

# Edelman Financial Services LLC

## Investment Advisory Services

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This brochure provides information about the qualifications and business practices of Edelman Financial Services LLC. If you have any questions about the contents of this brochure, please contact us at 888-PLAN-RIC (888-752-6742) or you may email us at [info@RicEdelman.com](mailto:info@RicEdelman.com) or write us at the address below. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any state securities authority.

Additional information about Edelman Financial Services LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **EDELMAN**

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### **FINANCIAL SERVICES**

LLC

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## Item 2: Material Changes

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This brochure follows the SEC's new rules published in "Amendments for Form ADV" on July 28, 2010. It follows a new structure and contains much of the information that the old brochure did and some that it didn't. This information is accurate as of June 30, 2011.

We're required to tell you about any significant changes in this updated brochure. Future brochures will contain similar summaries. The following are the significant changes made to this brochure:

The Sanders Morris Harris Group has changed its name to The Edelman Financial Group. EFS introduces the Edelman Financial Education Group which is a team of financial educators who provide seminars on a variety of personal finance topics as a community service.

We used to have to offer you information about our qualifications and business practices annually. Under new SEC rules, we'll give you a new brochure within 120 days of the end of our fiscal year. You may also receive updates at other times if information changes. You may request a new brochure at any time and at no charge.

You can request a free brochure by calling us at 888-PLAN-RIC. You can also find out more about us and receive our current brochure from the SEC's website: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The site can also give you information about people who are registered, or about to be registered, as Investment Adviser Representatives of our firm.

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## Item 4: Advisory Business

### Background of Edelman Financial Services LLC

Edelman Financial Services LLC (“EFS” or “We”) is an investment advisory firm registered with the United States Securities and Exchange Commission under the Investment Advisers Act of 1940. We are primarily owned by The Edelman Financial Group (“TEFG”), a publicly traded financial services firm located in Houston, Texas. EFS shares executive officers with TEFG and its subsidiaries. Ric Edelman is Chairman, CEO and a minority owner of EFS. He also serves as President, Co-CEO and Director of TEFG. George Ball is a Director of EFS and serves as Chairman and Co-CEO of TEFG. He also serves as Chairman and CEO of, Sanders Morris Harris Inc. (“SMH”), a wholly owned broker-dealer subsidiary.

EFS provides investment advisory services and financial education to consumers, institutions and other entities throughout the country. Our firm was founded nearly 25 years ago by Ric and Jean Edelman. Today we are headquartered in Northern Virginia and have branch offices located throughout the Northeast, Southeast and Midwest.

### Principal Executive Officers

**Fredric (Ric) M. Edelman** (Born: 1958). Chairman, Chief Executive Officer (CEO) and minority owner of Edelman Financial Center, LLC (which is the single member owner of Edelman Financial Services LLC). President, Co-Chief Executive Officer (CEO) and Director of TEFG. The sole owner and Chairman of EFS from 1987 to 2005, he was inducted into the Financial Advisor Hall of Fame, sponsored by *Research* magazine, in 2004. Mr. Edelman was named the #1 Independent Financial Advisor in the nation by *Barron’s* magazine in 2009 and 2010, based on assets under management, revenues the advisors generate for their firm and the quality of their practices. He received an honorary doctorate from Rowan University in New Jersey in 1999, where he graduated with honors with a B.A. in communications in 1980. (It was then known as Glassboro State College.) Mr. Edelman is a registered representative and principal with Sanders Morris Harris Inc. He is a Certified Fund Specialist, a Chartered Mutual Fund Counselor, a Registered Financial Consultant, a Qualified Financial Planner, a Certified Retirement Counselor® and Board Certified in Mutual Funds. He is also licensed to sell securities, life and health insurance, and variable annuities.

**George L. Ball** (Born: 1938). Chairman and Co-Chief Executive Officer (CEO) of TEFG and Chairman and CEO of Sanders Morris Harris Inc. Director of the Edelman Financial Center, LLC (which is the single member owner of EFS), SMH Capital Advisors Inc., Global Financial Services, LLC and Leonetti & Associates, LLC — all registered investment advisors. Mr. Ball was a Director

of TEFG's predecessor, Sanders Morris Mundy Inc., and was the nonexecutive Chairman from May 1992 to July 1997. He is a former governor of the American Stock Exchange and the Chicago Board Options Exchange, and served on the Executive Committee of the Securities Industry Association. Mr. Ball is a dually registered representative and principal with Sanders Morris Harris Inc. and Global Financial Securities, LLC. He received a B.A. from Brown University in 1960.

**Bruce R. McMaken** (Born: 1959). Executive Vice President of TEFG and Director of the Edelman Financial Center, LLC (which is the single member owner of EFS) since 2011. Mr. McMaken has been affiliated with SMH since 1992, first as Senior Vice President. He also serves as a Manager for the SMH Private Equity Group Funds I and II and for the M.D. Anderson Proton Therapy Center. Mr. McMaken is a dually registered representative and principal with Sanders Morris Harris Inc. and Global Financial Securities, LLC. He received a B.A. from Cornell University in 1981.

