

## Form ADV Part 2A – Appendix 1 – 2016 Wrap Fee Program Brochure

This Wrap Fee Program brochure provides information about the qualifications and business practices of KMS Financial Services, Inc. (“KMS”). This information has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state regulatory authority.

KMS is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. Additional information about KMS is available at [www.kms.com](http://www.kms.com) and the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). If you have questions about the contents of this brochure, please contact us at (206) 441-2885.

**KMS Privacy Policy:** KMS recognizes the importance of protecting your privacy and has established policies designed to safeguard your confidential information. Key elements of those policies are as follows:

- **KMS does not sell your personal information to anyone; nor does KMS share your information with anyone** except as required or permitted by law or as implicitly authorized by you. Certain information may be shared with sponsors of financial products and services you select. For example, if you invest in a mutual fund through KMS, you may complete an application that KMS forwards to that fund company.
- **KMS receives information about you in the normal course of providing financial services.** This information is usually communicated to KMS by you or your Representative. If you or another financial institution (mutual fund, insurance company, clearing agent, or advisory firm) designate KMS as dealer of record for an account, that institution may provide KMS with related personal information.
- **KMS maintains physical, electronic, and procedural safeguards to protect your privacy.** Access to your personal information is restricted to those employees and agents who need the information to provide the products and services you have selected.
- **KMS may permit your Representative to maintain access to your personal information** to facilitate continuity of effective service to you in the event your Representative chooses to affiliate with a firm *other than* KMS.

### Item 2 - Material Changes

Since May 2016, KMS has made material and non-material changes to this Brochure. All changes are listed here for ease of reference and review.

Item 4 (Services, Fees and Compensation) has been updated to include Cedar Capital Mutual Funds, IronHorse Capital Mutual Funds, Sierra Investment Management, Swan Global Investments and Weitz Investments in the Partner Program.

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### **Item 4 – Service, Fees and Compensation**

KMS, founded in 1971, is a Seattle-based, independently operated investment advisory firm that is registered with the SEC. KMS is also a securities broker-dealer registered with the SEC, the Financial Industry Regulatory Authority (“FINRA”) and all 50 states plus the District of Columbia.

KMS operates through supervised financial professionals, who are investment advisory representatives and/or securities registered representatives. Registration does not imply any particular level of skill or training, although many KMS Representatives maintain related certifications and designations. Ladenburg Thalmann Financial Services Inc. (“LTFS”) owns 100% of KMS. LTFS is listed on the New York Stock Exchange under the symbol LTS. Dr. Phillip Frost and related entities, Gamma Trust and Nevada Trust are beneficial owners of over 25% of LTFS.

KMS Advisors are allowed to conduct their investment advisory activities under a separate unaffiliated business name or “DBA” (“doing business as”). Such Advisors are registered with KMS as investment advisory representatives and provide investment advice through KMS. KMS supervises the Advisors’ investment advisory activities. The names of such DBAs include but are not limited to: Capital Financial Planners, Delta Financial Group, Financial Resources, First Pacific Financial, Goodfunds Wealth Management, Joslin Capital Advisors, Martel Wealth Advisors, Martinson Stoller Advisors, Summit Advisors NW, Sustainable Wealth Management, and The O’Hagan Group. Fee agreements and marketing materials clearly disclose KMS as the Registered Investment Advisor clients are engaging for investment advisory services.

KMS offers a range of investment advisory services through multiple platforms and custody arrangements. Those services include financial planning, investment advice and asset management for fees based on a percentage of assets under management as well as advisory services of a number of unaffiliated third-party investment advisors. KMS offers these products and services to the public through its investment advisory representatives (Hereinafter: “Advisors” or “KMS Advisors”). For a description of all these services, ask for a KMS’ Form ADV Part 2A Firm Brochure.

Each KMS Advisor should provide his or her advisory clients with details of Advisor’s background in a 2B Brochure Supplement, which should be included herein. **If you have not received such 2B Brochure Supplement, please contact your Advisor or KMS.**

As of December 31, 2014, KMS had approximately \$3.864 billion of discretionary assets under management and approximately \$1.309 billion of non-discretionary assets under management for a total of approximately \$5.173 billion assets under management.

If a KMS Advisor offers investment advice for a fee, that Advisor may tailor the advisory services he or she offers to the individual needs of specific clients. Clients may request that certain securities or types of securities be avoided. If it is difficult to determine all of the underlying securities of a particular advisory product or service, the Advisor will make reasonable efforts to avoid the specified securities or type of securities.

**Wrap Fee Program Service:** This brochure describes KMS' Wrap Fee Program ("Program"), a service offered by KMS through KMS Advisors. The Program is a flexible platform allowing KMS Advisors to provide a variety of Clients (individuals, businesses, etc.) with portfolio management services and account services on an ongoing fee basis (%-of-assets) rather than for transaction-based compensation. Individual Clients' needs and objectives are ascertained by the KMS Advisor and recorded on a questionnaire section of the KMS Asset Management Advisory Agreement – Wrap Fee Program ("Agreement"). Based on this information, the Advisor will recommend a portfolio he or she believes matches Client's financial situation, investment objective and risk tolerance. Over time, based on market conditions and other factors, changes may be made to the portfolio. **There is no guarantee that the portfolio will meet a Client's investment objective over any given time frame.**

Depending on the nature of the advisory relationship, a Client may decide to grant investment discretion to his or her KMS Advisor, as declared in the relevant Agreement. Investment discretion granted to a KMS Advisor is limited to the selection and amount of the securities to be bought or sold. If Client selects non-discretionary authority, the Advisor will receive verbal authority from Client before executing trades in the account. Trades are confirmed promptly by KMS' clearing agent Pershing. Every calendar quarter Pershing will send Clients a full account statement and, under separate cover, performance reports. KMS urges Clients to promptly review all such account information.

