of additional compensation itself creates a conflict of interest, and may affect the judgment of these individuals when making recommendations.

Management personnel of our firm, in their individual capacities, are agents for various insurance companies. As such, these individuals are able to receive separate, yet customary commission compensation resulting from implementing product transactions on behalf of advisory clients. Clients, however, are not under any obligation to engage these individuals when considering implementation of advisory recommendations. The implementation of any or all recommendations is solely at the discretion of the client.

Member(s) of management personnel of our firm, in their individual capacity as CPA(s), provide tax preparation services for 1<sup>st</sup> Discount Brokerage, Inc. clients. These services do not constitute investment advice and do not create a material relationship between advisory clients and 1<sup>st</sup> Discount Brokerage, Inc. Customers are not obligated to use this tax preparation service; this service does not present a conflict of interest of any kind.

Clients should be aware that the receipt of additional compensation by 1st Discount Brokerage, Inc. and its management persons or employees creates a conflict of interest that may impair the objectivity of our firm and these individuals when making advisory recommendations. 1st Discount Brokerage, Inc. endeavors at all times to put the interest of its clients first as part of our fiduciary duty as a registered investment adviser; we take the following steps to address this conflict:

- we disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our employees to earn compensation from advisory clients in addition to our firm's advisory fees;
- we disclose to clients that they are not obligated to purchase recommended investment products from our employees or affiliated companies;
- we collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- our firm's management conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
- we require that our employees seek prior approval of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- we periodically monitor these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm; and
- we educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

As previously disclosed, we recommend the services of various registered investment advisers to its clients. In exchange for this recommendation, we receive a referral fee from the selected investment adviser. The fee received by us is typically a percentage of the fee charged by that investment adviser to the referred client. The portion of the advisory fee paid to us does not increase the total advisory fee paid to the selected investment adviser by the client. We do not charge the client any fees for these referrals. We will only recommend advisers that pay us a referral fee.

We are aware of the special considerations required under Rule 206(4)-3 of the Investment Advisers Act of 1940. As such, all appropriate disclosure shall be made and all applicable Federal and State laws will be observed.

Clients should be aware that the receipt of additional compensation by 1st Discount Brokerage, Inc. and its management persons or employees creates a conflict of interest that may impair the objectivity of our firm and these individuals when making advisory recommendations. 1st Discount Brokerage, Inc. endeavors at all times to put the interest of its clients first as part of our fiduciary duty as a registered investment adviser; we take the following steps to address this conflict:



- we disclose to clients the existence of all material conflicts of interest, including the potential for us or our employees to earn compensation from the referral of clients to other registered investment advisers;
- we disclose to the client in a separate disclosure document the compensation we receive in exchange for the client's referral to the selected investment adviser;
- we collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- our firm's management conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
- we conduct initial and periodic due diligence on the selected investment advisers to establish that the advisers are suitable to recommend to our clients; and
- we educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

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

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

1st Discount Brokerage, Inc. and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement and recordkeeping provisions.

1st Discount Brokerage, Inc.'s Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent to [ncheng@1db.com](mailto:ncheng@1db.com), or by calling us at 561-515-3200.

1st Discount Brokerage, Inc. or individuals associated with our firm may buy securities for the firm or for themselves from our advisory clients; or sell securities owned by the firm or the individual(s) to our advisory clients. We will ensure, however, that such transactions are conducted in compliance with all the provisions under Section 206(3) of the Advisers Act governing principal transactions to advisory clients.

1st Discount Brokerage, Inc. may, at times, effect an agency cross transaction for an advisory client, provided that the transaction is consistent with our firm's fiduciary duty to the client and that all requirements outlined in Sec. 206(3)-2 of the Investment Advisers Act of 1940 are

met.

An agency cross transaction is a transaction where our firm acts as an investment adviser in relation to a transaction in which 1st Discount Brokerage, Inc., acts as broker for both the advisory client and for another person on the other side of the transaction.

One or more principals of 1st Discount Brokerage, Inc. are also the GP or Managing Member of 22nd Century Capital Management LP, (the Fund). The General Partner has designated 1st Discount Brokerage, Inc. as having primary responsibility for investment management and administrative matters pertaining to the Fund. 1st Discount Brokerage, Inc. and our members, officers and employees will devote to the Fund as much time as we deem necessary and appropriate to manage the Fund's business. 1st Discount Brokerage, Inc. and our affiliates are not restricted from forming additional investment funds, entering into other investment advisory relationships or engaging in other business activities, even though such activities may be in competition with the Fund and/or may involve substantial time and resources of our firm and our affiliates. Potentially, such activities could be viewed as creating a conflict of interest in that the time and effort of our management personnel and employees will not be devoted exclusively to the business of the Fund, but could be allocated between the business of the Fund and other of our business activities and those of our affiliates.

