

# Money Concepts Capital Corp

## Regulation Best Interest Disclosure

Dated: June 30, 2020



### Products. Services. and Conflicts Disclosures

Money Concepts Capital Corp (“MCCC”) is registered with the Securities and Exchange Commission (“SEC”) as a broker-dealer and an investment adviser. MCCC operates under the trade name Money Concepts Advisory Service (“MCAS”) when it is offering investment advisory services. MCCC is a member of the Financial Industry Regulatory Authority (“FINRA”), the Municipal Securities Rulemaking Board (“MSRB”) 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 are not all-inclusive, nor should they 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 considers these factors.

### Standard Brokerage Accounts

When you establish a standard brokerage account through us, the account is held through our clearing broker. Our clearing broker executes transactions at our request and maintains 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 that 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. In addition, with margin, you can lose more money than you deposit in the account. Moreover, 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.

## Rollover of Retirement Accounts

Before you make the decision to rollover a retirement 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.

A plan participant leaving an employer typically has four options (and may engage in a combination of these options):

- Leave the funds in the employer's plan (if permitted)
- Rollover the assets into the new employer's plan, if one is available and rollovers are permitted
- Rollover the assets into an account called a "Rollover IRA"
- Liquidate and take a distribution in cash

Each choice 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 her job between age 55 and 59½, she 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 (70 ½ if you reach 70 ½ before January 1, 2020) 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, he generally is not required to make required minimum distributions from his 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. Ask your financial professional for assistance in evaluating these factors to determine whether a rollover is appropriate in your specific situation.

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.

## **Variable Annuities and Other Insurance Products**

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 a percentage 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. However, we maintain procedures to mitigate this conflict.

Other important features include:

- Withdrawals made before age 59 ½ can result in a 10% tax penalty.
- 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.
- Variable annuities are long-term investments.
- Variable annuity purchases that exceed \$100,000 or 30% of your liquid net worth reduce diversification in your portfolio;
- Certain products offer bonuses or up-front payments, but also charge higher ongoing expenses or surrender fees than products that do not offer the bonus features.
- Variable annuities offer tax deferral features, but within an IRA or other qualified plan, the tax deferral feature of the annuity is not necessary (redundant) and for this reason, the purchase within the IRA or qualified plan should be for a reason other

than tax deferral. Additionally, traditional IRA accounts require minimum distributions irrespective of surrender charges an annuity may impose.

- Annuities are offered in multiple share classes which change the fee structure of the product. For example, some share classes involve a smaller surrender charge and a higher ongoing fee. Your financial professional may earn more on certain share classes than others may. Share classes should be aligned with your investment profile (see the prospectus of each product for details on the share class structure).
- Insurance products often involve a free-look period during which you may cancel without paying a surrender charge (but you would still be subject to any market losses if the underlying sub-accounts declined in value).
- Guarantees in annuity contracts are subject to the claims-paying ability of the insurance company that issues the contract.
- Your financial professional typically earns higher compensation on variable annuity products than some other products like stocks, bonds or mutual funds.
- Structured/buffered variable annuities are a type of complex annuity. Policyholders may be exposed to losses and interest rates may be limited via a cap in interest rates. The products are sold during a limited window or segment and repriced frequently. Interest rate caps may change each year.

If we recommend 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**

Annuities are generally designed to be long-term products. An exchange of an annuity product could result in loss of benefits, such as the death benefit amount, living benefits, and potential surrender charges. This may include all or a portion of the guaranteed value of an income rider, withdrawal rider, return or premium rider or other types of living benefit riders. Additionally, the new product being purchased may have new surrender periods, different benefits, fees, and investment options. It is important that you understand what you are giving up in the old annuity and what you are gaining in the new annuity. In addition, sale or liquidation of all or part of an annuity to purchase another investment product may result in tax consequences, early withdrawal penalties, or other costs or penalties as a result of the sale or liquidation.

If you are being paid a bonus as part of the exchange, make sure you understand the fee structure of the new product. Your financial professional will provide you with details about the exchange. If you are uncertain about the reason the exchange is being recommended, ask for a detailed comparison. Assess whether your need for the new features make the exchange worth any costs. Finally, because we earn fees when we exchange your annuities, we have an incentive to recommend an exchange, which is a conflict of interest. We maintain procedures to mitigate this conflict.

## **Equity-Indexed Annuities**

Equity-indexed annuities are contracts between the investor and the insurance company that typically guarantee a minimum return. Often the products involve complex calculations or indexing methods that determine the gain based on a comparison to a market index. Rates of return vary. Even with a guarantee, investors can still lose money if the guarantee is based on an amount that is less than the full amount of the purchase payments. Equity-indexed annuity buyers may have to pay surrender charges and tax penalties if they cancel early and in some cases, the insurance company may not credit the investor with the index-linked interest if the contract is not held to maturity. Like other annuities, any guarantee is subject to the ability of the insurance company to pay. You should carefully review the index calculation with your financial professional and make sure you understand how the calculation works. For example, you may participate in only a portion of the upside of the index and interest rates may be capped. Ask about the indexing method used for the product you are considering. Make sure you understand the calculation and any penalties or fees associated with early withdrawals.