**Affiliated Products and Services:** Certain products and services of affiliates are available through KMS.

**Alternative Strategies Fund:** Ladenburg Thalmann Asset Management ("LTAM") is the investment adviser to the Alternative Strategies Fund (LTAFX, LTCFX). The Alternative Strategies Fund ("the Fund") is a closed end interval fund that incorporates quality alternative products and allows Clients to access these investments with lower minimums and no accreditation. The Fund's investment objective is to seek attractive risk-adjusted returns with low to moderate volatility and low correlation to the broader markets through a concentrated multi-strategy alternative investment approach with an emphasis on income generation. Ladenburg Thalmann & Co. Inc. ("LTCO") is also the distributor of the Fund and may receive commissions when executing trades on behalf of the Fund.

The Fund is comprised of a diversified portfolio of alternative investments in more than ten asset classes, including real estate investment trusts (REITs), master limited partnerships (MLPs), managed futures, equipment leasing, among others. For information about the material risks associated with the Fund's investment strategies, see the Fund's prospectus. Prospectuses are available at [www.ltafx.com](http://www.ltafx.com) or by contacting the Fund administrator at (877) 803-6583.

### **Ladenburg Funds**

LTAM is the investment adviser to five funds collectively called the "Ladenburg Funds." The five Ladenburg Funds are Ladenburg Income Fund, Ladenburg Income & Growth Fund, Ladenburg Growth & Income Fund, Ladenburg Growth Fund, and the Ladenburg Aggressive Growth Fund. Each of the Ladenburg Funds is an open end fund of funds that primarily invests in a combination of equity, fixed income and alternative strategy exchange traded funds ("ETFs"), exchange traded notes ("ETNs") and mutual funds (together, "Underlying Funds" or "Fund(s)"). The Funds employ the same investment

strategies and features as the ones LTAM employs in managing separate client accounts in in the Ladenburg Asset Management Program (“LAMP”).

Each Fund will have substantially the same investment objective, policies and strategies as its corresponding separate account strategy. The Funds’ fees may be more or less than the fees and expenses associated with the separate accounts managed by LTAM in LAMP. The Funds’ results will differ from that of the separate accounts in LAMP managed in a similar strategy because of differences in future behavior of the various investment markets, brokerage commissions, account expenses, the size of positions taken in relation to account size and diversification of securities, and the timing of purchases and sales, among other things. The Ladenburg Funds offer A, C, and I share classes in each Fund. Ladenburg Thalmann & Co. Inc. is the distributor of the Funds and may also receive commissions when executing trades on behalf of the Funds. There may be a conflict of interest when LTAM or its affiliates recommend any of the Ladenburg Funds.

Information about the Ladenburg Funds and the services LTAM provides to them can be found in Funds’ prospectus. Prospectuses are available at [www.ladenburgfunds.com](http://www.ladenburgfunds.com) or by contacting the fund administrator to at (877) 803-6583.

**Ladenburg American Funds® Core Portfolios:** LTAM’s Ladenburg Asset Management Program (“LAMP”) manages the Ladenburg American Funds® Core Portfolios. Accounts utilizing these strategies will have a target allocation of 63% American Funds mutual funds, 35% Ladenburg mutual funds and 2% in cash. LTAM will evaluate the portfolios for rebalancing back to the target allocation at least annually or based on extreme market conditions. The mutual funds that are selected for these strategies are within the universe of American Funds mutual funds and based on due diligence conducted by LTAM on a variety of performance measures. LTAM periodically reviews each strategy to remove or replace those mutual funds that no longer meet the qualifications necessary for inclusion in the strategies. Because fund expenses will vary, what clients pay will not, and LTAM controls the allocation to the mutual funds and rebalancing used within the strategy, this represents a conflict of interest. KMS monitors and addresses this conflict of interest through client disclosure and ongoing account monitoring.

**Boyar Value Fund:** LTAM owns 50% of Ladenburg Thalmann Fund Management who is the manager of the Boyar Value Fund (BOYAX) which is advised by Boyar Asset Management. Ladenburg Thalmann & Co. Inc. is also the distributor of the fund and may receive commissions when executing trades on behalf of the fund and there is a conflict of interest when LTAM or its affiliates recommend the fund.

**Ladenburg Thalmann High Income Portfolio (Unit Investment Trust):** LTAM provides a recommended list of securities to First Trust Portfolios, L.P. (First Trust), the sponsor of the Ladenburg Thalmann High Income Portfolio, a unit investment trust (UIT). The UIT’s objective emphasizes income generation through non-traditional yield sources such as REITs, business development companies (BDCs), and MLPs. The portfolio is made up of individual securities, closed end funds, exchange traded funds (ETFs) and/or BDCs.

**The Ladenburg Total Portfolio Series (Collective Investment Trusts):** LTAM is the investment adviser to The Ladenburg Thalmann Total Portfolio Series which is a series of collective investment trusts (“CITs”). The CITs are a series of five portfolios established for qualified retirement plans, such as 401(k) plans and profit sharing plans. The portfolios are generally comprised of ETFs which closely mimic LTAM’s traditional LAMP ETF models. The CITs are maintained by a bank trust, and are offered in two share classes, Advisory and Investor.

**LTAM Sponsored Programs:** LTAM also provides advisory services through several LTAM-sponsored programs, including: Ladenburg Asset Management Program (“LAMP”), the Investment Consulting Services (“ICS”) Program, and Plan Sponsor and Plan Participant Services. Under these programs, Clients generally pay a single fee that covers both advisory services provided by LTAM and brokerage services provided by its affiliated broker-dealers. KMS, as broker-dealer, receives a portion of the wrap fee, as does KMS Advisor servicing the account. As described above in the section “Ladenburg American Funds® Core Portfolios”, LTAM utilizes Ladenburg Funds within this strategy which represents a conflict of interest. KMS monitors and addresses this conflict of interest through client disclosure and ongoing account monitoring.

