

# Portfolio

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Form ADV Part 2A  
Form Brochure  
January 8, 2019

This brochure provides information about the qualifications and business practices of Portfolio123 Securities LLC. Please contact our Compliance Department at (312) 586-1101 if you have questions about the contents of this brochure.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Additional information about Portfolio123 Securities LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). A search of this site for firms or their associated personnel can be accomplished by name or a unique firm identifier, known as a CRD number. The CRD number for Portfolio123 Securities LLC is 283900.

Even though the firm and its associates may be registered with the SEC or notice -filed in other jurisdictions, that registration implies neither an endorsement by any regulatory authority nor a certain level of skill or training on the part of the firm or its associated personnel.

## **Item 2 - Material Changes**

Portfolio123 Securities LLC amended its January 8th, 2019 Form ADV Part 2A due to:

- An update to the firm's reportable assets under management (Item 4)
- Textual revision to description of Advisory Services (Item 4)
- Revision to description of Fees and Compensation establishing a simpler fee structure (Item 5)
- Textual revision to description of Types of Clients (Item 7)
- Revision to description of methods of Methods of Analysis, Investment Strategies and Risk of Loss (Item 8)
- Revision to Code of Ethics, Participation or Interest in Client Transactions and Personal Trading (Item 11)

The firm may at any time update this document and either send a copy of its updated brochure or provide a summary of material changes to its brochure and an offer to send an electronic or hard copy form of the updated brochure. Clients are also able to download this brochure from the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or may contact our firm at (312) 586-1101 to request a copy at any time.

As with all firm documents, clients and prospective clients are encouraged to review this brochure in its entirety and are encouraged to ask questions at any time prior to or throughout the engagement.

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## **Item 4 - Advisory Business**

Portfolio123 Securities LLC is an SEC-registered Internet Only investment advisor pursuant to Rule 203A-2(e). We operate under the trade name Portfolio123 Advisor. Our firm may notice-file (register) when appropriate in those jurisdictions in which we conduct investment advisory business and/or we may meet certain exemptions per statute.

Based in Chicago, Illinois, Portfolio123 Advisor is a Delaware corporation formed in March of 2016. Portfolio123 Advisor's majority shareholder is Prism Research, Inc., whose controlling interest is retained by Marco F. Salerno. Portfolio123 Advisor does not have any subsidiaries or controlling interests in another reportable business entity.

Our primary focus is to provide discretionary and nondiscretionary portfolio management as well as trading signal subscription services to clients exclusively through web-based solutions and virtual interaction. We do not offer financial planning services, nor do we sponsor or serve as a portfolio manager in an investment program involving wrapped fees. As of January 8, 2019, our firm managed \$1,026,457.01 of reportable assets on a discretionary basis (defined in Item 16).

Interested parties must access our secure website where they are offered our current firm brochure (Form ADV Part 2A) that describes our advisory firm, its services, potential fees, etc., as well as any material conflicts of interest that could be reasonably expected to impair the rendering of unbiased and objective advice. Both the firm brochure and privacy policy statement are available to our clients/prospective clients in either portable document format (PDF) for their download and/or may be printed on their own local printer. Should the prospective client wish to then engage Portfolio123 Advisor for its services, they must then enter into a written agreement with our firm to initiate the process.

We ask prospective clients to respond to a sequence of interactive questions we believe important to the development of their portfolio such as their age, investment time horizon, income and/or liquid assets, the amount they plan to invest, among others. We inquire into their investment tendencies, as well as tolerance or appetite for risk. The client is asked to provide their information which assists our firm in designing a portfolio for that particular investor. The accuracy of the data provided by the client is important to their investment recommendation; however, we will not be required to verify any information received from the client and Portfolio123 Advisor is expressly authorized to rely on said client thereon.

Following responses to a series of online questions, the client will receive a recommendation of an investment portfolio comprising ETFs and/or individual equities (stocks) believed to be appropriate for their situation. The recommendation will be delivered for viewing over the Internet via our website, and the prospective client is able to locally print a copy for their consideration. Portfolio123 Advisor does not take an investor's personal tax situation into consideration when managing portfolios. Clients are encouraged to consult with a professional tax advisor.

Our firm engages the services of Prism Research, Inc. in order to receive proprietary research and trading signals for our clients' portfolios. Item 8 provides additional details about our investment strategies, types of investment vehicles used, and their associated risks.