**Edward (Ed) P. Moore** (Born: 1960). Executive Vice President of TEFG and EFS President and Director and minority owner of the Edelman Financial Center, LLC (which is the single member owner of EFS) since 2005. Mr. Moore has been affiliated with EFS since 1990. He is a CERTIFIED FINANCIAL PLANNER™ and is licensed to sell securities, life and health insurance, and variable annuities. Mr. Moore is a registered representative and principal with Sanders Morris Harris Inc. He received a B.S. in industrial engineering from Virginia Tech in 1983.

**Lesley V. Roberts** (Born: 1966). EFS Chief Operating Officer (COO) and Director of the Edelman Financial Center, LLC (which is the single member owner of EFS) since 2010. Ms. Roberts has been affiliated with EFS since 1998, first as the Director of Human Resources. Prior to joining our firm, she was employed as a Human Resources Manager in the airline industry. Her areas of responsibility cover human resources, information technology and facilities.

**Eraine J. Parker** (Born: 1960). EFS Chief Compliance Officer (CCO). Ms. Parker has been affiliated with EFS since 2007. She has over 25 years of compliance and accounting experience within the financial services industry, including five years with FINRA. Prior to joining us, Ms. Parker was employed by a bank-affiliated broker-dealer and registered investment advisor for 23 years, where she served as CCO during her tenure. Ms. Parker is a registered representative and principal with Sanders Morris Harris Inc. She received a B.A. in business administration from Georgia State University in 1988.

**Domenico (Dom) Conti** (Born: 1966). EFS Chief Financial Officer (CFO) and Director of Edelman Financial Center, LLC (which is the single member owner of EFS) since 2011. Mr. Conti has been affiliated with EFS since 2006. Mr. Conti is a CPA with active status in Maryland. He has worked in finance and accounting for over 20 years. Prior to joining us, Mr. Conti was employed by America Online as a Finance Officer. He received a B.S. in accounting from the University of Maryland in 1989.

**William (Bill) Coquelin** (Born: 1960). EFS and TEFG Chief Information Officer (CIO). Mr. Coquelin joined EFS and SMH in 2011. He has held both CIO and technical leadership roles with several financial industry firms in the Washington, DC, and Baltimore, Maryland, areas, as well as for a multinational firm in the financial industry. Prior to joining EFS and SMHG, Mr. Coquelin was one of the principals in a technology consulting company that provided IT management and oversight to firms in the pharmaceutical and defense contracting markets. He received a B.S. in management from George Mason University in 1988.

## **Advisory Services Offered**

EFS provides financial planning, investment management and education, and insurance services to individuals; trusts; estates; charitable organizations; foundations; pension, retirement and profit-sharing plans; institutions; and small businesses. Our wrap fee program is available to clients and other affiliated and unaffiliated registered investment advisers and their clients. Our advisory personnel are also registered representatives of SMH, a registered broker-dealer and registered investment adviser subsidiary of TEFG. This legally allows EFS investment advisory personnel to provide brokerage services to clients.

## **Wrap Fee Asset Allocation Program**

The Edelman Managed Asset Program® (“EMAP”) is a wrap fee asset allocation program sponsored by EFS. Through EMAP, we create well-diversified asset allocation models for clients. The investments in these models include:

- Mutual fund shares of no-load, open-end registered investment companies
- Exchange-traded funds (“ETFs”)
- Variable annuities

We don’t sponsor nor are we affiliated with these investments. Investment Adviser Representatives (“Advisors”) meet with clients to discuss their needs. The main factors that help us recommend an asset allocation model to clients are their investment objectives and risk tolerance. We also consider the client’s personal situation, including age, health, family circumstances, income, expenses, assets, debts, liquidity needs, goals, personal objectives, suitability, time horizon and other relevant factors. If a client’s investment objectives or financial situation changes, the client should tell his or her Advisor. We receive a wrap fee for our services.

Clients are allowed to place or change reasonable restrictions on the management of their accounts. This includes deciding to sell or not to buy particular securities or types of securities. However, a client can’t require us to buy particular securities or types of securities. We reserve the right, at our sole discretion, to close an account if unreasonable or overly restrictive conditions are requested.



Either a client or the firm can end the relationship with written notice. We bill clients quarterly, after a quarter closes. If the relationship ends before the quarter does, the client will not be billed for the remainder of the quarter.

## **Asset Allocation Program for ERISA Plans**

EFS makes the Edelman Retirement Program (“ERP”) available to plan sponsors of 401(k), profit-sharing and retirement plans (“Plans”) subject to the Employee Retirement Income Security Act of 1974 (“ERISA”), as amended, which gives participants the ability to individually direct the investment of accounts under the Plan.