**LTAM SYMBIL Solicitor Program**

In exchange for referring clients to the SYMBIL service, LTAM may pay a fee to individuals who are associated with one of LTAM’s affiliated broker-dealers or registered investment advisors. In some cases, the recipient of a referral fee may also be an LTAM-affiliated investment adviser or an independent investment adviser or an individual associated with an affiliated or independent investment adviser. Such fees, which are payable only where a referred client chooses to invest in one of the recommended Ladenburg Funds, are a portion of the fee LTAM receives for managing the chosen Fund. In some cases, the referral fee is paid through the solicitor’s registered broker-dealer or registered investment adviser. The referral fee arrangement between LTAM and the affiliated solicitor will be disclosed to the client upon entering the SYMBIL website.

**Fees and Compensation:** In the course of providing advisory services to Clients, KMS and Advisor receive advisory fees as described in the relevant advisory contract. LTFS and/or KMS may receive additional compensation as described in Sections 9A2 and 9B3.

The Program Fee schedule listed below reflects the maximum Program Fee calculated as a percentage of Client’s assets invested in the Program. Part of the Program Fee paid to KMS will be paid by KMS to the Advisor. The Program Fee may be negotiable between the Advisor and Client and will be expressly set forth in the Agreement. The amount of revenue paid to a KMS Advisor in the Program may be more, but could be less than he or she might receive from a different advisory service. Since the maximum Program Fee may generate more revenue to the Advisor, this may cause the Advisor to have a financial incentive to recommend it over another advisory service.

**The Schedule of maximum Program Fees as a Percentage of Assets under Management:**

On the first \$100,000 .....	2.25%
On the next \$150,000 .....	2.00%
On the next \$250,000 .....	1.75%
On the next \$500,000 .....	1.50%
On the next \$1,000,000 .....	1.25%
On amounts over \$2,000,000 .....	1.00%

**Mutual Fund Operating Expenses/Advisory Fees:** A portion of the Program Fee compensates KMS and Advisor for investment advice. If a Client’s Program portfolio contains mutual funds, as an investor in such mutual fund, the Client will incur advisory fees along with those advisory fees borne by the mutual fund. Fund expenses ratios vary from fund to fund.

Some mutual funds pay 12b-1 fees and some do not. For KMS advisory accounts held at other broker-dealers, KMS does not earn any 12b-1 fees from any funds that pay such fees. However, KMS and Advisors will earn 12b-1 fees for advisory accounts held at Pershing which constitutes a conflict of interest since it creates a potential incentive for KMS and Advisor to select Pershing as the custodian for its advisory accounts. KMS is the broker-dealer and Advisors are usually the Registered Representative on the account. Many mutual funds offer a variety of different share classes, each with distinct characteristics and availability. Some mutual fund share classes pay 12b-1 fees (“Trails”) to the broker-dealer of record and other share classes of the same fund

do not. Generally, for the same mutual fund with different share classes, the fund that does not pay Trails offers lower expenses which means a more advantageous return to the shareholder. KMS Advisors will recommend in some, but not all cases, mutual funds that pay to the broker-dealer on the account a 12b-1 fee ("Trails"). Trails, generally 0.25% of account value per year, can be higher or lower depending upon the specific mutual fund company, share class, or trading platform. To the extent Clients own mutual funds that pay Trails, Clients will bear the costs of such Trails in the net asset value of the mutual funds. In such cases, KMS and Advisors receive mutual fund Trails (if any) that accrue. Receipt by KMS and Advisors of Trail revenue constitutes a conflict of interest. It can give KMS and Advisor an incentive to recommend investments that may not be in the Client's best interest. KMS monitors and addresses the conflicts of interest in a variety of ways: through Client disclosure, initial limitations on the standard advisory fee schedule or negotiating lower fees, crediting of Trails to Client accounts, and providing additional discounts.

KMS participates in Pershing's FUNDVEST® no-transaction-fee mutual fund platform, offering Clients certain no-load (and load-waived) mutual funds under a waiver of the standard transaction charge subject to certain restrictions on short term trading. In lieu of transaction-based compensation and in consideration of its cost of providing brokerage services, KMS is eligible to receive revenue based on assets in the FUNDVEST® platform. KMS' receipt of this revenue constitutes a conflict of interest, which KMS addresses by: 1) *not* sharing the revenue with the Advisor who recommends or directs trading for Account; 2) vesting the decision of whether to use FUNDVEST® with the Advisor and Client; and 3) monitoring trading activity and related costs in Client Accounts. Further, use of FUNDVEST® mutual funds in a wrap-fee program may not be optimum given the broad transaction charge waiver covered by the wrap fee itself. Clients may direct the Advisor and KMS *not* to use FUNDVEST® in a wrap account with the understanding that that may limit investment choice for the Account and/or require the Advisor to devote added time to research alternative fund selections, which may, in turn, affect the negotiated fee between Advisor and Client.

KMS and LTFS may receive marketing allowances and revenue sharing from Strategic Partner mutual fund companies. These amounts are not shared with the KMS Advisor making recommendations or managing the account.

When providing Portfolio Monitoring and Consulting for ERISA plan accounts, KMS credits such amounts back to the account, or considers the Trails received when calculating the advisory fee due.

**Comparative Costs:** The Program costs may be more or less than the cost of purchasing similar services separately. For example, direct investment in a no-load mutual fund would be less expensive than participation in the Program, because Client would not bear the Program Fee. However, because the KMS Advisor provides professional advice and service in recommending and monitoring such mutual funds, buying the packaged services through the Program may be less expensive than buying advice separately from an Advisor not offering the Program. If a Client engages in relatively active trading, the costs of the Program may be less than if the account were subject to commissions on each transaction.

**Service Fees and Transaction-Related Charges:** KMS acts as a broker-dealer for the Program. As such, it determines and receives service fees (IRA maintenance fees, wire transfer fees, etc.) and transaction-related charges (confirmation fees). Receipt by KMS of this revenue constitutes a conflict of interest. KMS monitors this conflict by not incentivizing Advisors who recommend or direct trades because KMS does not share such revenue with Advisors. Additionally, KMS reviews trading activity, comparing it to account investment objectives, trading strategy and overall suitability. KMS discloses these charges annually in the account statements.