Clients retain discretion over the implementation decisions and are free to accept or reject our recommendation. Once the client has accepted the portfolio recommendation, they are encouraged to open a separate investment account in order to participate in the program. Once the portfolio has been selected, we will execute trades for the initial allocation of the selected strategy and make trades in the future in order to rebalance the portfolio back toward target weights when appropriate to correct portfolio drift, account for deposits and withdrawals, or if an underlying model requires modification. Portfolio123 Advisor does not have the authority to remove funds or securities, and may only request the withdrawal of its advisory fees as described in Item 5 of this brochure.

Account holdings that are not part of the portfolio that the client has previously selected as a result of our recommendations will not be monitored. With regard to these, the client may execute and monitor in a self-directed portion of their advisory account, or may do this in a completely different account that is not related to the Advisory account at Interactive Brokers or subject to any advisory relationship with Portfolio123 Advisor. If the client chooses to remove money from the Advisory account at Interactive Brokers, there may be additional fees charged by their custodian to liquidate or transfer those securities. If the client decides to liquidate the securities without removing the cash from the account, the client may, if they wish, invest all or a portion of the cash from such sales in the portfolio we recommend assuming investment minimums are met.

It remains each client's ongoing responsibility to promptly update their information within our system when there is a material change to their situation and/or investment objective for the purpose of evaluating or revising previous account restrictions or portfolio recommendations.

## **Item 5 - Fees and Compensation**

Forms of payment are based on the types of services being provided, term of service, etc., and will be stated in the firm's engagement agreement. Published fees may be discounted at the discretion of a member of our advisory firm's management but they are generally non-negotiable. Fees are to be paid by check or draft from US-based financial institutions. With the client's prior authorization, payment may also be made through a qualified, unaffiliated PCI compliant<sup>1</sup> third-party processor, or withdrawal from the client's investment account held at their custodian of record. Our firm does not accept cash, money orders or similar forms of payment for its engagements.

### ***Subscription Services***

We provide our institutional clients and self-directed investors maintaining an account at another custodian ("held-away" accounts) a web-based screening and model portfolio recommendation service for a subscription fee of \$10 to \$ 100 per month, depending on the number of models, volume of information being used, etc. The fee is to be paid monthly, in arrears, and within 15 days of invoice. We will prorate the first month's fee, if necessary, based on the number of days remaining in the month.

### ***Portfolio Management Services***

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<sup>1</sup> For an explanation of the term "PCI," who the PCI Security Standards Council is, as well as its comprehensive standards to enhance payment card data security, please go to [https://www.pcisecuritystandards.org/security\\_standards/index.php](https://www.pcisecuritystandards.org/security_standards/index.php)

In order for our firm to serve an account via our portfolio management services, the client is required to first fund the account. We require a minimum of \$5,000 for any investment model. Instructions for funding the account will be provided interactively on our website. We bill portfolio management services clients in arrears on a monthly or quarterly basis, at the client's determination. Our annualized asset-based fee is 0.35% (35 basis points) of the average daily balance during the previous month or quarter, depending on the payment cycle.

The client's first billing cycle will begin once the agreement is executed with our firm and assets have settled into the client account held by the custodian of record. Partial periods will be prorated based on the remaining days in the month or quarter, as applicable. Accounts will be assessed in accordance with the values disclosed on the statement the client will receive from the custodian of record for the purpose of verifying the computation of the advisory fee. In the rare absence of a reportable market value, our firm may seek a third-party opinion from a recognized industry source (e.g., public accounting firm), and the client may choose to separately seek such an opinion at their own expense as to the valuation of "hard-to-price" securities if necessary.

All deducted fees will be noted on account statements that the client will receive from the custodian of record. We encourage clients to verify the accuracy of fee calculations; the custodian may not necessarily verify billing accuracy for each account. By signing our advisory firm's engagement agreement, as well as the custodian of record account opening documents, the client will be authorizing the withdrawal of both advisory and transactional fees from their account. The withdrawal of these fees will be accomplished by the custodian of record, not by Portfolio123 Advisor, and the custodian will remit the advisory fees directly to our firm.

### ***Potential Additional Fees and Charges***

Any transactional or service fees (sometimes termed *brokerage fees*) assessed by the client's custodian of record, individual retirement account fees, qualified retirement plan, wires or third-party payment fees, transfer fees, or account termination fees will be borne by the account holder per the fee schedule of their selected service provider.