Through ERP, we create and recommend a range of asset allocation models, each consisting of a diversified mix of asset classes for Plan sponsors. We also provide educational guidance to assist the Plan sponsor in its review of these models. In addition, we recommend the underlying asset classes for the models and recommend at least one investment security for each underlying asset class. Usually these are funds including but not limited to shares of open-end registered investment companies, such as mutual funds, and ETFs (collectively, the “Underlying Funds”). We don’t sponsor, nor are we affiliated with, any of the Underlying Funds.

Generally, our Advisor holds an initial meeting with the Plan sponsor to explain the firm’s services and fees and to collect detailed financial data about the Plan. Emphasis is placed on identifying the Plan sponsor’s investment objectives and determining the financial situation of the Plan. With respect to the asset allocation models and Underlying Funds recommended to each Plan sponsor client, we consider the Plan’s investment objectives, financial situation, suitability and other relevant factors.

After the Plan sponsor reviews and approves our recommendations, the asset allocation models are offered to Plan participants as investment options (the “Investment Options”). Participants will select an Investment Option for their Plan accounts. The Underlying Funds may also be available to Plan participants who do not select an Investment Option, if the Plan sponsor permits it. With the Plan sponsor’s permission, we make general educational information regarding saving for retirement and asset allocation models and the Investment Options available to the Plan’s participants. We are not responsible for reviewing or changing any participant’s decision to invest in a particular Investment Option.

On an ongoing basis, we work with the Plan sponsor’s Third Party Administrator (“TPA”) to ensure that the selected investment options are properly implemented. With the Plan sponsor’s permission, we give instructions to the TPA to do the following:

- Invest the underlying assets of each Investment Option in a mix of investments in the Underlying Fund
- Periodically rebalance the mix of investments in the Underlying Funds for each Investment Option

- Strategically modify the allocations for the Investment Option so as to reallocate the mix of investments

Plan sponsors are permitted to impose reasonable restrictions on the underlying assets of Investment Options managed on behalf of the Plan. With respect to such restrictions, a Plan sponsor may request that particular securities or types of securities not be purchased, or that such securities be sold. Plan sponsors should know that we can't influence or change the mix of securities held by any Underlying Fund in which the Plan may be invested. We reserve the right, at our sole discretion, to reject any Plan sponsor account where unreasonable or overly restrictive conditions are requested. Plan sponsors are reminded to inform their Advisor if their investment objectives or financial situation changes. The professional relationship between the Plan sponsor client and EFS may be terminated at will by either party upon written notice.

Plan sponsors may be introduced to ERP through SMH, an affiliated registered investment adviser or through other unaffiliated registered investment advisers. In that case, SMH or the unaffiliated registered investment adviser initiates and maintains the relationship with the Plan sponsor on behalf of EFS. Specifically, the Advisor:

- Collects detailed financial data about the Plan
- Provides educational guidance to Plan Participants regarding saving for retirement and asset allocation models
- Meets with the Plan sponsor on our behalf on a periodic basis to discuss suitability and any reasonable restrictions

The Advisor assists the client with the completion of the new account documentation, including the ERP Investment Management Agreement. After the ERP models and Underlying Funds have been approved by the Plan sponsor, the Advisor promptly communicates the information to us. The Advisor remains responsible for assessing initial and ongoing suitability of ERP and introducing the appropriate models and Underlying Funds to the Plan sponsor. The Advisor may offer ERP or any other financial planning product(s) that meets the needs and goals of a prospective Plan sponsor.

Advisors will share in the advisory fee generated from any client assets that are invested in ERP. We receive no compensation or economic benefit from products or services offered by the Advisor to Plan clients, other than ERP. The Plan client does not pay any additional fees as a result of this arrangement. None of the Underlying Funds recommended to the Plan sponsor will be sponsored by or affiliated with either entity; neither will receive any additional compensation related to the Underlying Funds other than their share of the advisory fee, which is generated through ERP.

## Financial Planning

EFS Advisors provide financial planning services to clients. The Advisor prepares a comprehensive financial plan for clients based on their financial and personal circumstances. We do not provide legal or tax advice. Clients are charged a one-time fee that can be waived at the Advisor's discretion. Each financial planning client has a choice of selecting us to invest on his/her behalf on a limited discretionary basis (meaning we can carry out some financial transactions without first consulting the client) by establishing an Edelman Managed Asset Program® ("EMAP") account, or the client can implement an EFS financial plan on their own.

Legacy financial planning clients who are ineligible for or who elect not to participate in EMAP may choose annual financial planning services. This gives them the benefits of ongoing investment advice and recommendations from our Advisor. There is an annual planning fee for this service, which may be waived at the sole discretion of the Advisor. The Advisor may also, at his/her sole discretion, decline to assist clients with the implementation of investment strategies or choices that have not been recommended or that the Advisor deems not to be in the client's best interest.