Clients will not incur any brokerage charges for transactions executed in their Program account. However, Clients will incur confirmation fees on all transactions. These charges vary depending on the type of delivery of the confirmation (electronic or via mail). These charges are subject to change and are listed on written confirmations provided to Clients promptly following each transaction. Clients can obtain a copy of the current service fee schedules by contacting their KMS Advisor. It is possible that an account may indirectly pay a

spread to an unaffiliated market maker when buying or selling certain types of securities. Neither KMS nor the Advisor benefits from such spreads.

All mutual funds purchased in the Program will be funds available for purchase at each fund's net asset value and with no sales charge, so that no sales commissions will be incurred in connection with investment in the initial portfolio or subsequent portfolio purchases.

**Affiliated Product Fees (12b-1, Affiliated Products and Principal Transactions):** Most KMS Advisors are also securities Registered Representatives of KMS. KMS may share a portion of payments received from a mutual fund, UIT, CIT, or in connection with an initial public offering, a secondary offering, and/or a private placement with KMS Advisors. KMS and KMS Advisors may also receive compensation, such as 12b-1 or services fees, in connection with the sale of funds or investments, including the Alternative Strategies Fund, Boyar Fund, Ladenburg Total Portfolio Series CITs, and Ladenburg High Income Portfolio UIT. Therefore, KMS and KMS Advisors have an incentive to recommend these securities, which constitutes a conflict of interest. This conflict of interest is heightened when KMS Advisors recommend securities where LTCO acts as underwriter because the Advisor typically receives more compensation in connection with these securities than in connection with other types of securities. KMS Advisors may also have a heightened conflict of interest when recommending funds, CITs, and UITs that pay compensation, including the Alternative Strategies Fund, Ladenburg Funds, Boyar Value Fund, the Ladenburg Total Portfolio Series (CIT), or Ladenburg Thalmann High Income Portfolio UIT.

- **Fund Management:** The Alternative Strategies Fund pays LTAM a management fee quarterly in arrears which are equal to a maximum of 0.75% per annum of the assets in the fund. For more information, see the fund's prospectus
- **CIT Management:** The Ladenburg Total Portfolio Series pays LTAM an investment management fee monthly in arrears which is equal to a maximum of 0.30% per annum of the assets in the CITs.
- **Ladenburg Thalmann High Income Portfolio (UIT):** In addition, KMS, as a broker-dealers affiliated with LTAM, and KMS Advisors, will receive a portion of a dealer concession or agency commission in connection with units of the Ladenburg Thalmann High Income Portfolio UIT that they sell, if those units are subject to a sales charge. A higher concession percentage will be received by KMS if certain total sales levels of the UIT are met, as set forth in the UIT prospectus. Although, KMS will not receive a concession on the sale of UIT units to KMS advisory accounts because the sales are not subject to a sales charge, units sold to advisory accounts will count towards these sales levels. Thus, KMS has a conflict of interest in recommending sales of the UIT. For a license to use the Ladenburg name and for providing a list of securities, LTAM receives a licensing fee of 0.10% per annum, which is based on assets raised within Ladenburg Thalmann High Income Portfolio (UIT) during the offering period.
- **Principal Transactions:** Clients may purchase securities through KMS in initial public offerings, and/or secondary offerings ("new issues"). If LTCO acts as an underwriter or manager or as a member of the selling group for such offerings, it will receive compensation equal to either all or a portion of "gross spread" (the difference between the price the Client pays for the security and the price at which LTCO purchased the securities). The advisory fee is not reduced to offset this new issue securities compensation. The amount of the gross spread is described in the relevant prospectus, offering circular or official statement.

Certain securities, such as over-the-counter stocks and fixed income securities are traded primarily in "dealer" markets. In such markets, securities are directly purchased from, or sold to, a financial institution acting as a dealer, or "principal." Dealers executing principal trades typically include a "mark-up," "mark-down," and/or spread in the net price at which transactions are executed. When KMS executes a transaction for a security traded in the dealer markets, KMS either will execute the

transaction as agent through a dealer unaffiliated with KMS, or as principal in accordance with applicable law. In addition to any applicable commission or transaction fee, the Client will bear the cost (including any mark-up, mark-down, and/or spread) imposed by the dealer as part of the price of the security. Thus, KMS will receive compensation in connection with most principal trades. KMS Advisors have a conflict of interest in using KMS to execute principal transactions because KMS and the Advisor will receive compensation in connection with the trade as dealer.

- **Affiliate Broker-Dealer or Advisory Fee Share:** KMS may receive a portion of the fee for supervision and administrative services, if a KMS Advisor is providing consulting services through an affiliate Wrap Program. If the broker-dealer for the account is KMS, KMS will also receive a portion of the affiliate Wrap Fee for the execution of transactions and generally pays part of its execution costs imposed by the custodian.

**Other Compensation Issues:** There are no commissions charged in KMS' Program; however, the Program assesses a 25 basis point (0.25% per year) administrative retention (platform) fee to the gross advisory fee generated from the accounts. That charge does not increase your advisory fee; it decreases the amount that is shared with your KMS Advisor. KMS receives a portion of the platform fee.

Under an automatic "cash sweep" program, cash in your Pershing account is invested in money market funds ("Cash Funds"), some of which pay Trails to KMS for related services, representing a cost borne by the Cash Funds' investors. Even though the payment of this Cash Fund Trail revenue relates to services KMS provides, receipt by KMS of this revenue represents a conflict of interest. To mitigate this conflict of interest, KMS will not pay any of the Cash Fund Trail revenue to the Advisor or Registered Representative on the account.

KMS participates in Pershing's FUNDVEST® no transaction fee mutual fund platform which offers Clients no-load (and load-waived) mutual funds with a waiver of the standard transaction charge, subject to certain restrictions on short term trading. In lieu of transaction-based commissions, KMS is eligible to receive revenue based on the assets in the FUNDVEST® platform. While the WRAP program waives transaction charges to clients for all trades, the FUNDVEST® revenue is reflected in setting the platform cost structure. KMS does not share FUNDVEST® revenue with Advisors. Such revenue relates to KMS' cost of providing such services, but receipt of this revenue constitutes a conflict of interest. KMS addresses this conflict by not sharing the revenue it earns from FUNDVEST® with the Advisors who recommend or direct the trading, and by monitoring all trading activity and related costs to Clients.