Portfolio123 Advisor recommends that the client keep a portion of the account in cash reserves. The cash will be held as a cash credit in the brokerage account and will be used primarily to collect advisory fees and pay for account transactions. Generally, this amount should be two percent of the entire account value. For example, if the client deposits \$ 10,000, then \$200 should be held in a cash position and \$9,800 will be allocated to investments within the portfolio.

Additional information about our firm's fees in relationship to its business practices may be found in Item 12 of this document.

### ***External Compensation Involving Sale of Securities***

Our firm does not charge or receive a commission or mark-up on securities transactions, nor will the firm be paid a commission on the purchase of a securities holding that is recommended to a client. The firm does not receive "trailer" or SEC Rule 12b-1 fees from an investment company that may be recommended to a client. Fees charged by such issuers are detailed in prospectuses or product descriptions and interested investors are always encouraged to read these documents before investing.

A client may prefer to purchase a recommended or similar investment through a service provider of their own choosing.

### ***Termination of Services***

Either party may terminate the agreement at any time, which should typically be done in writing. If a client verbally notifies our firm of the termination and, if within two business days following this notification our firm has not been sent the client's written notice, our firm will make a written notice of the termination in its records and will send the client its own termination notice as a substitute.

Portfolio123 Advisor will not be responsible for future investment allocation, advice or transactional services (except for limited closing transactions) upon receipt of a termination notice. Upon termination, it will also be necessary that we inform the custodian of record that the relationship between the firm and the client has been terminated.

If the client did not receive our Form ADV Part 2A firm brochure at least 48 hours prior to entering into the firm's agreement, then the client will have the right to terminate the engagement without penalty within five business days after entering into the agreement. Should the client terminate the agreement after the five-day period, the client will be assessed fees on a per-day prorated basis for services incurred from either (i) as a new client, the date of the engagement to the date of the firm's receipt of the written notice of termination, or (ii) for all other accounts, the last billing period to the date of the firm's physical or constructive receipt of written termination notice.

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

Portfolio123 Advisor fees will not be based upon a share of capital gains or capital appreciation (growth) of any portion of a client's portfolio (also known as performance-based fees). Our compensation will also not be based on side-by-side management, which refers to a firm simultaneously managing accounts that do pay performance-based fees (such as a hedge fund) and those that do not.

### **Item 7 - Types of Clients**

Portfolio123 Advisor offers its services to:

- High Net Worth Individuals
- Other Investment Advisors
- Pooled Funds

The minimum investment per account for our portfolio management services is \$5,000. If the account balance falls below the minimum required, we reserve the right to discontinue the advisory relationship. Portfolio123 Advisor reserves the right to waive or reduce certain fees based on unique individual circumstances, special arrangements, pre-existing relationships, or as otherwise may be determined by our firm. We reserve the right to decline services to any prospective client for any nondiscriminatory reason.

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

### ***Method of Analysis***

We employ what we believe to be an appropriate blend of economic, fundamental and sentiment analyses.

Economic analysis broadly involves evaluating economic factors including interest rates, the current state of the economy and is used to guide the development of broadly-diversified asset-allocation portfolios as well as fixed-income strategies.

We are especially proficient in use of fundamental analysis to develop stock-selection strategies in a disciplined, objective, data-driven, rules-based manner. We use data reported by companies in financial statements, ratios based thereon -- growth rates, financial strength ratios, DuPont framework ratios (returns on capital and the margins, turnovers and leverage upon which they are based) and so forth, and financial data combined with share price data (valuation ratios) to identify suitable investment opportunities. We supplement this by use of data relating to investment-community sentiment.

Using all this data and the data relationships we deem most insightful, we create sets of Buy rules (screens) and ranking systems to help us choose stocks for various strategy-based portfolios, each of which is designed to address a specific investment goal. We also establish objective data-driven rules to signal when stocks should be sold (and when sold, they are replaced with other stocks our models deem suitable).

The overarching goal of our strategies is to identify stocks that are mispriced relative to the company's growth prospects and to company risk/quality.

Portfolio123 Advisor relies upon Portfolio123 (the other business operated by our parent, Prism Research, Inc.) for the data and tools we need to develop and maintain our strategy-based investment models.

