

# Kovack Securities, Inc.

## Regulation Best Interest Brokerage Account Disclosure

Dated: July 29, 2020



### Product, Services, and Conflicts Disclosures

Kovack Securities, Inc. (“KSI”) is registered with the Securities and Exchange Commission (“SEC”) as a broker-dealer and its affiliate, Kovack Advisors, Inc. (“KAI”) is registered as an investment adviser with the SEC. KSI and KAI are under common ownership. KSI is a member of the Financial Industry Regulatory Authority (“FINRA”), the Municipal Securities Rulemaking Board (“MSRB”) and Securities Investors Protection Corporation (“SIPC”). Securities are offered through KSI, Member FINRA/SIPC.

The following disclosures are designed to assist clients in understanding important aspects of the products and services we may recommend, but is not all-inclusive, nor should it be considered a substitute for any product’s prospectus or offering document. This document is intended only to summarize key features of some of the product classes we may recommend as well as outline conflicts we have regarding these products. Should you have questions, do not hesitate to contact your financial professional. Always read the prospectus before making a decision to invest. This disclosure is intended to satisfy our obligations under Regulation Best Interest, and does not modify any other agreement you have with us. Our obligations under Regulation Best Interest apply when we make a recommendation of a type of account with us, a securities transaction in a brokerage account with us, or recommend that you roll over assets to an account with us, such as a rollover IRA account.

While we may make a recommendation to you for an account type, a specific securities product, or an investment strategy, the ultimate decision about whether to invest is yours. You may accept or reject any recommendation we make. Additionally, depending on the product or service we are recommending, there are conflicts of interest you should consider in determining whether to accept any recommendation we make. Those conflicts are outlined in this document and in our Form CRS (Customer Relationship Summary). You should also consider any conflicts that are disclosed in the account agreement and the product prospectus or offering document. You may also search for offering documents and company reports at the SEC’s Edgar database here: <http://www.sec.gov/edgar.shtml> Should you have any questions, please contact your financial professional or ask us for more information.

When you opt for a securities brokerage account, we do not offer account monitoring services. This means that, while we use reasonable care and skill at the time we make the recommendation, we do not provide ongoing monitoring of the account or your investments. Should you prefer that type of relationship, consider our advisory accounts rather than a brokerage account.

### Investing Risks

We must use reasonable care and skill in making recommendations to you. We base our recommendations on information you disclose to us (called your investment profile). It is important that you review your investment profile information frequently and update us if it changes. You should be aware that investments in securities involve risks and you may lose money, up to and including the entire amount of your investment. Because the nature of investing involves risk, we make no guarantee that you will achieve your investment goals.

Some of the products we offer have more risk than others. It is important to understand that products offering higher returns often involve a greater degree of risk. If you cannot afford to lose the money you are investing, you should tell your financial professional that you are a conservative investor and complete your investment profile in a manner that indicates your risk tolerance is low. This will help to ensure your financial professional’s recommendations to you take these factors into account.

### Standard Brokerage Accounts

When you establish a standard brokerage account through us, the account is held through one of our clearing brokers. Our clearing brokers execute transactions at our request and maintain custody of your funds and securities. We will either trade on an agency basis (as agent for you) and charge a commission, or act as principal, purchasing or selling a security solely to fill your order (often referred to as riskless principal). Your transaction confirmation will disclose the capacity in which we acted, agency or principal. Our standard brokerage account is a cash account, meaning that you must pay for transactions as they occur.

We offer other types of accounts, including accounts held directly with our product sponsors such as a mutual fund or annuity company. This is also the case for Section 529 educational savings accounts. We also offer individual retirement accounts (IRAs). Regardless of the type of account you select, you should review the account agreement for more details about that specific account type.

## Margin Accounts

Brokerage accounts come in several types. Typically, a brokerage account is a cash account meaning that you pay for your securities transactions with cash in the account or you pay for each transaction by settlement date by transferring funds into the account. However, a margin account involves borrowing money from your brokerage firm (typically the clearing agent) to purchase securities. The portion of the purchase price that you must deposit is called margin and is your initial equity or value in the account. The loan from the firm is secured by the securities you purchase. If the securities you're using as collateral go down in price, your firm can issue a margin call, which is a demand that you repay all or part of the loan with cash, a deposit of securities from outside your account, or by selling some of the securities in your account. Margin loans involve interest which you must pay regardless of whether you make or lose money on your investments. Additionally, you must maintain minimum margin, meaning you must meet the margin requirements of your brokerage firm. If the value of an investment declines, you may be required to deposit more money or liquidate your positions. While we attempt to contact you if there is a margin call, we can liquidate your positions without contacting you to satisfy the margin call, and you may not be entitled to choose which securities or assets in your account are sold. Also, with margin, you can lose more money than you deposit in the account. And, margin requirements can change from time to time. If you have a margin account, make sure you understand how the margin account works and you know the margin rules. Also, because we earn more money when you engage in more transactions, and we earn money on margin interest you pay, we have a conflict of interest in recommending a margin account. For more information about margin accounts and the use of margin visit FINRA's investor alert here: <https://www.finra.org/investors/alerts/investing-borrowed-funds-no-margin-error>

## Standard Brokerage Products

We offer various products in brokerage accounts, including but not limited to stocks, bonds, options, mutual funds, and others. When we sell these products, we send you a confirmation at or before the completion of the transaction. You should carefully review the transaction confirmation for additional details about the transaction.