Equity-indexed annuities typically have higher fees than other types of annuities, and thus we have an incentive to sell these products over others. This creates a conflict of interest, but we maintain procedures to mitigate this conflict. Also, remember that equity-indexed annuities may have longer surrender periods (10 years) than most variable annuities. Finally, note that the insurance company may reserve the right to change strategies and rates without notice, so make sure you understand whether your product permits such changes.

## **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. As a general rule, 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 when they sell their shares, depending upon the rules of the particular mutual fund.

## *Breakpoint Discounts*

Most mutual funds offer investors a variety of 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.

As you can see, 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. 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. 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.

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/).

## **529 Education Savings Plans**

Section 529 education savings plans are tax-advantaged educational savings vehicles. While there is no tax deduction on the contributions, the earnings in the plan 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). It is important to understand which plan is right for you. Contribution limits vary per state, and state tax advantages and other state benefits vary. Investment options differ as well. There are advisor-sold plans and direct-sold plans. Advisor-sold plans often include sales loads and higher fees and expenses than direct-sold plans. Because there are many options and the impact of investing in a plan can have long-term consequences, it is critical that investors use care in selecting the right plan for their needs. It is also important to be aware of ongoing fees and expenses such as share class charges in the underlying funds. As discussed above, Class C shares 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)

## **Alternative Mutual Funds**

Alternative mutual funds use strategies that differ from the buy-and-hold strategy typical in the mutual fund industry. They typically hold more non-traditional investments and employ a more complex trading strategy. Alternative mutual funds might invest in assets such as global real estate, commodities, leveraged loans, start-up companies, and unlisted securities that offer exposure beyond traditional stocks, bonds or cash. Portfolios that have a greater percentage of alternatives may have greater risks, especially those including arbitrage, currency, leveraging, and commodities. Alternative mutual funds are newer products and they may have a limited performance history. Alternative mutual funds can be considerably more expensive than their traditional managed fund peers. For this reason, we have an incentive to sell these products over others. While this is a conflict of interest, we have procedures to mitigate the conflict.

## **Unit Investment Trusts (UITs)**

A Unit Investment Trust (“UIT”) is a 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 disclose to you at the time of the transaction. Before you invest in a UIT, it is 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. And 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>

## **Structured Products**

Structured products typically combine features of traditional investments, like bonds, with derivative instruments, like options. This approach creates a product that can provide returns based on performance of underlying assets like individual stocks, a market index, or other benchmark. Such returns will vary depending on the structure of the product and the pre-set level of participation. While these products can provide enhanced yield, there are also risks involved. Structured products are complex and investors should carefully

consider their risks and costs prior to investing. For these reasons, structured products are generally appropriate only for sophisticated investors.

## *Structured CDs*

Structured CDs are FDIC-insured certificates of deposit that tie the rate of return to the performance of a stock index such as the S&P 500 Composite Stock Price Index (typically called a reference asset). The terms of structured CDs can vary. Your rate of return is calculated on the date that the CD matures based on particular contract terms. Typically, there is a minimum guarantee, and any return in excess of that minimum is not guaranteed. As with any CD, you should understand its terms, and assess whether the CD is an appropriate investment for you.

While equity-linked CDs typically protect investors from downturns in the markets because the original principal is not at risk, the interest that would otherwise be paid on the CD for the term may be at risk. Some important factors to consider include:

- **Depositors holding to maturity may receive no variable amount:** While a depositor of a CD who holds the CD to maturity is entitled to repayment of at least the principal amount plus the minimum return (if any) at maturity, the CDs do not bear interest, and there can be no assurance of the receipt of any variable amount.
- **There may not be any secondary market for your CD:** We cannot assure you that a trading market for the CDs will develop or, if one develops, that it will be maintained. Therefore, you may not be able to redeem your CD when you want or need money.
- **You may be required to pay fees in connection with your purchase of the CDs:** as a commission for services rendered by any of our financial professionals in connection with your initial purchase of the CD.
- **Your yield may be lower than the yield on a standard CD or debt security of comparable maturity:** Even considering a guaranteed minimum return, if specified in the applicable terms and conditions, or principal protection, any such return at maturity may not compensate the holder for any opportunity cost implied by inflation and other factors relating to the time value of money.
- **The historical or pro forma performance of the reference assets is not an indication of future performance:** The price or level of the reference asset will be influenced by the complex and interrelated economic, financial, regulatory geographic, judicial, political and other factors that can affect the trading markets on which the instruments comprising the reference asset are traded and/or the value of the CD.
- **Hedging transaction by the Bank:** Although the bank does not believe that such activities will have a material impact on the price of such instruments it uses to hedge its exposure or on the performance, there can be no assurance that the bank or its affiliates will not affect such reference assets as a result of such activities.
- **Passive Investments:** The indices may be affected by general declines in the U.S. or foreign markets or market segments relating to such indices. The bank & the reference index sponsors do not attempt to take defensive positions in declining markets.
- **FDIC Insurance:** To the extent a product is insured by the FDIC, principal is only protected up to \$250,000 per depositor in each insured bank.
- **Price or other movements in the instrument or instruments comprising the reference asset are unpredictable and volatile,** and are influenced by complexed and interrelated political economic, financial, regularly, geographic, judicial and other factors that can affect the markets in which the relevant instrument or instruments are traded and/or the particular instruments.