### ***Investment Strategies***

If the future could be known with complete certainty, so, too, could we identify stocks that satisfy our goal of seeking stocks mispriced relative to the company's growth prospects and to company risk/quality. The formulas for doing this are simple and direct and flow from the well-known Gordon Dividend Discount Model which is in turn derived from basic concepts of "present value." Because the future is not known, we rely on cues gleaned from fundamental data and broad investment community expectations (sentiment) to point us toward stocks that are, in our view, more likely than not to be undervalued relative to the key but non-presently-knowable growth and risk/quality characteristics. Different Stock strategies we use are designed to work with different sets of cues.

Some of our Income strategies involve ownership of stocks that pay good dividends. The considerations set forth above apply to selection of such stocks. Also, in this case, we pay close attention to the current dividend yield as well as data-driven clues relating to potential dividend growth and the safety of the dividend.



We also use fixed-income ETFs (Exchange Traded Funds) to implement our Income strategies. In this case, relying primarily on economic analysis, we strive for appropriate balances between current yield, the risk attached to payment of interest and market risks (i.e. the risk of asset depreciation from rising interest rates).

Economic analysis also guides our Core Asset Allocation strategies. Also, these strategies require us to consider the risks and opportunities of diversification into non-U.S. developed and emerging markets (which we accomplish through investment in ETFs).

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

Our firm believes its strategies and investment recommendations are designed to produce the appropriate potential return for the given level of risk; however, there is no guarantee that an investment objective will be achieved. Investing in securities involves risk of loss that clients should be prepared to bear. We have offered examples of such risk in the following paragraphs, and we believe it is important that our clients review and consider each of them risk prior to investing.

### ***Future Risk***

Investors invest with eyes toward and goals relating to the future, but all of the decisions we make can only be made with respect to what we observe about the present and the past. As a result, there is an always-present and always-important risk that what occurs in the future will not resemble the data relating to the present and/or the past. Put another way, well-known verbiage to the effect that past performance does not assure future outcomes is not merely a slogan; it's a crucial and accurate statement of a very real and important source of risk.

### ***Non-passive Asset Management***

A portfolio that is not entirely dependent on passive investment (indexing) may, at times, outperform or underperform various benchmarks or other strategies. In an effort to meet or surpass these benchmarks, non-passive management may require more frequent trading or "turnover." This may result in shorter holding periods, higher transactional costs and/or taxable events generally borne by the account holder, thereby potentially reducing or negating certain benefits of non-passive asset management.

### ***Strategic Risk (Stocks)***

The strategies we use to identify and invest in equities presumes the characteristics we believe to be present as a result of the available data are, in fact, present in the securities considered. There is however, the risk that a situation may comply with the letter-of-the-law (as articulated by the objective models we create) but violate its spirit. Our models are created with full awareness of this ever present risk (which may be referred to by quantitative researchers or statisticians as "specification risk") and we make our best efforts to avoid or at least mitigate its consequences, but there can be no assurance of success.

### ***Market Risk***

When the stock market as a whole or an industry as a whole fall in value, it can cause the prices of individual stock prices to fall indiscriminately. This is also called *systemic* or *systematic* risk.

### Company Risk

When investing in securities, there is always a certain level of company or industry-specific risk that is inherent in each company or issuer. For example, there is the risk that a company will perform poorly or have its value reduced based on factors specific to the company or its industry. This is also referred to as *unsystematic risk* and can be reduced or mitigated through diversification.

### Financial Risk

Excessive borrowing to finance a business operation increases profitability risk because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

### Equities (Stocks)

Common stocks are susceptible to general stock market fluctuations and to volatile increases or decreases in value as market confidence in and perceptions of their issuers change. If an investor held common stock or common stock equivalents of any given issuer, they may be exposed to greater liquidation risk than if they held preferred stocks and debt obligations of the issuer.

### ETFs

The risk of owning an ETF reflects its underlying securities (e.g., stocks, bonds, derivatives, etc.). Note that we do not recommend leveraged or inverse ETFs due to their inherent heightened risk. Some ETFs carry additional expenses based on their share of operating expenses and certain brokerage fees, which may result in the potential duplication of certain fees. ETFs have the potential to be affected by “active risk;” a deviation from a stated index (e.g., S&P 500). While many ETFs are known for their potential tax-efficiency and higher “qualified dividend income” (QDI) percentages, shorter holding periods, as well as commodities and currencies (that may be a holding within an ETF) may be “non -qualified” under tax code provisions. A holding’s QDI should be considered by the investor and their tax advisor if tax-efficiency is an important aspect of a portfolio.