For Program accounts that use margin (borrowing), KMS receives a portion of the margin interest charged for a Client's margin balance. KMS does not share revenue from margin interest with the Advisor. KMS' receipt of this margin interest is a conflict of interest. KMS mitigates this conflict of interest by reviewing each client's application for margin to make sure it is consistent with their stated needs and objectives and financial situation. Additionally, when first applying for a margin account, each client must acknowledge the risks and costs related to the use of margin.

Broker dealers affiliated with LTFS, such as KMS, receive revenue sharing from certain strategic partner product sponsors, such as mutual funds and variable annuities (hereinafter "Partner Programs"). Receipt of such revenue constitutes a conflict of interest. KMS addresses this conflict by not sharing the revenue it receives through LTFS Partner Programs with the Advisors who recommend or direct the trading, by monitoring all trading activity and related costs to Clients, and in some cases may reduce transaction charges to clients for accounts held with KMS as the broker-dealer.

Under the Partner Program, Strategic and Distribution Partners pay flat annual fees, basis points on sales on assets, and/or a percentage of their fees. Payments made by the firms participating in the program are not paid or directed to any KMS Advisor who utilizes the services of these Program Partners.

## Partner Program

*Investment Company (mutual fund) and Variable Annuity Sponsors participating in the Partners Program currently include:*

AIG/Sunamerica Annuities, Allianz Global Investors, Allianz Life Annuities, American Funds, AXA Annuities, Blackrock Funds, CUNA Mutual Group Annuities, Cedar Capital Mutual Funds, Deutsche Asset and Wealth Management, Fidelity Advisor Funds, Forethought Life, Franklin Templeton Distributor, Ivy Investments, Jackson National, Jefferson National Annuities, John Hancock Investments, JP Morgan Asset Management, Lincoln Financial , Lord Abbott Funds, MetLife Annuities, Nationwide Annuities, Ohio National Annuities, Oppenheimer Funds, Pacific Life Annuities, Pacific Life Mutual Funds, PIMCO Funds, Pioneer Investments, Principal Global Investors, Prudential Annuities, Prudential Investments, Putnam Investments, Sammons Retirement Solutions, Security Benefit Annuities, Sierra Investment Management, Swan Global Investments, Transamerica Annuities, Voya Annuities, and Weitz Investments.

### **Item 5 – Account Requirements and Types of Clients**

KMS does not require a minimum account size. However, a KMS Advisor may stipulate a minimum investment amount. This would be disclosed and discussed with the Client prior to the investment purchase. KMS Advisors provide advisory services and investment advice to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities, and government entities.

ERISA Plan clients are provided with disclosure documents, which provide information about KMS' qualifications, business practices and potential conflicts of interest that may be important for any ERISA Plan to consider. If you are a named fiduciary for an ERISA Plan and you have not received such disclosure documents, please contact your Advisor or KMS.

### **Item 6 – Portfolio Manager Selection and Evaluation**

KMS allows its Advisors to act as Portfolio Managers. As Portfolio Managers, Advisors monitor Client Program accounts and make recommendations for (or executing trades in) investments consistent with Clients' investment objectives. Some non-KMS Wrap Fee Programs may offer independent third party (outside) portfolio managers. Neither KMS nor its Advisors select, review or evaluate outside portfolio managers. Given this structure, KMS does not conduct peer comparison performance review or analysis of its portfolio managers (Advisors). This constitutes a conflict of interest. KMS addresses this conflict by monitoring the portfolio managers' performance relative to the stated account investment objectives, relative performance benchmarks, etc. **There is no guarantee that the recommendations or trades will meet a Client's investment objective over any given timeframe.**

Generally, Advisors conduct research and analysis through the use of third-party providers such as Morningstar, Inc., Standard & Poor's, Thomson Reuters, and various other reporting and research organizations. KMS Advisors may also use financial newspapers, magazines, journals, company press releases, annual reports, prospectuses, and filings with the SEC.

KMS' clearing agent, Pershing LLC, generates quarterly performance reports with comparisons to selected benchmarks.

**Methods of Analysis & Investment Strategies:** KMS Advisors may use various methods to determine an appropriate investment strategy for Client accounts. During a Client's initial and subsequent interactions, the Advisor will discuss the methods and strategies he or she uses or can use given various investment objectives. These methods and strategies are formulated by the Advisors and not by KMS at the firm (home office) level. The analysis to be performed may include the following:

**Fundamental Analysis:** involves analyzing individual companies and their industry groups, reviewing earnings, financial statements, and the quality of a company's management. These factors are used to determine, along with the price of the stock, the relative value, strength and position of the company. See the general types of investment risk below.

**Asset Allocation:** Asset allocation investment strategies attempt to optimize the risk and reward profile of a portfolio (based on prior performance over various time frames) by investing among several asset classes. In addition to the general types of investment risks discussed below, this strategy is based on past performance, which is not indicative of future results.

**Timing Services:** This strategy attempts to time movements of various markets or investments. The intent with these strategies is to capture most if not all of a market upside while avoiding most if not all of a market downside. These objectives may not be achieved; in fact, over any given time period, performance may be less advantageous than staying fully invested or staying out of the markets completely. Many mutual funds and variable annuities prohibit excessive buying and selling within their account during a specified time period, which can affect the execution and performance of a strategy.

**Technical Analysis:** involves the study of price patterns and trends in the prices of securities (or index of securities) to attempt to predict future price trends. Factors such as trading volume, demand, and security price fluctuations may be considered. Past trends and patterns may not actually be indicative of future results.

**Cyclical Analysis:** this is a type of technical analysis that involves evaluating recurring price patterns and trends.

**General Types of Investment Risk:** Investing in securities involves risk of loss that you should be prepared to bear. All investment programs have certain risks that are borne by the investor. Investors face the following risks:

**Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.

**Market Risk:** The price of a security (stock, bond, mutual fund, etc.) may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic or social conditions may trigger market events.

