

# Pinnacle Capital Securities

## Regulation Best Interest Disclosure

Dated: June 30, 2020



### Product, Services, and Conflicts Disclosures

Pinnacle Capital Securities, LLC. (“Pinnacle”) is registered with the Securities and Exchange Commission (“[SEC](#)”) as a broker-dealer. Pinnacle is a member of the Financial Industry Regulatory Authority (“[FINRA](#)”) and Securities Investors Protection Corporation (“[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

We do not offer standard brokerage accounts, nor do we maintain a relationship with a custodian or clearing broker. Rather, we conduct business directly with product sponsors or issuers. We offer accounts held directly with our product sponsors such as a mutual fund, private placement or annuity company. 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.

### Variable Annuities

Variable annuities offer investment features that may be similar to mutual funds, but they are not the same. Variable annuities commonly offer tax-deferred treatment of earnings, a death benefit, and annuity payout options that can provide certain guarantees of income over the lifetime of the annuitant. The products typically have an accumulation phase during which premium payments are made and the payments are accumulated and invested into the various sub-account options available in the product. The distribution phase is when

you withdraw money, either as a lump sum, or as a series of annuity payments. A variable annuity fluctuates in value because the value of the sub-accounts changes over time. For this reason, there is a risk that a purchaser of a variable annuity may lose money.

Variable annuities typically have surrender charges. This means that if you sell your annuity before a specified date, you may pay a surrender charge. Sometimes there is a percentage that can be withdrawn each year without penalty. Surrender fees in variable annuities typically range from 0% to 7% of the purchase price and may last up to ten years, depending on the product. There are also fees for the insurance features of the product, called mortality and expense risk charges, administrative fees, policy fees, charges for riders and other special features, as well as fees for the sub-accounts you select. These ongoing fees can range up to 3% of the annuity's value per year. Variable annuities can have higher costs than other products, particularly if there are riders selected. For this reason, we have an incentive to sell variable annuities and their optional features. This creates a conflict of interest.

Other important features include:

- Variable annuities are long-term investments. They should not be purchased with funds that are needed in the short-term.
- Certain features of variable annuities are subject to the ability of the insurance company to pay claims.
- Annuity proceeds are taxed as ordinary income, rather than capital gains, which also means that beneficiaries will not receive a step-up in the cost basis upon the death of the owner.
- Withdrawals made before age 59 ½ can result in a 10% tax penalty.
- While most insurance products offer a free-look period during which you may cancel without penalty, you will still bear any market losses during this period.
- Annuities have varying share classes. “B” shares typically have the lowest annual charges and surrender periods of 6-8 years. “L” shares have higher annual charges than “B” shares, and shorter surrender periods (3-4 years). “C” shares have the highest annual fees, with full liquidity (no surrender periods).
- Certain variable products offer bonus shares that provide for or payments to you at the time of purchase, but these annuities also charge higher ongoing expenses and/or surrender fees than those not offering the bonus feature. They also may have longer surrender periods (8-9 years).
- Tax deferral features of variable annuities are not necessary when the product is sold within an IRA or tax-qualified account. As such, variable annuity purchases within an IRA or similar account should be for a feature other than tax-deferral such as guaranteed income, annuitization, or others. Also, it is important to remember that IRA accounts typically require minimum required distributions and selling a variable annuity to satisfy these distributions may result in a surrender charge if the RMD exceeds any penalty-free withdrawal provision in the annuity.
- Your financial professional typically earns higher compensation on variable annuity products than some other products like stocks, bonds or mutual funds.

When you purchase a variable insurance product, we will provide you with additional disclosure documents including an insurance contract, application, and a prospectus. These documents contain additional information you should consider before investing.

## Exchanging Insurance Products

Features of insurance products make them appropriate generally only for long-term investors. That is why exchanging an insurance product can result in a loss of benefits like the guaranteed death benefit and the living benefit amount. Also, if you exchange your annuity product prior to the end of the surrender period, you could pay a surrender fee. Also, when you buy a new insurance product it may subject you to a new surrender period, often significantly longer than the remaining surrender period in your old product (if you had one). The new product will likely have different investment options, fees, and features. Make sure you understand the features you are giving up in an exchange transaction, and what you will gain in the new annuity. Also, if an exchange involves a bonus product (a bonus paid on the new product) it is important to understand that the fees of the new product may be higher in order to offset the amount of the bonus payment. Ask your financial professional for a detailed comparison of the old product and the new to ensure you understand the differences. Lastly, if you are selling or liquidating all or part of your annuity contract to purchase another investment product (not part of a tax-free exchange) you may owe ordinary income taxes on the liquidation amount, you may have to pay early withdrawal penalties, and there may be other features you lose as a result. Finally, because we earn fees when we exchange your annuities, we have an incentive to recommend an exchange which is a conflict of interest. For more information about annuity exchanges visit <https://www.finra.org/sites/default/files/InvestorDocument/p125849.pdf>

## 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 and can range from 0% to 7% of the amount invested. 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 allow 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).

## Alternative Investments

An investment in an alternative investment often involves significant risk and is appropriate only for persons having adequate financial means, and who desire a long-term investment and will not need immediate liquidity from that investment.

Important general considerations involving alternative investments include:

- Alternative investments are typically illiquid. As a result, you may not be able to sell your alternative investment if you need to raise money.
- If you sell your alternative investment you receive less money than you invested.
- You should carefully review the alternative investment prospectus, including investment objectives and suitability standards to ensure that they align with your needs, goals, and financial objectives.
- While some alternative investments may have the goal of becoming listed on an exchange, there is no guarantee. Further, should your alternative investment become listed on an exchange, then its share price will fluctuate in value for greater or less than your initial purchase.
- Past performance of any alternative investment is not a guarantee of future results.
- Your alternative investment does not guarantee a dividend, nor is it insured by the FDIC like a bank CD.
- Neither Pinnacle nor the alternative investment company from which you are purchasing a product offers legal or tax advice pertaining to alternative investments. You are advised to consult with my own professional legal and/or tax advisor prior to purchasing.
- The alternative investment you are purchasing may offer more than one share class. If there are share class options, you should carefully review the prospectus to determine whether you are eligible for share class discounts (breakpoints) which are sometimes offered for larger purchases. Also, over time the share class you select may result in a different return than the return realized by other share classes. Share class features are not uniform, and can vary from issuer to issuer. For each share class you should understand: a) the share class offering price, b) the net proceeds available for investment, c) the initial and on-going fees, d) distributions/dividends, and e) disposition/exit strategy.

## *Other Types of Alternative Investments*

Other types of alternative investments include private placements, limited partnerships, oil and gas programs, equipment leasing, managed futures, business development corporations, conservation easements and Section 1031 exchanges. Each of these products has unique features and is limited to sophisticated investors who understand the risks related to the product. Alternative investments have substantial risk and are illiquid investments, meaning they cannot be sold to obtain a return of principal. As a result, they are only appropriate for a limited number of investors. Additionally, they have substantial fees (the products can carry initial concessions or commissions in the range of 10% of the amount invested) including initial and ongoing fees. We earn substantial fees on the sale of these products, so we have an incentive to sell them over other products. This creates a conflict of interest. Each alternative investment has a prospectus or offering document that details risks, costs and other conflicts you should consider before investing.

Alternative investments 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. 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 70½, 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 70½, 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.

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*

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.

### *Financial Professional Compensation*

Our financial professionals are compensated through the commissions and fees they earn. This means they earn a percentage of the fees generated from the products they sell 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.