Investments in the Fund may be recommended to advisory clients for whom a partnership investment may be more suitable than would a separate advisory account managed by our firm. Clients who invest in the Fund are not charged any additional advisory fees other than the advisory fee allocated to the limited partners of the Fund.

The Fund is not required to register as an investment company under the Investment Company Act of 1940 in reliance upon an exemption available to funds whose securities are not publicly offered. 1st Discount Brokerage, Inc. manages the Fund on a discretionary basis in accordance with the terms and conditions of the Fund's offering and organizational documents.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, thereby preventing such employee(s) from benefiting from transactions placed on behalf of advisory accounts.

We may aggregate our employee trades with client transactions where possible and when compliant with our duty to seek best execution for our clients. In these instances, participating clients will receive an average share price and transaction costs will be shared equally and on a pro-rata basis. In the instances where there is a partial fill of a particular batched order, we will allocate all purchases pro-rata, with each account paying the average price. Our employee accounts will be included in the pro-rata allocation.

As these situations represent actual or potential conflicts of interest to our clients, we have

established the following policies and procedures for implementing our firm's Code of Ethics, to ensure our firm complies with its regulatory obligations and provides our clients and potential clients with full and fair disclosure of such conflicts of interest:

1. No principal or employee of our firm may put his or her own interest above the interest of an advisory client.
2. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.
3. It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account. This prevents such employees from benefiting from transactions placed on behalf of advisory accounts.
4. Our firm requires prior approval for any IPO or private placement investments by related persons of the firm.
5. We maintain a list of all reportable securities holdings for our firm and anyone associated with this advisory practice that has access to advisory recommendations ("access person"). These holdings are reviewed on a regular basis by our firm's Chief Compliance Officer or his/her designee.
6. We have established procedures for the maintenance of all required books and records.
7. All clients are fully informed that related persons may receive separate commission compensation when effecting transactions during the implementation process.
8. Clients can decline to implement any advice rendered, except in situations where our firm is granted discretionary authority.
9. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
10. We require delivery and acknowledgement of the Code of Ethics by each supervised person of our firm.
11. We have established policies requiring the reporting of Code of Ethics violations to our senior management.
12. Any individual who violates any of the above restrictions may be subject to termination.

As disclosed in the preceding section of this Brochure (Item 10), related persons of our firm are separately registered as securities representatives of a broker-dealer, and/or licensed as an insurance agent/broker of various insurance companies. Please refer to Item 10 for a detailed explanation of these relationships and important conflict of interest disclosures.

## **Item 12 Brokerage Practices**

1st Discount Brokerage, Inc. does not have any soft-dollar arrangements and does not receive any soft-dollar benefits.

1st Discount Brokerage, Inc. executes and clears its client's trades through Apex Clearing Corporation, its clearing firm. Other execution and clearing arrangement requires that clients provide us with written authority and can only be done on a case by cases basis with the Compliance approval.



Clients must include any limitations on this discretionary authority in this written authority statement. Clients may change/amend these limitations as required. Such amendments must be provided to us in writing.

As a matter of policy and practice, 1st Discount Brokerage, Inc. does not generally block client trades and, therefore, we implement client transactions separately for each account. Consequently, certain client trades may be executed before others, at a different price and/or commission rate. Additionally, our clients may not receive volume discounts available to advisers who block client trades.

### **IRA Rollover Considerations**

As part of our investment advisory services to you, we may recommend that you withdraw the assets from your employer's retirement plan and roll the assets over to an individual retirement account ("IRA") that we will manage on your behalf. If you elect to roll the assets to an IRA that is subject to our management, we will charge you an asset based fee as set forth in the agreement you executed with our firm. This practice presents a conflict of interest because persons providing investment advice on our behalf have an incentive to recommend a rollover to you for the purpose of generating fee based compensation rather than solely based on your needs. You are under no obligation, contractually or otherwise, to complete the rollover. Moreover, if you do complete the rollover, you are under no obligation to have the assets in an IRA managed by our firm.

Many employers permit former employees to keep their retirement assets in their company plan. Also, current employees can sometimes move assets out of their company plan before they retire or change jobs. In determining whether to complete the rollover to an IRA, and to the extent the following options are available, you should consider the costs and benefits of: 1. Leaving the funds in your employer's (former employer's) plan. 2. Moving the funds to a new employer's retirement plan. 3. Cashing out and taking a taxable distribution from the plan. 4. Rolling the funds into an IRA rollover account.

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

#### **INVESTMENT SUPERVISORY SERVICES ("ISS") INDIVIDUAL PORTFOLIO MANAGEMENT**

**REVIEWS:** While the underlying securities within Individual Portfolio Management Services accounts are continually monitored, these accounts are reviewed at least quarterly. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

These accounts are reviewed by: William Corley, CEO or George Rohloff, CCO

**REPORTS:** In addition to the confirmations of transactions that clients receive from their broker-dealer, the monthly statements from Apex Clearing include account performance (% change), balances and holdings.