Clients may implement the recommendations set forth in their financial plans through our firm. They will open SMH or fund direct accounts and receive nondiscretionary recommendations (meaning we have to receive instructions from the client before a financial transaction can be carried out) from their Advisor. Advisors are compensated for such advice through annual planning fees and transaction-related compensation, such as commissions or trail fees from the purchase or sale of securities. In such cases, our Advisors, who are also registered representatives of SMH, receive brokerage commissions when implementing investments for their financial planning clients. Clients are under no obligation to implement their financial plans through our firm. Clients who choose to implement their financial plans elsewhere will not receive ongoing investment advice from us.

EFS does not serve as an ERISA fiduciary to any account subject to the Employee Retirement Income Security Act of 1974, as amended, which seeks only financial planning services.

## The Financial Education Group

EFS is a strong advocate of consumer education and financial literacy. The Edelman Financial Education Group is a team of financial educators who provide seminars as a community service to corporations, associations, non-profit organizations, community and religious groups on a variety of personal finance topics. Presentations are created by and based on the teachings of Ric Edelman. They are designed to explain complex financial concepts in plain English in a way that is educational, informational and entertaining. Groups may qualify to receive presentations free of charge, as part of our community services program.

## Institutional Advisory Services

EFS provides a broad range of institutional investment management services to a variety of small and midsize organizations, endowments and associations. The services offered include:

- Investment Policy Statement Assistance — EFS assists in creating, rewriting and/or reviewing an effective Investment Policy Statement that reflects the investment needs of the entity.
- Asset Allocation Model — EFS assists in developing a diversified asset allocation strategy in accordance with the investment objectives, goals, need for liquidity and risk tolerance of the entity.
- Financial Profile — EFS performs a detailed review of the entity's investment objectives and financial situation in order to provide an accurate assessment of the appropriate level of acceptable risk in accordance with the stated time horizon and goals.
- Investment Management — EFS provides ongoing, continuous management of assets, including strategic rebalancing and daily account review.
- Record keeping — EFS provides statements and online functions designed to ease the administrative needs and burdens associated with record keeping and reporting.

## Assets Under Management

EFS has the following assets under management as of February 28, 2011:

	<u>Accounts</u>	<u>Assets</u>
Discretionary	31,263	\$ 5,865,200,000
Non-discretionary	12,374	\$ 523,200,000
Total	43,637	\$ 6,388,400,000

## Item 5: Fees and Compensation

EMAP Client Fee Schedule		
Portion of the Account That Is		
at Least	But Less Than	Fee at This Tier
--	\$ 150,000	2.00%
\$ 150,000	\$ 400,000	1.65%
\$ 400,000	\$ 750,000	1.25%

\$ 750,000	\$ 1,000,000	1.00%
\$ 1,000,000	\$ 3,000,000	0.75%
\$ 3,000,000	\$ 10,000,000	0.60%
\$ 10,000,000	\$ 25,000,000	0.50%
\$ 25,000,000	and greater	negotiable

The EMAP fee includes periodic access to an Advisor and discretionary management, including periodic review of all investments in the EMAP asset allocation model. The fee also includes all model transaction costs, custody of assets and a subscription to *Ric Edelman's Inside Personal Finance* newsletter.

Clients pay a wrap fee, which includes all brokerage execution costs, without regard to the number of transactions executed during the billing period. EFS has negotiated fees with clearing/custodying firms, and the costs do not affect the wrap fee paid by the client. Transaction costs imposed by the brokerage firms are covered by the wrap fee. The wrap fee does not include certain account and securities-related costs, including the fees embedded in the mutual funds in which wrap fee accounts invest. In addition, the fee does not include debit balances, related margin interest, IRA and retirement plan fees, transfer fees, SEC fees, 12b-1 fees for certain money market funds, expenses charged by the mutual funds (including management fees, transaction charges incurred for fund-level asset allocation model trades, custody of fund assets and other fund expenses), expenses charged by the variable annuities and exchange-traded funds, or other fees or taxes that are required by law.

Transactions executed on behalf of EMAP clients are executed for a single wrap fee, which reduces the potential conflict of interest associated with executing a large number of orders for client accounts and earning transaction-based compensation following each order. In addition, EMAP invests client assets primarily in no-load shares of unaffiliated open-end registered investment companies (such as mutual funds), ETFs and no-commission variable annuities. Thus, neither our firm nor the Advisors earn any additional revenue from EMAP accounts beyond the wrap fee. However, EFS and its Advisors may have a financial incentive to recommend EMAP over other products.