## Mutual Funds

When investing in mutual funds, it is important to understand the various features of the funds. Generally, there are two primary types. First there are open-ended mutual funds, which are constantly offering shares, and redeem shares when the investor sells based on the value of the fund's assets. Second there are closed-end funds which are offered with a fixed number of shares and typically trade on exchanges like stocks.

Investors must consider the objectives of a fund and whether those objectives (and related risks) are aligned with their risk tolerance and investment objectives. Also, it is important to understand the features and costs associated with a mutual fund. As with any investment, fees and costs can impact returns. The funds we offer are typically available in multiple fee structures called share classes, most frequently referred to as A, B, or C share classes. A single mutual fund, with one portfolio and one investment adviser, may offer more than one "class" of its shares to investors. Each class represents a similar interest in the mutual fund's portfolio. The biggest difference between the classes is that the mutual fund will charge you different fees and expenses depending on the class you choose. Remember that these are examples and you must review the prospectus for your particular fund to learn the exact fees.

### *Mutual Fund Breakpoint Disclosure Statement*

The following statement is made available from FINRA's website and provides information about mutual fund fees. You can find the full statement here: <https://www.finra.org/sites/default/files/Industry/p010543.pdf>

Before investing in mutual funds, it is important that you understand the sales charges, expenses, and management fees that you will be charged, as well as the breakpoint discounts to which you may be entitled. Understanding these charges and breakpoint discounts will assist you in identifying the best investment for your particular needs and may help you reduce the costs of your investment. This disclosure document will give you general background information about these charges and discounts. However, sales charges, expenses, management fees, and breakpoint discounts vary from mutual fund to mutual fund. Therefore, you should discuss these issues with your financial professional and review each mutual fund's prospectus and statement of additional information, which are available from your financial professional, to get the specific information regarding the charges and breakpoint discounts associated with a particular mutual fund.

## *Sales Charges*

Investors that purchase mutual funds must make certain choices, including which funds to purchase and which class share is most advantageous. Each mutual fund has a specified investment strategy. You need to consider whether the mutual fund's investment strategy is compatible with your investment objectives. Additionally, most mutual funds offer different share classes. Although each share class represents a similar interest in the mutual fund's portfolio, the mutual fund will charge you different fees and expenses depending upon your choice of share class. Generally, Class A shares carry a "front-end" sales charge or "load" that is deducted from your investment at the time you buy fund shares. This sales charge is a percentage of your total purchase. As explained below, many mutual funds offer volume discounts to the front-end sales charge assessed on Class A shares at certain predetermined levels of investment, which are called "breakpoint discounts." In contrast, Class B and C shares usually do not carry any front-end sales charges. Instead, investors that purchase Class B or C shares pay asset-based sales charges, which may be higher than the charges associated with Class A shares. Investors that purchase Class B and C shares may also be required to pay a sales charge known as a contingent deferred sales charge or back-end load when they sell their shares, depending upon the rules of the particular mutual fund.

## *Breakpoint Discounts*

Most mutual funds offer investors multiple ways to qualify for breakpoint discounts on the sales charge associated with the purchase of Class A shares. In general, most mutual funds provide breakpoint discounts to investors who make large purchases at one time. The extent of the discount depends upon the size of the purchase. Generally, as the amount of the purchase increases, the percentage used to determine the sales load decreases. In fact, the entire sales charge may be waived for investors that make large purchases of Class A shares. Mutual fund prospectuses contain tables that illustrate the available breakpoint discounts and the investment levels at which breakpoint discounts apply. Additionally, most mutual funds allow investors to qualify for breakpoint discounts based upon current holdings from prior purchases through "Rights of Accumulation," and future purchases, based upon "Letters of Intent." This document provides general information regarding Rights of Accumulation and Letters of Intent. However, mutual funds have different rules regarding the availability of Rights of Accumulation and Letters of Intent. Therefore, you should discuss these issues with your financial professional and review the mutual fund prospectus to determine the specific terms upon which a mutual fund offers Rights of Accumulation or Letters of Intent.