### Inflation Risk

When any type of inflation is present, a dollar today will not buy as much as a dollar next year because purchasing power is eroding at the rate of inflation.

### Research Data

When research and analyses are based on commercially available information and information transmission systems, a firm is relying on the accuracy and validity of the information or capabilities received from selected vendors.

While our firm makes efforts to determine the accuracy of the information received, we cannot predict the outcome of events or actions taken or not taken, or the validity of all information researched or provided which may or may not affect the advice regarding or investment management of an account.

### **Item 9 - Disciplinary Information**

Neither Portfolio123 Advisor nor any member of its management has been involved in a material criminal or civil action in a domestic, foreign or military jurisdiction, an administrative enforcement action, or self-regulatory organization proceeding that would reflect poorly upon our firm's advisory business or the integrity of our firm.

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

Our advisory firm and its management are not registered, nor have an application pending to register as a Financial Industry Regulatory Authority (FINRA) or National Futures Association (NFA) member firm or associated person of such a firm, nor are we required to be registered with such entities. Neither our firm nor its management is or has a material relationship with any of the following types of entities:

- accounting firm or accountant
- another investment advisor, including financial planning firms, municipal advisors or third-party investment managers
- bank, credit union or thrift institution, or their separately identifiable departments or divisions
- insurance company or insurance agency
- lawyer or law firm
- pension consultant
- real estate broker, dealer or advisor
- sponsor or syndicator of limited partnerships
- trust company
- an issuer of a security, to include an investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund).

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

#### ***Code of Ethics***

Portfolio123 has adopted a Code of Ethics establishing policies involving the conduct of its personnel, their obligation to comply with applicable laws and regulations, and to act in an ethical and responsible manner involving its advisory services and activities. Such policies include prohibitions against insider

trading, and certain political contributions, among others. Our firm periodically reviews and amends its Code of Ethics to ensure they remain current, and require all personnel to annually attest to their understanding of and adherence to our Code of Ethics. A copy of the firm's Code of Ethics is made available to any client or prospective client upon request.

### ***Investment Recommendations and Conflicts of Interest***

An associate is prohibited from borrowing from or lending to a client unless the client is an approved lending institution.

No associate of the firm is authorized to recommend to a client, or effect a transaction for a client, involving any security in which the firm or a "related person" (e.g., associate, an immediate family member, etc.) has a material financial interest, such as in the capacity as an underwriter or advisor to an issuer of securities, etc.

#### **The Advisor**

Portfolio123 Advisor does not trade for its own account (e.g., proprietary account trading). The firm's related persons may buy or sell securities that are the same as, similar to, or different from, those recommended to clients for their accounts. However, the nature of the advisory service we render are such that conflicts between related persons and clients and between one client and another are not likely to arise. Our focus is on portfolios, not individual securities, and transactions in these securities are determined by data-driven rules. Updates to data, which determine changes in our models, are received from our data providers during non-market hours so it is not possible for any related person to have advance knowledge of what signals will be forthcoming from any model and to trade upon same before trades are executed for clients, nor is it possible for one client to benefit from new model signals before any other client.

## **Item 12 - Brokerage Practices**

### ***Factors Used to Select Broker/Dealers for Client Transactions***

We prefer that our clients use the services of Interactive Brokers LLC ("Interactive Brokers"), an Interactive Brokers Group, Inc. company. Note that Interactive Brokers may clear and/or custody client accounts through its broker/dealer affiliate who is a FINRA and SIPC member firm.<sup>2</sup> Our firm is independently owned and operated and is not legally affiliated with Interactive Brokers or any other provider we may recommend. While we recommend Interactive Brokers, the client will decide whether to do so and will open their account with them by entering into an account agreement directly with the custodian. We do not open the account for the client, but we offer instructions via our website to assist the client in doing so.

Interactive Brokers and its affiliates offer independent investment advisors various services which include custody of client assets, trade execution, clearance and settlement, etc. Our firm may receive other benefits from our preferred custodian through participation in their independent advisor support program. These benefits may include the following products and services (provided either without cost or at a discount):

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<sup>2</sup> Our firm is not, nor required to be, a Securities Investor Protection Corporation (SIPC) member. Interested parties may learn more about the SIPC and how it serves member firms and the investing public by going to their website at <http://www.sipc.org>.