**Inflation Risk:** When inflation is present, a dollar today will not buy as much as a dollar next year because the purchasing power is eroded.

**Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This risk is also sometimes referred to as "exchange rate risk."

**Reinvestment Risk:** This is the risk that future distributions (or liquidation proceeds) from investments may have to be invested at a potentially lower rate of return. This risk primarily relates to fixed income investments (bonds), which might need to be reinvested at lower interest rate than the initial investment.

**Business Risk:** These risks are associated with a particular industry or particular company within an industry. For example, automobile companies are generally all subject to the same business risks that confront their industry.

**Concentrated Investment Risk:** Certain investment strategies may be concentrated in a specific sector or industry or individual security. If you invest in a portfolio or strategy that is made up of a concentrated position, sector or industry, your portfolio will be more likely to sharply increase or decrease in value with changes in the markets. Concentrated strategies are typically more volatile because the risk associated with each security represents a large percentage of your overall portfolio.

The fact that a KMS Advisor acts as portfolio manager creates a conflict of interest as described above in Item 4 under Other Compensation Issues. Since each Program account is client-specific, it may or may not bear any relationship with other advisory accounts.

KMS' Wrap Fee Program accounts are not offered under performance-based fee arrangements; nor does KMS employ side-by-side management.

Most KMS Advisors elect not to vote proxies on behalf of their Clients. Clients that have elected to vote their own proxies will receive these directly from the account custodian or a transfer agent. If an Advisor does elect to vote proxies on behalf of Clients, such Clients must authorize KMS and the Advisor to do so through the applicable account application, contract or agreement. The KMS Advisor will perform the necessary research regarding each issue, evaluate any costs involved, document the findings, and vote in the clients best interests. If there are any conflicts of interest, these conflicts will be disclosed to the Client and Client consent will be received prior to the proxy vote being submitted. If the Client would like to direct the proxy vote on a particular issue the Client should communicate their instructions to the KMS Advisor timely, in such that the Advisor can act upon the instructions. Clients may obtain a copy of the KMS Proxy Voting Policies and also may obtain information as to how proxies were voted on their behalf upon request.

#### **Item 7 – Client Information Provided to Portfolio Managers**

Client information is shared with KMS Advisors who act as Portfolio Managers under Program accounts.

#### **Item 8 – Client Contact with Portfolio Managers**

Clients have ample access to KMS Advisors, who act as Portfolio Managers. The frequency and nature of such contact depends on Client and Advisor preferences.

#### **Item 9 – Additional Information**

##### **Item 9A1 – Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of KMS or the integrity of KMS' management personnel. No events have occurred at KMS that are applicable to this Item.

##### **Item 9A2 – Other Financial Industry Activities and Affiliations**

KMS is also a securities broker-dealer and as such sells securities products and services. Many KMS Advisors are also licensed with KMS as securities Registered Representatives, which allows them to provide brokerage services to Clients by executing securities transactions. KMS Advisors may also be licensed insurance agents appointed with various insurance companies. In their capacities as Registered Representatives and/or licensed insurance agents, KMS Advisors may offer securities and insurance products and will receive compensation as a result of such transactions or services. This presents a conflict of interest because they have an interest in earning commissions that may be adverse to your interests. KMS monitors this conflict of interest through its broker-dealer supervisory and compliance review system.

KMS is a wholly owned subsidiary of Ladenburg Thalmann Financial Services Inc. ("LTFS"). Other companies that are owned by LTFS and thus affiliated with KMS are:

Ladenburg Thalmann Fund Management, LLC (LTFM)	50% owned by LTAM
Ladenburg Thalmann & Co. Inc. (LTCO)	100% owned by LTFS
Ladenburg Capital Agency Inc.	100% owned by LTFS
Triad Advisors, Inc.	100% owned by LTFS
Triad Hybrid Solutions, LLC	100% owned by LTFS
Investacorp, Inc.	100% owned by LTFS
Investacorp Advisory Services	100% owned by LTFS
Premier Trust, Inc.	100% owned by LTFS
Securities America Financial Corporation (SAFC)	100% owned by LTFS
Securities America, Inc.	100% owned by SAFC
Securities America Advisors, Inc.	100% owned by SAFC
Securities Service Network, Inc. (SSN)	100% owned by LTFS
SSN Advisory, Inc.	100% owned by SSN
Arbor Point Advisors, LLC	80% owned by SAFC
HCHC Acquisition, Inc. (HCHC)	100% owned by LTFS
Highland Capital Brokerage, Inc.	100% owned by HCHC

KMS' affiliate, LTAM, owns 50% of Ladenburg Thalmann Fund Management, LLC, ("LTFM"), which is a registered investment adviser. LTFM is an adviser to an open-end registered investment company, the Boyar Value Fund, Inc. This fund is an open-end diversified management investment company. LTCO is the distributor of the fund. KMS Advisors may recommend Clients invest in the Boyar Value Fund or in the Alternative Strategies Fund and Ladenburg Funds, for which LTAM acts as investment adviser, and LTCO acts as distributor. KMS Advisors may recommend the Ladenburg Thalmann High Income Portfolio or the Ladenburg Total Portfolio Series. If a Client purchases such securities, LTAM and KMS will receive compensation, which constitutes a conflict of interest.

As described in Item 4 (Services, Fees and Compensation), LTAM manages Ladenburg American Funds® Core Portfolios which include a target allocation of 35% to affiliated mutual funds for tactical asset allocation purposes. LTAM, the manager of the Ladenburg Funds, does not receive any portion of the Wrap Fee. However, LTAM receives an internal management fee from the funds. LTAM is not affiliated with the American Funds.