1. Rights of Accumulation – Many mutual funds allow investors to count the value of previous purchases of the same fund, or another fund within the same fund family, with the value of the current purchase, to qualify for breakpoint discounts. Moreover, mutual funds allow investors to count existing holdings in multiple accounts, such as IRAs or accounts at other broker-dealers, to qualify for breakpoint discounts. Therefore, if you have accounts at other broker-dealers and wish to take advantage of the balances in these accounts to qualify for a breakpoint discount, you must advise your financial professional about those balances. You may need to provide documentation establishing the holdings in those other accounts to your financial professional if you wish to rely upon balances in accounts at another firm.

In addition, many mutual funds allows investors to count the value of holdings in accounts of certain related parties, such as spouses or children, to qualify for breakpoint discounts. Each mutual fund has different rules that govern when relatives may rely upon each other's holdings to qualify for breakpoint discounts. You should consult with your financial professional or review the mutual fund's prospectus or statement of additional information to determine what these rules are for the fund family in which you are investing. If you wish to rely upon the holdings of related parties to qualify for a breakpoint discount, you should advise your financial professional about these accounts. You may need to provide documentation to your financial professional if you wish to rely upon balances in accounts at another firm.

Mutual funds also follow different rules to determine the value of existing holdings. Some funds use the current net asset value (NAV) of existing investments in determining whether an investor qualifies for a breakpoint discount. However, a small number of funds use the historical cost, which is the cost of the initial purchase, to determine eligibility for breakpoint discounts. If the mutual fund uses historical costs, you may need to provide account records, such as confirmation statements or monthly statements, to qualify for a breakpoint discount based upon previous purchases. You should consult with your financial professional and review the mutual fund's prospectus to determine whether the mutual fund uses either NAV or historical costs to determine breakpoint eligibility.

2. Letters of Intent – Most mutual funds allow investors to qualify for breakpoint discounts by signing a Letter of Intent, which commits the investor to purchasing a specified amount of Class A shares within a defined period of time, usually 13 months. For example, if an investor plans to purchase \$50,000 worth of Class A shares over a period of 13 months, but each individual purchase would not qualify for a breakpoint discount, the investor could sign a Letter of Intent at the time of the first purchase and receive the breakpoint discount associated with \$50,000 investments on the first and all subsequent purchases. Additionally,

some funds offer retroactive Letters of Intent that allow investors to rely upon purchases in the recent past to qualify for a breakpoint discount. However, if an investor fails to invest the amount required by the Letter of Intent, the fund is entitled to retroactively deduct the correct sales charges based upon the amount that the investor actually invested. If you intend to make several purchases within a 13-month period, you should consult your financial professional and the mutual fund prospectus to determine if it would be beneficial for you to sign a Letter of Intent.

Understanding the availability of breakpoint discounts is important because it may allow you to purchase Class A shares at a lower price. The availability of breakpoint discounts may save you money and may also affect your decision regarding the appropriate share class in which to invest. Therefore, you should discuss the availability of breakpoint discounts with your financial professional and carefully review the mutual fund prospectus and its statement of additional information, which you can get from your financial professional, when choosing among the share classes offered by a mutual fund. More detailed information about share classes is as follows:

- **Class A Shares** – Class A shares typically include a front-end charge. This means that a portion of the funds you invest will go to the sales charge. For example, if you invest \$10,000, and there is a 5% sales load, \$9,500 of your funds will go into the investment. Also, class A shares may impose an ongoing asset-based sales charge (often 0.25 percent per year), but it generally is lower than the charge imposed by the other classes (often 1 percent per year for B and C shares). Depending on the size of your purchase, the fund may offer you discounts on the sales charge, called breakpoints.

Also, you may be able to receive lower sales charges if you agree to regularly purchase the mutual fund in the future or if you already hold funds offered by the same fund family. If you purchase funds from multiple fund families, you may give up the right to discounts you would otherwise receive by purchasing funds from the same fund family.

- **Class B Shares** – Typically these shares have higher ongoing expenses than Class A shares. In other words, the annual expenses are typically higher. However, there is typically no front-end sales load. Instead, there is a surrender charge for shares sold before a certain number of years has passed since the fund was purchased (called a contingent deferred sales charge or CDSC). This means all of your investment goes to work immediately in the fund. Typically, the CDSC period ranges from 4 to 7 years, after which there is no charge to liquidate shares. Typically, a CDSC ranges between 3% and 5% and declines the longer you hold your shares. In some instances, the shares convert from Class B to Class A after the CDSC period ends, thus affording the lower ongoing expenses of a Class A share. Remember also that larger purchases may qualify for reduced sales charges so ask about Class A shares if you intend to purchase more than \$50,000.
- **Class C Shares** – Like Class B shares, these shares do not impose a sales load on the front-end of the purchase. So, all of your funds are invested. However, there are higher internal expenses than Class A shares and they do not convert to Class A shares, so owning Class C shares for a long period of time can result in significant expenses over the long run. Also, Class C shares charge a CDSC upon redemption – typically 1% if you redeem within the first 12 to 18 months after the purchase. Class C shares typically have higher ongoing expenses than both Class A and B shares. For this reason, we have an incentive to sell Class C shares over other classes, and thus have a conflict. However, we maintain procedures to mitigate this conflict.