- receipt of duplicate client statements and confirmations
- research related products and tools
- access to trading desks serving our clients
- access to block trading services
- the ability to have advisory fees deducted directly from a client's accounts (per written agreement)
- resource information related to capital markets and various investments
- access to electronic communications networks for client order entry and account information
- access to mutual funds with no transaction fees
- discounts on marketing, research, technology, and practice management products or services provided to our firm by third-party provider

Some of the noted products and services made available to our firm by our preferred custodian may benefit our advisory firm but may not directly benefit a client account, and certain research and other previously referenced services may qualify as "brokerage or research services" under Section 28(e) of the Securities Exchange Act of 1934. The availability of these services benefits our firm because we do not have to produce or purchase them as long as clients maintain assets in accounts at our recommended custodian. There is a conflict of interest since our firm has an incentive to select or recommend a custodian based on our firm's interest in receiving these benefits rather than the client's interests in receiving favorable trade execution. It is important to mention that the benefit received by our firm through participation in any custodian's program does not depend on the amount of brokerage transactions directed to that custodian, and our selection of a custodian is primarily supported by the scope, quality, and cost of services provided as a whole, not just those services that benefit only our advisory firm. Further, we will act in the best interest of our clients regardless of the custodian we may select. Our firm conducts periodic assessments of any recommended service provider which generally involves a review of the range and quality of services, reasonableness of fees, among other items, in comparison to industry peers.

### ***Client Referrals from Custodians***

We do not receive referrals from our custodian, nor are client referrals a factor in our selection of our custodian.

### ***Best Execution***

"Best execution" means the most favorable terms for a transaction based on all relevant factors, including those listed in the paragraph titled *Factors Used to Select Broker/Dealers for Client Transactions*. We recognize our obligation in seeking best execution for our clients; however, it is our belief that the determinative factor is not always the lowest possible cost but whether the selected

custodian's transactions represent the best "qualitative execution" while taking into consideration the full range of services provided. Our firm will seek services involving competitive rates but it may not necessarily correlate into the lowest possible rate for each transaction. We have determined having our portfolio management clients' accounts trades completed through Interactive Brokers is consistent with our obligation to seek best execution of client trades. A review is regularly conducted with regard to recommending a custodian to our clients in light of our duty to seek best execution.

### ***Directed Brokerage***

Our internal policy and operational relationship with our custodian requires client accounts custodied with them to have trades executed per their order routing requirements. We do not direct which executing broker should be selected for client account trades; whether that is an affiliate of our preferred custodian or another executing broker of our custodian's choice. As a result, a client may pay higher commissions or other transaction costs, experience greater spreads, or receive less favorable net prices on transactions than might otherwise be the case. In addition, since we routinely recommend a custodian for our advisory clients, and that custodian may choose to use the execution services of its broker affiliate for some or all of our client account transactions, there is an inherent conflict of interest involving our recommendation since our advisory firm receives various products or services described in his section from that custodian. Note that we are not compensated for trade routing/order flow, nor are we paid commissions on such trades. We do not receive interest on our client accounts' cash balances.

Our portfolio management clients are unable to engage in directed brokerage via our custodian. As a result, they may pay higher commissions or other transaction costs, potentially experience greater spreads, or receive less favorable net prices on transactions for their account than would otherwise be the case if they had the opportunity to direct brokerage.

For those clients who maintain account assets at another custodian of record, they may choose to request that a particular broker is used to execute some or all account transactions. Under these circumstances, the client will be responsible for negotiating, in advance of each trade, the terms and/or arrangements involving their account with that broker, and whether the selected broker is affiliated with our custodian of record or not. We will not be obligated to seek better execution services or prices from these other brokers, and we are unable to aggregate the client's transactions for execution via our recommended custodian with other orders for accounts managed by our firm. As a result, the client may pay higher commissions or other transaction costs, potentially experience greater spreads, or receive less favorable net prices on transactions for their account than would otherwise be the case.

### ***Aggregating Securities Transactions***

Trade aggregation involves the purchase or sale of the same security for several clients/accounts at approximately the same time. This may also be termed "blocked," "bunched" or "batched" orders. Aggregated orders are effected in an attempt to obtain better execution, negotiate favorable transaction rates, or to allocate equitably among multiple client accounts should there be differences in prices, brokerage commissions or other transactional costs that might otherwise be unobtainable through separately placed orders.