When calculating advisory fees, we aggregate household accounts to determine the lowest percentage if all accounts were managed as one relationship. Fees are not negotiable, other than as disclosed in the fee schedule above. Accounts with less than \$50,000 may effectively pay a fee that is greater than 2.00%. Full fee details are also discussed in the Client Services Agreement that is signed by the client. Clients should be aware that lower fees for comparable services may be available from other sources.

Clients authorize the custodian firm, on behalf of EFS, to deduct the EMAP fee from their accounts. The fee is based on the average daily balance of the client assets. The first payment is calculated based on the number of days assets are placed in the account during a calendar

quarter. Subsequent fees are determined based on the average daily balance for the quarter ending on the last day of each calendar quarter. Generally, fees are deducted from the client's account no later than the fifteenth (15th) day after the end of each quarter, in arrears. For margined accounts, the fee may be added to the margin balance unless the client elects to deposit cash or liquidate securities. If an account is terminated prior to the end of a calendar quarter, the terminating client will pay fees due up to the termination date.

EFS and the Advisors who are authorized to recommend EMAP receive compensation based on the amount of money the client invests in the program. The amount of such compensation may be more or less than what our Advisors might earn from nondiscretionary annual financial planning advice. Therefore, our firm and Advisors may have a financial incentive to recommend EMAP over other programs or services. However, the compensation paid from the EMAP fee does not vary depending upon the number of trades made in EMAP client accounts. We do not earn more of the fee if fewer trades are placed. This arrangement gives us no economic incentive to place more or fewer trades through clearing broker-dealers for EMAP accounts.

Clients will pay the same fee, regardless of whether the client selects an EMAP asset allocation model through an EFS Advisor or another affiliated or unaffiliated registered investment advisory firm that is authorized to offer EMAP. Our firm will pay a negotiated percentage, up to 60% of the annual account fee, to registered investment advisory firms on accounts initiated and serviced by their Advisors. Also, at no additional cost to the client, EFS may occasionally pay additional basis points to the registered investment advisory firm.

## Institutional

<b>EMAP Institutional Fee Schedule</b>	<b>Fee</b>
Up to \$999,999	1.40%
\$1 million to \$1,999,999	1.00%
\$2 million to \$4,999,999	0.75%
\$5 million to \$9,999,999	0.60%
\$10 million to \$24,999,999	0.50%
\$25 million +.....	negotiable

The fee includes periodic access to an Advisor and the services described above in Item 4.

The fee does not include debit balances, related margin interest, transfer fees, SEC fees, 12b-1 fees for certain money market funds, expenses charged by the mutual funds (including management fees, transaction charges incurred for fund-level asset allocation model trades, custody of fund assets and other fund expenses) and exchange-traded funds, or other fees or taxes that are required by law.

Institutional clients authorize the custodian firm, on behalf of EFS, to deduct the EMAP fee from their accounts. The fee is based on the average daily balance of the client asset allocation model. The first payment is calculated based on the number of days assets are placed in the account during a calendar quarter. Subsequent fees are determined based on the average daily balance for the quarter ending on the last day of each calendar quarter. Fees are deducted from the account no later than the fifteenth (15th) day after the end of each quarter, in arrears. If an account is terminated prior to the end of a calendar quarter, the terminating client will pay fees due up to the termination date.

EFS and the Advisors who are authorized to recommend EMAP receive compensation based on the amount of money invested in the program. The compensation paid from the EMAP fee does not vary depending upon the number of trades made in EMAP client accounts. EFS does not earn more of the fee if it places fewer trades. As a result of the wrap nature of the fee, EFS has no economic incentive to place more or fewer trades through clearing broker-dealers for EMAP accounts.

## Edelman Retirement Program

ERP Plan Assets	Fee
\$0 to \$2 million	1.00%
\$2 million to \$5 million	0.85%
\$5 million to \$10 million	0.70%
\$10 million to \$15 million	0.60%
\$15 million to \$20 million	0.50%
\$20 million +.....	negotiable

The fee includes periodic access to an Advisor and the services provided on behalf of the Plan sponsor client as described above. The ERP fee is payable quarterly in arrears, no later than the thirtieth (30th) day after the end of the quarter. Except as may be otherwise agreed to by the Plan sponsor and EFS, the Plan sponsor agrees for the Plan's record keeper, custodian or other service provider to deduct the ERP fee from Plan accounts and to remit such amounts to our firm prior to the due date as provided under the ERP Investment Management Agreement, which is the standard ERP client contract. The fee is based on the balance of the total assets of the Plan accounts invested in the Investment Options as of the end of each calendar quarter. The first payment is prorated for assets that are placed in Plan accounts during a calendar quarter. Subsequent fees will be determined based on the last day of each quarter. The fee schedule above shows the annual percentages.