There are other factors that can relate to structured CDs such as tax implications, caps on gains, and limitations in participation in the gains of the reference assets, limits on FDIC insurance, call risk, market risk, and calculation of return. You can learn more by visiting FINRA's website here: <https://www.sec.gov/fast-answers/answersequitylinkedcdshtm.html>

## *Principal Protected Notes*

A principal protected note, or structured note with principal protection, is a complex product that generally includes a bond and a derivative component. Usually, these products offer a full or partial return of principal at maturity. Unlike mutual funds or similar products, structured products do not reflect ownership in any underlying basket of assets, but instead represent promises to pay from issuers of the products. Often these products combine a zero-coupon bond with an option or similar derivative product where the payoff ties to an underlying index or benchmark. The combination of the features is designed to return principal at a particular maturity date, either in full or in part, depending on the product structure. The investor typically also participates in any return generated from the benchmark or asset, but according to the product specifications and the participation rate. For example, if the product offers a participation rate of 80 percent on the underlying benchmark, which returns 10 percent, the issuer will credit the investor's note with an

8 percent return. For this reason, the return of the notes may be significantly less in comparison to a direct investment in the underlying benchmark or asset. The principal protection feature of the product is guaranteed by the product issuer, and thus is subject to the credit risk (or paying ability) of the issuer. Depending on the product, the issuer guarantee may be as much as 100 percent or as little as 10 percent. In most cases, the principal guarantee only applies to notes held to maturity, so early liquidation negates the guarantee.

### *Reverse Convertibles*

A reverse convertible is a type of structured product typically consisting of a high-yield, short-term note of an issuer that is linked to the performance of an unrelated reference asset – usually a common stock, a basket of stocks, an index or other instrument. It is typical that a reverse convertible will have a maturity date ranging from three months to a year. And while the coupon rate on the note portion of the security is usually higher than the yield on a traditional debt security of the same issuer with the same maturity, it carries more risk. This is because the investor could receive less than the principal invested if the value of the reference asset has fallen below a certain level, which is typically referred to as the “knock-in” level. Also, the investor may receive a specified number of shares of common stock of the issuer (or the equivalent in cash), which may be more or less than the initial investment. Some view a reverse convertible as a type of put option on the reference asset in exchange for an above-market coupon rate. You should not purchase a reverse convertible if you are not prepared to take ownership of the underlying reference asset. The features of each reverse convertible determine what return the investor will receive. Reverse convertibles with reference assets that are highly volatile will usually offer a higher coupon rate. These securities can be complex in their structure, which may make it difficult to understand the costs, risks and potential benefits. Because the note component of a reverse convertible is an unsecured debt obligation of the issuer, the ability of the issuer to pay the coupon payments is subject to the ability of the issuer to pay (credit risk). This is in addition to the market risk related to the price of the reference asset. Some reverse convertibles have call provisions giving the issuer the ability to call the investment for redemption before its maturity. Finally, there are often complex tax situations associated with investment in these products. You should carefully discuss the product features, including the payout structure, call structure, the reference asset, and whether you will participate in any appreciation of the reference asset before you make a decision to invest. While we do not provide tax advice, we encourage you to discuss the product with your tax advisor if you have questions about its tax implications.