Transaction charges and/or prices may vary due to account size and/or method of receipt. To the extent that the firm determines to aggregate client orders for the purchase or sale of securities, including securities in which a related person may invest, the firm will generally do so in accordance with the

parameters set forth in SEC No Action Letter, *SMC Capital, Inc.* A copy of the referenced No Action Letter is available upon request.

Please note that when trade aggregation is not allowed or infeasible and necessitates individual transactions (e.g., withdrawal or liquidation requests, odd-lot trades, nondiscretionary accounts, etc.), an account may potentially be assessed higher costs or less favorable prices than those where aggregation has occurred.

We review firm trading processes on a periodic basis to ensure they remain within stated policies and regulation. You will be informed, in advance, should trading practices change at any point in the future.

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

Our firm's advice is rendered through its online delivery solution and is designed to be operated by the user (client) themselves. Clients have unlimited access and frequency to employ systems' functionality and are able to review their account, portfolio allocation, etc., and update it as necessary.

Non-periodic reviews may occur via our systems when they are triggered by material market, economic or political events, or by changes in client's financial situations. Clients should consider revisiting previously entered data to update their information if a material event has occurred.

Clients will receive electronic account statements prepared by the custodian of record on at least a quarterly basis. Portfolio123 Advisor does not create an account statement for an advisory client, and we urge clients to carefully review statements they receive from the custodian of record for accuracy and clarity.

Portfolio123 Advisor's advice is rendered through its online technology and is set up to be run by the client. Performance reports are available for the client when they access the firm's service platform, and clients have unlimited access to the system as long as their account remains open with our advisory firm. This access also provides the client the ability to generate various reports to gauge their account progress. Portfolio123 Advisor's online performance reports are calculated using both time-weighted and money-weighted methodologies that are programmed into our portfolio administration systems, and are periodically back-tested by supervisory staff and/or qualified third-parties to ensure accuracy. We do not validate performance reports created by systems external to ours, and cannot attest as to whether they are calculated on a uniform and consistent basis. Our reporting system compounds daily portfolio-level returns from the period the account had been originally funded until the present time. Reports are intended to inform clients about investment performance on both an absolute basis and as compared to a well-known benchmark. We believe these are appropriate methods to evaluate portfolio performance since not all are sensitive to the contributions or withdrawals the client makes to their account. Clients are urged to carefully review and compare account statements that they have received prepared by their custodian of record with any performance report received from our advisory firm.

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

We do not engage in solicitation activities involving unregistered persons. If we receive or offer an introduction to a client, we do not pay or earn referral fee, nor are there established *quid pro quo* arrangements. Each client retains the right to accept or deny such referral or subsequent services.

## **Item 15 - Custody**

Client assets will be maintained in a separate account in the client's name at their custodian of record. Client assets are not physically maintained by our advisory firm or by any related person of our advisory firm. In keeping with this policy involving client funds or securities, we:

- Restrict the firm or an associate from serving as trustee or having general power of attorney over a client account;
- Prohibit an associate from having authority to directly withdraw securities or cash assets from a client account. Advisory fees will only be withdrawn from a client investment account through the engagement of a qualified custodian maintaining client account assets and with prior written client approval;
- Do not accept or forward client securities (i.e., stock certificates) erroneously delivered to our advisory firm;
- Will not collect advance fees of \$1,200 or more for services that are to be performed six months or more into the future;
- Will not authorize an associate to have knowledge of a client's account access information (i.e., online 401(k), brokerage or bank account passwords) when such access might result in physical control over client assets.

Clients will be provided with transaction confirmations and summary account statements prepared by the custodian of record. Statements are provided on at least a quarterly basis, but may be made available monthly by the account custodian. Portfolio123 Advisor will not create an account statement for a client nor serve as the sole recipient of client account statements. Clients are urged to carefully review and compare their account statements that they have received from their custodian of record with any performance report they may receive from our firm or any other source.

## **Item 16 - Investment Discretion**

Portfolios may be managed by the client on a self-directed basis. We would then provide suggested allocations and the client determines whether to execute those trades.