The ERP fee does not cover any fees or expenses charged by any of the Underlying Funds, including but not limited to any brokerage commissions, other transactions costs, redemption

fees or any other charges or expenses imposed by the Underlying Funds. The Plan's record keeper, custodian or other service provider may charge a separate fee to cover the administrative and other record keeping costs associated with Plan accounts invested in the Investment Options.

## **Other Fees Earned by EFS**

### **Financial Plans**

EFS may charge a one-time initial fee of \$800 for financial plan development and presentation. Clients who pay for a plan are under no obligation to implement the plan with our firm. The financial planning fee is waived for employees of the firm and for *pro bono* cases at the discretion of the Advisor.

### **Annual Financial Planning Fee**

EFS charges an annual financial planning fee of \$400 beginning in the second year after the creation of a plan for non-EMAP accounts. This fee is not charged for EMAP accounts. The fee includes periodic review of recommended investments by EFS Advisors. Included in the annual financial planning fee is a subscription to *Ric Edelman's Inside Personal Finance* newsletter.

Fees are billed annually at the quarter-end following the client's anniversary date and are charged at the discretion of the Advisor. The fee is waived for an ERISA-only client. If termination occurs prior to the end of the client's anniversary date, the client will receive a *pro rata* refund of any unearned fee.

EFS Advisors are also SMH registered representatives and receive commissions and other transaction-related fees on products sold outside of EMAP as part of an implemented financial plan. Lower fees for financial planning and securities transactions may be available from other sources. EFS Advisors may have a financial incentive to recommend products that may result in commission revenue. However, financial planning clients are under no obligation to implement their financial plans through us and are informed of this at the time plans are presented.

### **Seminars**

Seminars are offered to the public on a variety of financial topics. Fees range from \$25 to \$495, with satisfaction guaranteed or 100% of the registration fee refunded. The fee is due prior to the event.

### **Speaking Engagements**

Ric Edelman is a public speaker, radio show host, and host of television shows about investing and financial education. Fees for his speaking engagements range from free to \$30,000 plus first-class travel expenses, depending on sponsor, date, location and program requested. For all speeches, 50% of the fee is required prior to the event, with the balance due at the conclusion of the event. Speaker fees are nonrefundable.



### **Educational Products**

EFS sells the newsletter, *Ric Edelman's Inside Personal Finance*, on a subscription basis for \$39.95 annually. Subscribers may cancel at any time and receive a full refund. We sell an audio CD package titled "Mind Over Money — Why Investors Make the Mistakes They Do" for \$19.95. EFS also sells a packaged kit (Ric's Wealth Building Kit), which includes the above-mentioned audio CD, the book *Discover the Wealth Within You*, the audiobook on tape *Ordinary People, Extraordinary Wealth* and a one-year subscription to the newsletter, for the price of \$99.95. Ric Edelman's books, including *The Truth About Money* (4th ed.); *The New Rules of Money*; *Ordinary People, Extraordinary Wealth*; *Discover the Wealth Within You*; *What You Need to Do Now*; *The Lies About Money*; and *Rescue Your Money* are sold at prices ranging from \$9.95 to \$28. For all products except the newsletter, there is a fee for shipping and handling.

### **RIC-E Trust®**

Edelman Business Services LLC ("EBS"), a wholly owned subsidiary of Edelman Financial Center LLC, markets the Retirement InCome for Everyone Trust® (RIC-E Trust®), which is an individual grantor trust enabling the Grantor to set aside assets for a child's retirement. Because the assets of each trust are invested in a variable annuity, assets grow tax-deferred. The trustee is named by the Grantor. First SunAmerica Life Insurance Company, the issuer of the tax-deferred investment, is a subsidiary of AIG. EBS receives an administrative fee of \$400 for each RIC-E Trust® established. This fee is not associated with investment advisory services offered by EFS. Commissions from the underlying variable annuity are received by the EFS Advisor.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

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EFS does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). We do not engage in side-by-side management. See Item 5: Fees and Compensation for further details on advisory services offered.

## **Item 7: Types of Clients**

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EFS provides financial planning, investment management and insurance services to individuals; trusts; estates; charitable organizations; foundations; pension, retirement and profit-sharing plans; institutions; and small businesses.

## Minimum Account Size

### EMAP

- Client household minimum account size is \$50,000. We may waive the minimum account size at our sole discretion.
- Minimum annual fee is \$1,000. We may waive the minimum annual fee at our sole discretion.
- Employee and Advisor minimum account size is \$3,000.
- Institutional minimum account size is \$500,000. We may waive the minimum account size at our sole discretion.

### ERP

We may require a minimum dollar value of Plan assets of \$500,000, at our sole discretion, as a condition of providing our services to Plan sponsors. Minimum account size depends on the number of total assets in the Plan's trust, the current number of participants, the expected number of participants in future periods and other factors EFS deems relevant, including the Plan sponsor's financial requirements, economic circumstances and investment objectives.