If you are still wondering which share class is best for you, the Financial Industry Regulatory Authority (FINRA) offers a free mutual fund expense analyzer you can access at [https://tools.finra.org/fund\\_analyzer/](https://tools.finra.org/fund_analyzer/). If you wish to learn more about mutual fund share classes or mutual fund breakpoints, you may wish to review the investor alerts available on the FINRA website at [finra.org](http://finra.org).

## 529 Educational Savings Plans

Section 529 educational savings plans are tax-advantaged educational savings vehicles. While there is no tax deduction on the contributions, the earnings in the plan can accumulate on a tax-deferred basis. And, withdrawals are not taxed by the federal government when used for “qualified higher education expenses.” While legislation governing the use of the funds has changed over time, generally, funds may also be used for K-12 tuition (up to \$10,000 per taxable year per beneficiary).

Tax rules that apply to college investing options are complicated. Depending upon the laws of the contributor’s, or the designated beneficiary’s home state, favorable state tax treatment or other benefits offered for investing in 529 educational savings plans may be available only if the contributor and/or beneficiary invests in the home state’s 529 educational savings plan. Most 529 educational savings plans will accept both “in-state” and “out-of-state” applicants. Each state’s 529 educational savings plan must be evaluated based upon its own merits relative to investment objectives, and the tax effects on the contributors and the beneficiary. Plan holdings could reduce beneficiary’s ability to qualify for grants and student loans. Withdrawals for purposes other than qualified higher educational expenses (or other permitted expenses) may be subjected to federal income taxes and a 10% IRS penalty on earnings. Neither Kovack Securities nor the 529 educational savings plans offer legal or tax advice regarding state and federal laws pertaining to 529 educational savings plans or related tax implications. Consult your own professional legal or tax advisor as you deem necessary.

You should carefully review the 529 educational savings plan disclosure document or prospectus for specific details on the fees, costs, risks and features of the plan you select. It is important to understand which plan is right for you.

Note that there are plans sold by financial professionals and plans sold directly by the 529 educational savings plan. Plans sold by financial professionals often include sales loads and higher fees and expenses than plans sold directly. Also, like mutual funds discussed above, Class C within 529 educational savings plans typically impose no front-end charge, but have higher annual fees. Over long periods of time, the fees in Class C shares can aggregate to exceed the cost of Class A shares over that same period. A key factor in determining which share class to choose is when the funds will be needed. FINRA offers a free 529 Education Saving Plan analyzer you can find here: [https://tools.finra.org/529\\_calculator/main](https://tools.finra.org/529_calculator/main)

## Unit Investment Trusts (UITs)

A Unit Investment Trust (“UIT”) is an SEC-registered investment company that offers shares or “units” in a portfolio of securities in a public offering. Unit investment trusts, or UITs, fall in the same category as mutual funds and closed-end funds. All three are investment companies, which means they pool money from many investors and invest it based on specific investment goals. The performance of a UIT’s underlying investments, minus fund fees, determines the trust’s investment return. Those investments are generally fixed, with a UIT generally holding the securities in which it invests for the life of the fund, which is determined at the time of the fund’s initial offering. Generally, a UIT’s portfolio is not actively traded and follows a “buy-and-hold” strategy. Usually, a UIT terminates on a particular date (called the maturity date), which is at a specified interval (e.g., 15 or 24 months). At maturity, the portfolio securities are liquidated and clients who purchased the UIT receive the proceeds. When these proceeds are rolled over to a new UIT, the issuers will generally waive the initial sales charge on the new UIT (often referred to as a “rollover discount”). For a new issue, the prospectus for the UIT includes fee disclosures that detail the fees and expenses of the specific product. Should you liquidate the UIT early, you will pay a fee or transaction charge. If you purchase a UIT in the secondary market, you will pay a concession or commission that will be disclosed to you at the time of the transaction. Before you invest in a UIT, it’s important to have a firm grasp of a trust’s specific investment strategy or goal. UITs can invest in a wide variety of securities, but most focus on stocks and bonds. The UIT will inherit all the risks associated with the securities in which it invests, such as credit and market risk. You can read more about UITs here: <https://www.finra.org/investors/insights/pooled-money-understanding-unit-investment-trusts>