KMS Advisors may also operate companies or offer services independent of KMS. These unaffiliated companies or services may include other investment advisory firms, accounting or tax practices, insurance services, pension consulting services, and legal services, among others. These independent products or services can create conflicts of interest insofar as they may create incentives for Advisors to recommend those products or services. KMS routinely reviews these "outside businesses" and also mitigates this conflict through Client disclosure. Clients should discuss these potential conflicts of interests with their Advisor to determine if an advisory relationship is appropriate, given their particular situation. Also, please note that KMS as an RIA has a material conflict of interest in using itself as Broker-Dealer. Please also see Items 4, 9A2 and 9B3.

Neither KMS nor any of its management personnel is registered as a futures commission merchant, commodity pool operator, commodity trading advisor, or associated person of such entities.

**Item 9B1 – Code of Ethics, Participation or Interest in Client Transactions & Personal Trading**  
**Code of Ethics & Personal Trading:**

Like any SEC-registered investment adviser, KMS maintains an Investment Advisory Code of Ethics based on KMS' fundamental duty to place the interest of our Clients first at all times. KMS Advisors acknowledge in writing that they will follow KMS' Code of Ethics. For a copy of the Code of Ethics, please contact KMS or your Advisor.

**In summary, KMS' Code of Ethics requires Advisors to:**

- (1) follow ethical standards of conduct, which includes providing investment advice that is consistent with your stated investment objectives, financial needs and circumstances;
- (2) safeguard your confidential information;
- (3) not engage in fraudulent, deceptive or manipulative conduct;
- (4) not recommend a securities transaction without disclosing significant conflicts of interests;
- (5) comply with certain trading policies on Personal Securities Transactions, which, in general: (a) prohibit an Advisor from trading a security before a Client; and (b) prohibit an Advisor from opening or having a personal securities trading account without prior written KMS approval;
- (6) not act on or distribute material, nonpublic information; and
- (7) not participate in an initial public offering or private placement without KMS' prior written approval.

The fact that KMS or an Advisor may actually own the same security as one or more of his Clients constitutes a conflict of interest. KMS monitors trading activity to ensure that Clients are not disadvantaged relative to KMS or Advisors when trading such securities.

**Participation or Interest in Client Transactions:** Also, KMS, as principal, may buy securities for itself from or sell securities it owns to some Wrap Fee Program Clients. The compensation for these principal trades is inconsequential relative to the trade size. KMS and/or its Advisor may, from time to time, buy or sell securities that its Clients may own.

**Item 9B2 – Review of Accounts**

Depending on the nature of the advisory relationship, Advisors review accounts at least quarterly, semi-annually, or annually to determine whether the positions, transactions, and strategies are consistent with the Client's stated investment objective(s). Advisors may review accounts with each Client in person or by phone on an ongoing basis on a predetermined schedule based on each Client's preferences. Clients may request a review of accounts with the Advisor at any time. Additionally, market events may trigger an Advisor to conduct an account review and/or communicate with Clients. Periodically KMS Compliance Officers review a sample of accounts from each Advisor for consistency with stated Client objectives, risk tolerance, time horizon, etc.

Clients are provided with monthly or quarterly statements (in written or electronic format), depending on the activity in the account, directly from the qualified custodian. Statements will include information on client holdings, balances, and account activity. Additionally, Clients will be provided with performance reports on a regular basis (quarterly, semi-annually, or annually), delivered in either written or electronic format. KMS urges Clients to read all statements and reports promptly.

**Item 9B3 – Client Referrals and Other Compensation**

**Client Referrals:** KMS has referral arrangements with financial institutions, such as banks or credit unions, under which they provide certain KMS Advisors with referrals to potential Clients in exchange for a portion of the investment advisory fees and/or commissions KMS may earn from that potential Client. All investment recommendations and advice are provided by the KMS Advisor who will secure from each Client a written acknowledgement that the Client understands the respective roles of KMS and the financial institution.

**Other Compensation for Non-advisory Business:** In addition, Advisor may also recommend that a Client buy (or sell) a security or insurance product outside the context of the advisory account(s). If a Client decides to buy or sell a security or insurance product, KMS and Advisor may be paid a commission (including mark-up or mark-down) on those transactions. In these circumstances KMS and Advisor would have a financial interest in the transaction which constitutes a conflict of interest. Generally the Advisor will disclose the amount of compensation at the time a recommendation is made by delivering the relevant prospectus or the equivalent. Clients are under no obligation to purchase securities or insurance products through KMS or the Advisor.

LTCO acts as a dealer with respect to certain securities, and as such, may execute transactions for KMS clients as principal. As a dealer, LTCO may receive a “mark-up,” “mark-down,” and / or spread in the net price at which principal transactions are executed. This compensation is in addition to other compensation that client pays to KMS and its affiliates under the Program. Thus, KMS has a conflict of interest in deciding to execute trades through LTCO on a principal basis. KMS addresses this conflict in the following ways. After receiving disclosures about a specific principal transaction with LTCO, Clients have the opportunity to reject the transaction before it is completed, to the extent required by applicable law. In addition, KMS has policies and procedures in place to assure that Clients receive best execution with respect to principal trades, regardless of whether the trade is executed by LTCO or an unaffiliated dealer.

KMS may also recommend that Clients invest in securities issued in an initial public and/or secondary offerings (“new issues”) for which LTCO acts as a manager, underwriter and/or a member of the selling group. KMS has a conflict of interest in recommending these securities for several reasons. First, KMS receives all or a portion of the gross spread – the difference between the price that the Client pays for the security and the price that KMS purchases the security for -- in connection with such sales. This gross spread is generally 7%, but may be higher or lower in connection with certain offerings. KMS advisors generally receive a portion of this compensation as broker-dealer representatives of KMS. In addition, LTCO has a substantial interest—both financial and with respect to its reputation—in assuring that the offering is successful by having a large number of the securities purchased. Finally, in connection with certain offerings, LTCO has an obligation to purchase and resell a certain number of securities. Thus, because of its affiliation with LTCO, KMS has incentives to recommend these investments in these offerings for these reasons, rather than based on a Client’s needs. To address these conflicts, KMS has policies and procedures in place to make sure that securities in initial public offerings are recommended only to Clients for whom they are suitable given the Client’s investment objectives and assets. In addition, Clients are generally given transaction specific disclosure prior to the Client’s decision to invest in such securities. Securities acquired in initial public and secondary offerings may be oversubscribed and KMS has policies and procedures in place for the allocation process.