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

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### Investment Strategy

EMAP relies on an investment philosophy that is based on the latest academic research, such as the Modern Portfolio Theory and the Fama-French Three-Factor Model, and the latest discoveries in behavioral finance. Modern Portfolio Theory says that it is not enough to look at the expected risk and return of one particular asset class. By investing in more than one asset class, an investor can reap the benefits of diversification, chief among them being a reduction in the riskiness of the portfolio. Modern Portfolio Theory quantifies the benefits of diversification, also known as "not putting all your eggs in one basket." The Fama-French Three-Factor Model through research found that over long periods of time, value stocks outperform growth stocks and, similarly, small cap stocks tend to outperform large cap stocks. Therefore, by analyzing these factors it becomes easier to evaluate the potential portfolio performance. EMAP is founded on the premise that solid science backed by decades of academic research offers one of the smartest approaches to investing.

The EFS investment philosophy is based on the following basic principles:

- Develop highly diversified portfolios that feature a broad range of asset classes and market sectors.
- Use market-based investments, not manager-based investments.
- Hold the investments for long periods of time.
- Periodically reallocate investments as conditions warrant.
- Strategically rebalance as needed.

EMAP is highly diversified, invests primarily in mutual funds and ETFs, and features as many as nineteen (19) asset classes and market sectors. This approach is very effective, but of course cannot ensure investment success or prevent loss in a declining market. Past performance is no guarantee of future results.

### **Methods of Analysis and Investment Selection**

Based on the written EMAP agreement that clients execute, EFS is granted limited discretionary authority to implement client-approved investment strategies. Investments are selected based on past performance (as applicable), manager tenure, portfolio turnover, fees and a variety of academic statistics including beta, standard deviation, R-Squared and Sharpe Ratio. These statistics are provided by third-party vendors and the investment sponsors and are evaluated by the asset allocation model manager as well as the EFS Investment Committee, on both an absolute and relative basis, relying on standards set by the firm.

We may obtain and utilize information and data from a wide variety of public and private sources. Neither EFS nor our Advisors will independently verify or guarantee such information and data. In categorizing the asset classes of investments, we will rely on prospectuses and information obtained from the issuer or its agents, or through publicly available sources. Neither EFS nor our Advisors shall be liable for any misstatement or omission contained in the information from these sources, or any loss, liability, claim, damage or expense incurred, arising out of, or attributable to such misstatement or omission.

Transactions for different account(s) or for other clients' accounts may not be made at the same time, may be made on different days and may be made over multiple days. In handling purchases and liquidations, we will execute transactions without regard to pending dividend or capital gains distributions, stock splits, mergers, or other corporate or financial events.

The client may impose reasonable restrictions on the management of the account. When imposing restrictions, the client may request that particular securities or types of securities not be purchased, or that such securities be sold if held in the account. However, the client cannot request that particular securities be purchased for the account. Moreover, the client should note that it is impossible for us to influence or change the mix of securities held by any mutual

fund or ETF included in the client's account. We reserve the right, at our sole discretion, to reject any account should the client request unreasonable or overly restrictive conditions.

## Risk of Loss

EMAP consists of a combination of institutional or no-load mutual funds and exchange-traded funds, which are subject to the following risk factors:

- **Market Risk** — Even a long-term investment approach cannot guarantee a profit. Economic, political and issuer-specific events will cause the value of securities to rise or fall. Because the value of investment portfolios will fluctuate, there is the risk that you will lose money and your investment may be worth more or less upon liquidation.
- **Foreign Securities and Currency Risk** — Investments in international and emerging-market securities include exposure to risks including currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability.
- **Capitalization Risk** — Small cap and mid cap companies may be hindered as a result of limited resources or less diverse products or services and have historically been more volatile than the stocks of larger, more established companies.
- **Interest Rate Risk** — In a rising rate environment, the value of fixed-income securities generally declines.
- **Credit Risk** — Credit risk is the risk that the issuer of a security may be unable to make interest payments and/or repay principal when due. A downgrade to an issuer's credit rating or a perceived change in an issuer's financial strength may affect a security's value and, thus, impact the Fund's performance.
- **Securities Lending Risk** — Securities lending involves the risk that the fund loses money because the borrower fails to return the securities in a timely manner or at all. The fund could also lose money if the value of the collateral provided for loaned securities, or the value of the investments made with the cash collateral, falls. These events could also trigger adverse tax consequences for the fund.
- **Derivatives** — Derivatives are securities, such as futures contracts, whose value is derived from that of other securities or indices. Derivatives can be used for hedging (attempting to reduce risk by offsetting one investment position with another) or non-hedging purposes. Hedging with derivatives may increase expense, and there is no guarantee that a hedging strategy will work. While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. Derivative securities are subject to a number of risks, including:
  - Liquidity

- Interest rate risk
  - Market risk
  - Credit and management risks
  - Risk of improper valuation
- Changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index, and the Fund could lose more than the principal amount.