If we are asked to provide rebalancing services, we will serve the account on a discretionary basis. Via a limited power of attorney, we would then be granted the authority to implement investment decisions, such as the purchase or sale of a security on behalf of an account, without requiring the client's prior authorization for each transaction in order to meet stated investment objectives. This authority will be provided by the client through the execution of our engagement agreement and the account custodian's documents. Note that the custodian would specifically limit our authority within an account to the placement of trade orders and our request for the deduction of our advisory fees. It remains the client's responsibility to notify us if there is any change in their situation and/or investment objective so that we may reevaluate previous investment recommendation.



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

Clients may periodically receive “proxies” or other similar solicitations sent directly from their custodian of record or transfer agent. We do not forward these or any correspondence relating to the voting of client securities, class action litigation, or other corporate actions if we receive a duplicate copy.

Our firm does not vote proxies on behalf of our clients nor do we offer specific guidance on how to vote proxies, including accounts served on a discretionary basis. We will not offer guidance involving any claim or potential claim in any bankruptcy proceeding, class action securities litigation or other litigation or proceeding relating to securities held at any time in a client account, including, without limitation, to file proofs of claim or other documents related to such proceeding, or to investigate, initiate, supervise or monitor class action or other litigation involving client assets.

Clients will maintain exclusive responsibility for directing the manner in which proxies solicited by issuers of securities that they beneficially own shall be voted, as well as making all other elections relative to mergers, acquisitions, tender offers or other legal matters or events pertaining to a client’s holdings. Clients should consider contacting the issuer or their legal counsel involving specific questions they may have with respect to a particular proxy solicitation or corporate action.

## **Item 18 - Financial Information**

Portfolio123 Advisor does not take physical custody of client accounts. The client must open an account in their name at their custodian of record.

We do not we require or solicit prepayment of more than \$1,200 in advisory fees per client for services that are to be performed six months or more in advance.

Neither the firm nor any member of its management serves as general partner for a partnership or trustee for a trust in which the firm’s advisory clients are either partners of the partnership or beneficiaries of the trust.

The firm and its management do not have a financial condition likely to impair the ability to meet their commitment to advisory firm clients, nor has the firm and its management been the subject of a bankruptcy petition.

Due to the nature of our advisory services, an audited balance sheet is not required nor included in this disclosure.

## **Portfolio123 Privacy Policy**

At Portfolio123 we respect your privacy. We will not disclose any information you provide with third parties unless you authorize us to do so. We send out regular weekly reports and we occasionally send out mailings to our members to inform them of important developments, such as new features. We may send out individual emails if we notice that we can help someone use the site more efficiently.

Portfolio123 may share contact information with carefully prescreened third parties for marketing or promotional purposes. Portfolio123 may also disclose personal information, when we believe in good faith that disclosure is legally required, to protect our rights or the safety of others.

If you wish to be removed from all emails and marketing list, email us at [info@portfolio123.com](mailto:info@portfolio123.com) with a subject of "UNSUBSCRIBE".

Portfolio123 reserves the right to change this policy at any time by posting a revised privacy policy online.

### **How does Portfolio123 protect customer information?**

When you first register with us, access and make changes to personal account information, or subscribe to a new service, we process your requests via a secure server. The secure server software (SSL) encrypts all information you input before it is sent to us. All of the personal information we collect is protected against unauthorized access.

### **Data Collection**

By using Portfolio123, you consent to and authorize Portfolio123 to collect and analyze data relating to your activity. Such analysis may be done by Portfolio123 or by another entity selected by Portfolio123, such as, but not limited to, Google Analytics (GA). By default, users' website interactions are collated by GA's User ID feature. You may, however, elect to opt out of User ID by making the appropriate election on the account preferences page.

In order to publish the list of tickers in the "Popular with our Users" component of the Portfolio123 home page (the List), Portfolio123 may examine holdings in live portfolios and books stored by users on the site, aggregates data thusly collected, and presents selections in the List.

Your use of Portfolio123 constitutes consent to these activities. You may, however, remove your portfolios from such examination and aggregation by making the appropriate election on the account preferences page.

### **Trading Systems Privacy Policy**

One of Portfolio123's goals is to create a community of trading system developers that actively discusses new ideas and methods. Nonetheless we recognize that many trading system developers want to maintain their edge by keeping their strategies private. You can make any system, portfolio, or simulation private in the respective "About" page and the system will no longer be accessible to other users. You can also set a global setting for the default visibility on the account preferences page.

### **Contact**

If you have any questions or concerns about our Privacy Policy, please send an email to [info@portfolio123.com](mailto:info@portfolio123.com).