## Low-Priced Equity Securities (“Penny Stocks”)

Penny stocks are generally low-priced shares of small companies not traded on an exchange or quoted on NASDAQ. We do not make recommendations that our clients purchase, sell or hold penny stocks. Nor do we provide research or information about penny stocks. If you decide to buy or sell penny stocks, you must do it based on your own research and information. This means that we have not recommended that you purchase, hold or sell the security. Penny stocks can be very risky investments. There is often limited information available about penny stock issuers. Prices are not often available. You may be unable to sell a penny stock you purchase. Thus, you may lose your investment. If you choose to buy or sell penny stocks through a brokerage account we offer, you agree that you are doing so on your own initiative and not based on our recommendation.

## Options

Options can serve multiple purposes, including income strategies, hedging and speculating. Because options investing is complex, it is generally reserved for experienced investors. Commissions on options can be substantial and the more options you trade, the more we earn. For that reason, we have an incentive to recommend more transactions, and this creates a conflict of interest. We have procedures to mitigate these conflicts. For more detailed information about options, download and review the options disclosure document here: <https://www.theocc.com/about/publications/character-risks.jsp>

## Inverse and Leveraged Exchange Traded Products

The complex investment strategies utilized in ETNs and ETFs that are inverse and/or leveraged may result in a greater tax obligation than that of another security. You are encouraged to review the prospectus, which contains additional risks, prior to making a decision to purchase any ETF or ETN. You should carefully consider conflicts listed in the product prospectus. Only clients who are experienced with and capable of understanding, the risks of investing in ETNs and ETFs (including leveraged and/or inverse versions of these securities) should invest. We do not make recommendations to purchase, sell or hold ETNs nor ETFs that are greater than 1x

inverse and/or leveraged. Therefore, clients who chose to purchase and sell these products assume all risks of those purchase and must carefully monitor holdings in these products because we do not provide advice about how long to hold these products.

### *Exchange Traded Notes*

An **exchange-traded note** (ETN) is an unsecured debt obligation (bond) of an issuer, typically a financial institution. Unlike traditional bonds, ETNs do not pay interest payments. Rather, the issuer promises to pay the holder of the ETN an amount determined by the performance of an underlying index on the maturity date of the ETN (less certain fees). ETNs trade on exchanges at prices determined by market factors, but do not hold assets or replicate the performance of an underlying index. An ETN may offer leveraged exposure (e.g., 2X) or a promise to pay a multiple of the index it tracks. Inverse ETNs offer to pay the opposite of the performance of the indexes they track, and leveraged inverse ETNs pay a multiple of the opposite of the performance indexes tracked. Some leveraged, inverse or leveraged inverse ETNs are designed to achieve their stated performance objectives on a daily basis and “reset” their leverage or inverse exposure on a daily basis. Leveraged and inverse ETNs are short-term, speculative trading tools and are not intended for buy-and-hold investing. Due to the resetting of its leverage factor, a leveraged ETN that is designed to deliver a multiple of the performance of an underlying benchmark on a daily basis will not necessarily deliver that multiple over longer periods such as weeks, months or years. Some ETNs are callable and/or may be subject to accelerated maturity dates at the issuer’s discretion.

Due to the effects of compounding, performance of these products over longer periods of time can significantly differ from the stated multiple of performance (or inverse of performance) of the underlying benchmark during the same period of time. Leveraged, inverse or leveraged inverse ETNs can have monthly resets or even no resets. There are other risks inherent in ETN investing, including credit risk (the risk that the issuer of the ETN will be unable to fulfil its obligations / may default on the note). ETNs have liquidity risk, in that a trading market may not develop or the ETN may be delisted. Because ETNs are traded on markets, they subject investors to market risk which is generally not assumed by investors investing in traditional debt.

### *Exchange Traded Funds*

Exchange traded funds (ETFs) are similar to mutual funds in that they are registered investment companies, but different in that they are traded on an exchange. Some ETFs are not registered investment companies and invest in things such as commodities, currencies or other instruments. ETF shares typically trade throughout the day on an exchange at prices established by the market. Leveraged ETFs seek to deliver a multiple of the performance of the benchmark they track. Inverse ETFs seek to return the opposite of the performance of the benchmark they track. Leveraged ETFs seek to return a multiple (e.g., 200%) of the daily return of the fund’s underlying index. Inverse ETFs seek to return the opposite of the daily return of the fund’s underlying index. Likewise, an inverse and leveraged ETF seeks to return the inverse of a multiple of the daily return of the fund’s underlying index. Leveraged and/or inverse ETFs utilize complex investment strategies which include futures contracts and options.