### *Important Considerations*

Consider these important factors regarding structured products:

- **Principal Risk:** Not all structured products offer 100% principal protection. In some cases, investors are exposed to the downside of performance of the underlying assets; therefore they lose some or all of the initial investment.
- **Call Risk:** If a structured product has a call feature, the issuer (not the investor) may have the ability to call the investment for redemption before its maturity, potentially subjecting the investor to the risk of reinvesting in a lower interest rate environment.
- **Credit Risk:** Principal protection as well as the interest payments on structured products are guarantees of the issuer of the note and therefore are subject to the creditworthiness of the product issuer. And while the structured product may carry the issuer’s credit rating, that rating does not cover the risk of market losses. Investors should consider the credit rating of any issuer before purchasing a structured note.
- **Limited Return:** Investors in some structured products may never receive more than their initial investment regardless of how well the underlying asset performs throughout the term of the investment. Therefore, the return of the notes may be significantly less in comparison than the direct investment in the underlying asset.
- **Lack of Liquidity:** Structured products are illiquid; they are intended to be held to maturity. While there may be a secondary market for some structured products, issuers are under no obligation to maintain one. Selling prior to maturity carries the risk of loss of principal invested.
- **Taxes and Fees:** Structured products, including debt and put options, can have complex tax implications. Consult your tax advisor before purchasing. Structured products often have higher fee structures than traditional securities such as stocks or bonds. We have an incentive to sell structured products for that reason. While this creates a conflict of interest, we have procedures to mitigate the conflicts.

### Alternative Investments

#### *Real Estate Investment Trusts (“REITs”)*

A real estate investment trust is a corporation, trust or association that owns (and might also manage) income-producing real estate. REITs pool the capital of numerous investors to purchase a portfolio of properties—from office buildings and shopping centers to hotels and apartments, which the typical investor might not otherwise be able to purchase individually. REITs can offer tax advantages. For

instance, qualified REITs that meet Internal Revenue Service requirements can deduct distributions paid to shareholders from corporate taxable income, avoiding double taxation. The REIT must also distribute at least 90 percent of its taxable income to shareholders annually. These distributions are taxable to the extent of any ordinary income and capital gains included in the distribution.

There are two types of public REITs: those that trade on a national securities exchange and those that do not. REITs in this latter category are generally referred to as publicly registered non-exchange traded, or simply non-traded REITs. Like exchange-traded REITs, non-traded REITs invest in real estate. They are also subject to the same IRS requirements that an exchange-traded REIT must meet, including distributing at least 90 percent of taxable income to shareholders. Like exchange-traded REITs, non-traded REITs are registered with the Securities and Exchange Commission and are required to make regular SEC disclosures, including filing a prospectus and quarterly (10-Q) and annual reports (10-K), all of which are publicly available through the SEC's EDGAR database. While these two types of REITs share these similarities, there are also numerous differences between them. Non-traded REITs have the following important features:

- Shares are illiquid – they are not listed on a national securities exchange. There may be a limited secondary market, but there is no guarantee that shares can be liquidated. Additionally, some REITs offer to redeem shares, but those redemptions may be limited and may occur at prices below the purchase price or current value.
- Front-end fees can be substantial and can range up to 15% (selling compensation and expenses are limited to 10%, and the remainder can be additional offering and organizational costs).
- Ongoing fees can be substantial and can erode returns of the investment. See the prospectus for details.
- The income distributions are not guaranteed and can include return of principal invested if they exceed operating cash flows. Typically, sponsors may suspend distributions at any time.
- There can be substantial conflicts of interest between investors, the investment sponsor, and its affiliates. See the specific product prospectus for details.
- Returns on REIT investments are typically sensitive to interest rates, and rising rates typically result in increased costs, and lower returns.
- Portfolios of REITs are typically illiquid and difficult to value as of any point in time.
- REIT portfolios may not be diversified. There are risks related to real estate investment, both the market as a whole and any specific sector.

Non-traded REITs are complex products that are designed for sophisticated investors who do not need the principal amount of the investment to pay ongoing expenses. The products have substantial fees. Because the products have higher fees than many others we offer, there is an incentive to sell them over others. This creates a conflict of interest. However, we have procedures to mitigate this conflict. For more information about non-traded REITs, visit FINRA's investor alert here: <https://www.finra.org/investors/alerts/public-non-traded-reits-perform-careful-review-investing>

## *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, 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, 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. However, we maintain procedures to mitigate these conflicts. Each alternative investment has a prospectus or offering document that details risks, costs, and other conflicts you should consider before investing.

## **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 inverse and/or leveraged. Therefore, clients who choose to purchase and sell these products assume all risks of those purchases 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.

## **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.

When we act as investment advisor, we enter into referral arrangements with various third-party investment advisers whose services may be recommended to clients. If you engage the third-party investment adviser, we will receive a referral fee. These fees provide an economic incentive for us to make referrals to these advisers. For this reason, we have a conflict of interest.

### *Affiliate/Other Compensation*

MCCC 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 MCCC and its clearing brokers because we receive economic benefits from our clearing broker 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 MCCC or its clearing brokers.

When we act as your investment advisor, we receive compensation for brokerage transactions our financial professionals place in advisory accounts and for the purchase of investment products recommended. This poses a conflict of interest because there is an incentive to engage in more transactions.

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.

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.

### *Client Compensation*

Our investment advisor representatives (IARs) are permitted to offer dinners or other events to clients who refer other clients. Referred clients should consider whether the referral was based on the existing client's desire to receive incentives.