### **SELECTION and MONITORING of THIRD-PARTY MONEY MANAGERS**

**REVIEWS:** These client accounts should refer to the independent registered investment adviser's Firm Brochure (or other disclosure document used in lieu of the brochure) for information regarding the nature and frequency of reviews provided by that independent registered investment adviser.

1st Discount Brokerage, Inc. will provide reviews annually.

These accounts are reviewed by: George Rohloff, 1DB CCO.

**REPORTS:** These clients should refer to the independent registered investment adviser's Firm Brochure (or other disclosure document used in lieu of the brochure) for information regarding the nature and frequency of reports provided by that independent registered investment adviser.

1st Discount Brokerage, Inc. does not typically provide reports in addition to those provided by the independent registered investment adviser selected to manage the client's assets.

### **FINANCIAL PLANNING SERVICES**

**REVIEWS:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Financial Planning clients unless otherwise contracted for.

**REPORTS:** Financial Planning clients will receive a completed financial plan. Additional reports will not typically be provided unless otherwise contracted for.

### **CONSULTING SERVICES**

**REVIEWS:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Consulting Services clients unless otherwise contracted for. Such reviews will be conducted by the client's account representative.

**REPORTS:** These client accounts will receive reports as contracted for at the inception of the advisory engagement.

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

It is 1st Discount Brokerage, Inc.'s policy not to engage solicitors or to pay related or non-related persons for referring potential clients to our firm.

It is 1st Discount Brokerage, Inc.'s policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in

conjunction with the advisory services we provide to our clients other than a portion of management fee charged to the client by the adviser whom 1DB referred clients to (see item 10, page 20 above for more detail on the fee-sharing arrangement).

### **Item 15 Custody**

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that our firm directly debits advisory fees from client accounts.

As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

1DB is considered to have not have actual or constructive custody of client accounts.

Per State of Florida and State of Massachusetts Regulation, the firm has custody of the advisory clients because (i) the firm deduct the advisory fees directly from the client's accounts.

### **Item 16 Investment Discretion**

The Freedom Account is generally a non-discretionary investment advisory account.

Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- determine the security to buy or sell; and/or
- determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign a discretionary agreement with our firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

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

We vote proxies for all client accounts; however, you always have the right to vote proxies yourself. You can exercise this right by instructing us in writing to not vote proxies in your account.

We will vote proxies in the best interests of its clients and in accordance with our established policies and procedures. Our firm will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser

voted proxies. If our firm has a conflict of interest in voting a particular action, we will notify the client of the conflict and retain an independent third-party to cast a vote.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting George Rohloff by telephone, email, or in writing. Clients may request, in writing, information on how proxies for his/her shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for his/her account(s), we will promptly provide such information to the client.

We will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies. To direct us to vote a proxy in a particular manner, clients should contact George Rohloff by telephone, email, or in writing.

You can instruct us to vote proxies according to particular criteria (for example, to always vote with management, or to vote for or against a proposal to allow a so-called "poison pill" defense against a possible takeover). These requests must be made in writing. You can also instruct us on how to cast your vote in a particular proxy contest by contacting us at 8927 Hypoluxo Road, Suite A-5, Lake Worth, FL 33467.

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

As an advisory firm that maintains discretionary authority for client accounts we are also required to disclose any financial condition that is reasonable likely to impair our ability to meet our contractual obligations.

In light of the COVID-19 coronavirus and historic decline in market values, 1<sup>st</sup> Discount Brokerage, Inc. has elected to participate in the CARES Act's Paycheck Protection Program ("PPP") to strengthen its balance sheet. 1<sup>st</sup> Discount Brokerage intends to use this loan predominantly to continue payroll for the firm and may ultimately seek loan forgiveness per the terms of the PPP. Due to this and other measures taken internally, 1<sup>st</sup> Discount Brokerage has been able to operate and continue serving its clients.

Under no circumstances do we require or solicit payment of fees in excess of \$500 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

1st Discount Brokerage, Inc. has not been the subject of a bankruptcy petition at any time during the past ten years.

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

The following individuals are the principal executive officers and management persons of 1<sup>st</sup> Discount Brokerage, Inc.:

William H. Corley, President/CEO

1DB Financial, Parent Company  
Aileen Gallagher, CFO  
George Rohloff, CCO

Please refer to Item 10, "Other Financial Industry Activities and Affiliations", for information regarding other business activities of the firm and its management personnel.

We are required to disclose all material facts regarding certain legal or disciplinary events pertaining to arbitration awards or other civil, regulatory or administrative proceedings in which our firm or management personnel were found liable or against whom an award was granted.

Our management personnel have no reportable disciplinary events to disclose.

As previously disclosed in "Other Financial Industry Activities and Affiliations" (Item 10), neither 1<sup>st</sup> Discount Brokerage, Inc. nor our management personnel have a relationship or arrangement with any issuer of securities.

A client can obtain the disciplinary history of the registrant or its representatives from the state's Securities Division upon request.