The investment strategies utilized by leveraged and/or inverse ETFs can result in the position being subject to increased volatility, particularly if held for multiple market sessions and can result in significant losses due to compounding. Leveraged and/or inverse ETFs are generally short-term investments that are not appropriate to hold for a long period of time. Transactions in leveraged and/or inverse ETFs can result in higher operating expenses and management fees, as there may be frequent turnover for these positions.

## **Product Exchanges**

Many mutual funds, UITs, variable annuities, alternative investments and variable universal life products are designed for long-term investing. However, under certain circumstances an investor may find that it is advantageous to switch from one investment product/company to another (e.g., mutual fund to a variable annuity). Surrender charges and/or sales concessions are often incurred when one of these products are switched to another product. Additionally, there are can be tax consequences (gains, losses, income, etc.) of switches. Ask you financial professional for a comparison of the features, risks and costs of any product you are exchanging for another.

## **Rollovers of Retirement Accounts**

Before making the decision to rollover an account from an employer sponsored plan or other retirement account, it is important to discuss with your financial professional the different options available, including any applicable fees or penalties as well as loss of any features in the old plan.

The following options may be available when it comes to your existing retirement plan:

- Maintain assets in employer’s plan (if permitted)
- Rollover your plan to an account called a “Rollover IRA”
- Rollover your plan to another employer-sponsored plan (if available and permitted)
- Liquidate and take a distribution in cash

Each option has its own advantages and disadvantages and the best alternative will vary depending on your financial needs, savings and objectives. Your financial professional can help you identify which option best fits your needs.

### *Important Considerations*

A decision to roll over plan assets to an IRA rather than keeping assets in a previous employer's plan or rolling over to a new employer's plan should reflect consideration of various factors, the importance of which will depend on an investor's individual needs and circumstances. Those factors can include (but are not limited to) the following:

- **Investment Options**—An IRA may enable an investor to select from a broader range of investment options than an employer plan. This may be less important if you are satisfied with the options available under your current plan. For example, an investor who is satisfied by the low-cost institutional funds available in some plans may not regard an IRA's broader array of investments as an important factor.
- **Fees and Expenses**—Retirement plans and IRAs usually involve (i) investment-related expenses and (ii) plan or account fees. Investment-related expenses may include sales loads, commissions, the expenses of any mutual funds in which assets are invested and investment advisory fees. Plan fees typically include plan administrative fees (e.g., recordkeeping, compliance, trustee fees) and fees for services such as access to a customer service representative. In some cases, employers pay for some or all of the plan's administrative expenses. An IRA's account fees may include, for example, administrative, account set-up and custodial fees.
- **Services**—Different levels of service exist under each option. Some plans, for example, provide access to investment advice, planning tools, telephone help lines, educational materials and workshops. Similarly, IRA providers offer different levels of service, which may include full brokerage service, investment advice, distribution planning and access to securities execution online.
- **Penalty-Free Withdrawals**—If an employee leaves their job between age 55 and 59½, they may be able to take penalty-free withdrawals from a plan. In contrast, penalty-free withdrawals generally may not be made from an IRA until age 59½. It also may be easier to borrow from an employer-sponsored plan.
- **Protection from Creditors and Legal Judgments**—Generally speaking, plan assets have unlimited protection from creditors under federal law, while IRA assets are protected in bankruptcy proceedings only. State laws vary in the protection of IRA assets in lawsuits.
- **Required Minimum Distributions**—Once an individual reaches age 72, the rules for both plans and IRAs require the periodic withdrawal of certain minimum amounts, known as the required minimum distribution. If a person is still working at age 72, however, they are generally not required to make required minimum distributions from their current employer's plan. This may be advantageous for those who plan to work into their 70s.
- **Employer Stock**—An investor who holds significantly appreciated employer stock in a plan should consider the negative tax consequences of rolling the stock to an IRA. If employer stock is transferred in-kind to an IRA, stock appreciation will be taxed as ordinary income upon distribution. The tax advantages of retaining employer stock in a non-qualified account should be balanced with the possibility that the investor may be excessively concentrated in employer stock. It can be risky to have too much employer stock in one's retirement account; for some investors, it may be advisable to liquidate the holdings and roll over the value to an IRA, even if it means losing long-term capital gains treatment on the stock's appreciation.

The features of each employer plan differ, so there may be other factors not listed above to be considered.