KMS Advisors may recommend Premier Trust to provide trust and administrative services. Premier Trust provides full disclosure with respect to its trust and administrative services and related costs. KMS will receive 10% of the trust and administration fees clients pay to Premier Trust for trust administration services. Receipt of this revenue by KMS, who will share it with KMS Advisors, constitutes a conflict of interest. Clients are not obligated to use Premier Trust for trust administration services.

Advisors may also engage in other businesses outside of KMS and recommend that a Client purchase such a product or service outside of the context of the advisory account(s) (“Recommendations”). Such activities are disclosed to Clients via the attached 2B Brochure Supplement. To the extent those Recommendations create compensation for an Advisor and involve using funds from the advisory account(s), the Advisor would have a financial interest in the transaction that may constitute a conflict of interest. KMS does not share in this compensation. KMS encourages Clients to inquire with their Advisor about this possible conflict before accepting any Recommendations.

**Other Compensation in General:** KMS hosts **several conferences** for its Advisors, discussing timely topics about products, services, investment strategies, KMS procedures, and practice management. Various sponsors attending the conference pay KMS a fee, which helps defray a portion of KMS’ cost of hosting the conference. This type of cost sharing is a typical practice in the industry and the conference is a net expense to KMS even after the sponsor support.

Third party advisory firms, sponsors and custodians may offer KMS or KMS Advisors **financial assistance** in the form of marketing reimbursements, free or discounted technology platforms and/or free or discounted due diligence trips. Marketing reimbursement allows a third party advisor to help a KMS Advisor grow their asset base. Marketing support reimbursements are for documentable expense and do not exceed the cost of the item. Third party advisors provide support for due diligence and educational trips to educate and train KMS Advisors (and KMS home office staff) about that firm’s services and tools. These reimbursements do not exceed the

cost of attending the trip or meeting. Further, any technology (or technology support) provided is either a tool required for the Advisor to (efficiently) deliver the service under the advisory contract or it is merely a discount to the “retail” price of the particular technology which assists the Advisor in servicing their Clients. The level of these forms of support is both typical in the industry and modest relative to the total value of services rendered.

**Item 9B4 – Financial Information**

KMS is required to provide you with certain financial information or disclosures about its financial condition. KMS has no financial commitment that impairs our ability to meet our contractual and fiduciary commitments to you, and KMS has not been the subject of a bankruptcy proceeding.



### **KMS' Supervision of Palash S. Islam**

KMS is a broker-dealer (“BD”) and registered investment advisor (“RIA”) registered with the SEC. KMS is registered as a BD in 50 states and the District of Columbia (“DC”) and is positioned to act as an RIA in 50 states and DC. KMS offers financial products and services to the public through its registered representatives and RIA investment advisory representatives such as Palash S. Islam.

KMS' Seattle home office supervises its Advisors through various systems and procedures. Casey Dougherty, Vice President of Compliance and Insurance, and Tracy Forsythe, Chief Compliance Officer, supervise KMS Advisors and manage other KMS employees who supervise KMS Advisors. If you have questions about KMS' supervision of Advisors, please contact KMS at (206) 441-2885.

## **Addendum to ADV Part 2B Supplement Brochure Information on Advisor's Professional Designation(s)**

The **Certified Financial Planner™**, **CFP®** and federally registered CFP (with flame design) marks (collectively, the “CFP® marks”) are professional certification marks granted in the United States by the Certified Financial Planner Board of Standards, Inc. (“CFP Board”).

The CFP® certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP® certification. It is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients. Currently, more than 62,000 individuals have obtained CFP® certification in the United States.

To attain the right to use the CFP® marks, an individual must satisfactorily fulfill the following requirements:

**Education** - Complete an advanced college-level course of study addressing the financial planning subject areas that CFP Board’s studies have determined as necessary for the competent and professional delivery of financial planning services, and attain a Bachelor’s Degree from a regionally accredited United States college or university (or its equivalent from a foreign university). CFP Board’s financial planning subject areas include insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning, and estate planning.

**Examination** - Pass the comprehensive CFP® Certification Examination. The examination, administered in 10 hours over a two-day period, includes case studies and client scenarios designed to test one’s ability to correctly diagnose financial planning issues and apply one’s knowledge of financial planning to real world circumstances.

**Experience** - Complete at least three years of full-time financial planning-related experience (or the equivalent, measured as 2,000 hours per year).

**Ethics** - Agree to be bound by CFP Board’s *Standards of Professional Conduct*, a set of documents outlining the ethical and practice standards for CFP® professionals. Individuals who become certified must complete the following ongoing education and ethics requirements in order to maintain the right to continue to use the CFP® marks.

**Continuing Education** - Complete 30 hours of continuing education hours every two years, including two hours on the *Code of Ethics* and other parts of the *Standards of Professional Conduct*, to maintain competence and keep up with developments in the financial planning field.

**Ethics** - Renew an agreement to be bound by the *Standards of Professional Conduct*. The *Standards* prominently require that CFP® professionals provide financial planning services at a fiduciary standard of care. This means CFP® professionals must provide financial planning services in the best interests of their clients.

CFP® professionals who fail to comply with the above standards and requirements may be subject to CFP Board’s enforcement process, which could result in suspension or permanent revocation of their CFP® certification.

Additional information regarding this designation is available by contacting the CFP Board at [www.CFP.net](http://www.CFP.net).

**Addendum to ADV Part 2B Supplement Brochure**  
**Information on Advisor's Professional Designation(s)**

The College for Financial Planning and the National Association of Insurance and Financial Advisors (NAIFA) jointly confer the **Life Underwriter Training Council Fellow, or LUTCF designation**, to insurance professionals who have completed six courses combining essential product knowledge with basic planning concepts.

Additional information regarding this designation is available by contacting the College for Financial Planning at [www.cffpinfo.com](http://www.cffpinfo.com).