### *Exploring Options*

#### ***Option 1: Maintaining Assets in former employer’s plan***

Possible Advantages	Possible Disadvantages
<ul style="list-style-type: none"> <li>• Maintains tax-deferred status</li> <li>• Keeps current investment choices</li> <li>• Preserves any guaranteed interest rate</li> <li>• Keeps ownership of company stock in the account where it may have certain tax benefits at withdrawal</li> </ul>	<ul style="list-style-type: none"> <li>• Changes made to the plan by your former employer will affect you</li> <li>• Investment choices limited to those offered through your former employer’s retirement plan</li> </ul>

<ul style="list-style-type: none"> <li>• Fees and costs in an employer plan may be lower than similar individual accounts</li> <li>• A Plan fiduciary is required to prudently monitor the cost and quality of the investment options</li> <li>• IRS penalty-free withdrawals if you are at least 55 years old in the year you left your job</li> <li>• Protected from creditors and bankruptcy</li> <li>• Plan may provide access to educational resources, planning tools, and phone helpline</li> <li>• Employer may allow participant to continue to pay outstanding loans on plan after leaving the company</li> </ul>	<ul style="list-style-type: none"> <li>• Subjects you to limitations of the plan, including income distribution provisions when you retire</li> <li>• Account may be assessed fees for plan administration or other reasons</li> <li>• Access to personalized investment advice or advice that takes into account your other assets or particular needs may not be available</li> <li>• New contributions are not allowed</li> <li>• Loans on plan assets may be limited or restricted</li> </ul>
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***Option 2: Rollover your Plan to an IRA***

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>• Maintains tax-deferred status of savings</li> <li>• Allows new contributions, subject to contribution limitations</li> <li>• Allows the combination of all retirement plan accounts into a single IRA</li> <li>• Offers greater control as the client makes the decisions</li> <li>• Offers broad range of investment options to fit needs as they change over time</li> <li>• Protected from bankruptcy</li> <li>• Combine other qualified plans or IRA savings into one account</li> <li>• Your financial professional will help with investing and retirement planning</li> <li>• Flexibility when setting up periodic or unscheduled withdrawals</li> <li>• May help with planning and managing required minimum distributions at age 72</li> </ul>	<ul style="list-style-type: none"> <li>• Investment expenses and account fees may be higher than those of employer plans</li> <li>• IRS penalty-free withdrawals generally not allowed until age 59½</li> <li>• Loans are not allowed. Money can only be accessed by taking a taxable distribution</li> <li>• Limited protection from creditors</li> <li>• In-kind transfers of company stock to an IRA may result in appreciated value being taxed as ordinary income at withdrawal from the IRA It's important to know the types and range of investments and fees of an IRA</li> <li>• You may lose guaranteed interest rates, death benefits</li> </ul>

***Option 3: Rollover your plan to another employer sponsored plan (if joining a company that offers one)***

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>• Maintains tax-deferred status of savings</li> <li>• Continue to make contributions and save for retirement</li> <li>• Fees in employer plan may be lower than similar individual accounts</li> <li>• Plan fiduciary required to prudently monitor the cost and quality of the investment options</li> <li>• IRS penalty-free withdrawals if you're at least 55 years old in the year you leave your new job</li> <li>• Protected from creditors and bankruptcy</li> <li>• Plan may provide access to planning tools, educational resources and phone helpline</li> <li>• Loan provisions may allow borrowing from the rolled over money</li> <li>• No required minimum distribution at age 72 from a current employer's plan is required, unless you are a 5% or more owner of the company</li> </ul>	<ul style="list-style-type: none"> <li>• Changes made to the plan by your employer will impact you (i.e., plan investments, fees, services, plan providers, plan termination)</li> <li>• Investment choices limited to those the plan offers</li> <li>• Subjects you to limitations of the plan, including income distribution provisions when you retire</li> <li>• Account may be assessed fees for plan administration or other reasons</li> <li>• Access to personalized investment advice or advice that takes into account your other assets or particular needs may not be available through the retirement plan</li> <li>• Plan may offer fewer or more expensive investment options</li> <li>• May be more restrictive on withdrawals while employed</li> <li>• May not allow rollover from previous plan or impose limitations</li> <li>• In-kind transfers of company stock may result in appreciated value being taxed as ordinary income at withdrawal from the retirement plan</li> </ul>

**Option 4: Liquidate and take a distribution in cash**

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Immediate access to cash</li> <li>• May see significant tax advantage for company stock that has substantially appreciated</li> <li>• If after-tax contributions were made, could take these amounts tax-free (you will be required to pay tax on the earnings of these contributions)</li> </ul>	<ul style="list-style-type: none"> <li>• At distribution, 20% withheld on the taxable account balance for pre-payment of federal income taxes</li> <li>• If You are under 59 1/2 the withdrawal will be subject to a mandatory tax withholding as well as applicable penalties</li> <li>• State taxes and a 10% early distribution penalty may also apply on taxable account balance</li> <li>• May move you to a higher tax bracket</li> <li>• No future tax-deferred growth potential</li> <li>• Not protected from creditors or bankruptcy</li> </ul>

Check with your former employer’s plan administrator to confirm plan details and requirements. These descriptions are for general educational purposes and should not be construed as advice or recommendations. This is not tax or legal advice and we encourage you to consult with your tax or legal advisors on these issues.

We receive compensation as a result of your decision to roll over your assets into an IRA account with us. We have a conflict of interest because we have a financial incentive to recommend that your retirement plan assets be rolled into an IRA with us. However, we have procedures to mitigate this conflict.

**Conflicts of Interest**

A conflict of interest is a factor that has the potential to influence our decision when we make recommendations to you involving your brokerage account(s) with us. We are required to act in your best interest without putting the interest of our firm or our financial professionals over yours. Conflicts we have are primarily financial incentives that relate to the manner in which we earn compensation and/or financial incentives we have related to our product and service providers. As outlined above, we offer a wide range of products and services. Some of these have greater potential for conflicts than others. Our compensation varies depending on the type of products and services you select. For this reason, we have outlined in various parts of this document and in our Customer Relationship Summary (Form CRS) what those conflicts are. We have also developed procedures to mitigate conflicts of interest where possible.

Our conflicts fall into several categories. We summarize those conflicts below. However, you should also read the information above and consider the conflicts listed in a specific product’s prospectus or offering document as well.

*Third-Party Compensation*

As discussed in our Form CRS, we receive payments from third parties, primarily our clearing brokers and our product sponsors. This compensation falls into several categories.

We receive revenue sharing from product sponsors. Revenue sharing is a payment from a product sponsor to sell their products. There are several types of revenue sharing payments we can receive. Specifically, we receive payments to offset the costs of our conferences and events where we provide training and other information about their products to our financial professionals. We also receive payments based on our total sales of a sponsor’s product or total client assets held with a product sponsor. We post information on our website (as listed in Form CRS) about the nature and amount of these sponsor payments. We also receive compensation from product sponsors based on total deposits we hold with them (including sweep accounts like money market or bank sweep accounts), assets, and profitability of the business sold by our financial professionals.

We receive continuing commissions (also referred to as trail commissions) from product sponsors. This trail compensation is disclosed in the prospectus or offering document and for mutual funds is typically referred to as a “12b-1” fee. Trail commissions are shared with our financial professionals. These fees are paid by the product sponsors from the assets of the investment, typically as an annual percentage of the amount invested. We have a financial incentive to recommend products to you that pay us higher ongoing “trail” commissions.

Our financial professionals may also receive marketing reimbursements from product sponsors for expenses related to marketing their products like educational meetings and marketing tools. These payments are made only to our firm and must be approved by

supervisory personnel before being paid to representatives. Additionally, the payments may not be conditioned on selling products offered by the particular sponsor offering the marketing support.

Our product sponsors sometimes provide non-cash compensation to our financial professionals in the form of educational events, seminars, and promotional items including meals and entertainment.

### *Affiliate/Other Compensation*

KSI acts as the introducing broker-dealer for some transactions its financial professionals effect as the portfolio manager in advisory accounts. We have a conflict of interest in recommending KSI and its clearing brokers because we receive economic benefits from our clearing brokers such as a share of the interest on money market (including insured deposit) or margin account balances, which are based on the number and size of the accounts and balances carried with our clearing brokers. Receipt of economic benefits by us, our management personnel, or our financial professionals creates a conflict of interest that can impair our objectivity when recommending KSI or its clearing brokers.

We may buy and sell your investment through our own accounts and we can earn a profit on the transaction (principal transactions). This creates a conflict in that our interests are opposed. However, we do not hold our own positions, except to buy or sell from the marketplace to fill your order, called riskless principal trading. Your financial professional will also receive compensation when we trade on a principal basis. We will send you a transaction confirmation which includes important disclosures, including our compensation.

### *Financial Professional Compensation*

Our financial professionals are compensated through the commissions and advisory fees they earn. This means they earn a percentage of the fees generated from the products they sell and the assets they manage. The more products they sell, the more assets they manage, and the more business they transact, the more they earn. Further, some are compensated on a grid which provides thresholds allowing them to retain a greater percentage of compensation when they meet overall sales thresholds. As a result, our investment advisor representatives have a financial incentive to encourage you to place more assets in their account. Similarly, our brokers have a financial incentive to encourage you to engage in more transactions. Because of the nature of our business, our financial professionals earn a high percentage of the fees they generate, rather than a salary or bonus. For this reason, our financial professionals have a financial incentive to recommend more products and products with higher payouts. However, we maintain procedures to mitigate this conflict.

Financial professionals may have outside business activities whereby they can earn additional compensation. They may also maintain personal securities accounts whereby they transact for their own account. These activities can impact the recommendations you receive from the financial professionals and/or adversely impact orders you place. These activities can create a conflict with your interests. However, we maintain procedures to mitigate these conflicts.