Exchange-traded funds face market-trading risks, including the potential lack of an active market for shares, losses from trading in the secondary markets and disruption in the creation/redemption process of the ETF. Any of these factors may lead to the fund's shares trading at a premium or discount to its "net asset value."

## Item 9: Disciplinary Information

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Registered investment advisers are required to disclose all legal or disciplinary events that are material in a client's evaluation of EFS or the integrity of EFS's management. The following is the only disciplinary item we have to report since inception:

### **Administrative Proceeding**

On July 17, 2006, EFS entered into an administrative proceeding with the State of Illinois for a registration matter. EFS paid a \$4,200 fine to the State of Illinois for exceeding its *de minimis* registration standard. Basically, EFS had six clients who resided in Illinois and the limit where no registration was required was five. EFS also agreed to pay the state \$1,500 for the cost of its investigation.

## Item 10: Other Financial Industry Activities and Affiliations

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### **Related Persons**

#### **Broker/Dealer**

TEFG, which is the majority owner of EFS, also owns Sanders Morris Harris Inc. ("SMH"), a firm that is dually registered as a broker-dealer and an investment adviser. As such, we are affiliated

with a registered broker-dealer and investment adviser. Certain EFS employees are also registered representatives of SMH. Our advisory personnel, solely in their capacity as registered representatives of SMH and not as Advisors of EFS, accept orders for SMH accounts from brokerage clients who may or may not be financial planning clients. When acting as registered representatives for clients, our advisory personnel execute transactions for clients through SMH and receive brokerage commissions from SMH on any products sold in this capacity. Thus, a potential conflict of interest exists between the interests of our advisory personnel and brokerage clients. Clients are advised that they are under no obligation to effect securities transactions with SMH or through their EFS registered representative and that similar services may be less expensive elsewhere.

As previously mentioned, Ric Edelman serves as President and Director of TEFG as well as Chairman and CEO of EFS. In addition, he is a registered representative and principal with SMH. As such, there is a potential inherent conflict of interest arising out of his obligations to the shareholders of TEFG and his fiduciary duties to the clients of EFS.

SMH Advisors may offer EMAP and ERP to their clients. In those situations, SMH and EFS would share in the program fees. A potential conflict of interest may exist due to the affiliation between the two companies. However, clients who purchase EMAP or ERP through SMH pay no more than other clients of EFS making similar purchases.

Finally, we provide various administrative, back-office and trading services to SMH to assist with its advisory product offerings. Generally, EFS and SMH will share in the advisory fees generated from the assets in the wrap fee program to compensate EFS for its services.

### **Investment Advisors**

EFS is affiliated with the following wholly owned subsidiaries of TEFG, which are also registered investment advisors:

- Sanders Morris Harris Inc. (“SMH”) — See discussion above
- SMH Capital Advisors Inc. (“SMHCA”) — No material relationship with EFS

The following registered investment advisors and broker-dealers are partially owned subsidiaries of TEFG but have no material relationship with EFS:

- SOF Management, LLC
- Rikoon Group LLC
- Leonetti & Associates LLC
- Investor Financial Solutions
- Silverbay Capital Management, LLC

- Miller-Green Financial Services Inc.
- GFS Advisors LLC
- Global Financial Services, L.L.C. (broker-dealer)

### **Insurance Agency**

HWG Insurance Agency, Inc., is a wholly owned subsidiary of TEFG. EFS Advisors may also be insurance agents of HWG. They are licensed to sell variable and fixed insurance products and receive insurance commissions from client transactions through this agency.

EFS is also a licensed insurance agency and is licensed in most states. Our advisory personnel generally refer clients who wish to buy insurance products such as life, long-term disability and long-term care insurance to AccuQuote, an unaffiliated insurance agency who specializes in insurance brokerage and providing affordable insurance to clients. EFS and its insurance agents are compensated a percentage of the revenues generated on the sale of such insurance products. As such, our firm and our insurance agents have a conflict of interest because of the economic incentive to sell policies that result in commissions or other sales revenue. Clients are advised that they are under no obligation to purchase any insurance products through us or our personnel.

### **Other**

Edelman Business Services LLC ("EBS"), a wholly owned subsidiary of EFC, markets the Retirement InCome for Everyone Trust® (RIC-E Trust®), which is an individual grantor trust enabling the Grantor to set aside assets for a child's retirement. Because the assets of each such trust are invested in a variable annuity, assets grow tax-deferred. The trustee is named by the Grantor. First SunAmerica Life Insurance Company, the issuer of the tax-deferred investment, is a subsidiary of AIG. EBS receives an administrative fee of \$400 for each RIC-E Trust® established. This fee is not associated with investment advisory services offered by EFS, although commissions are generated from the underlying annuity.

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

### **Code of Ethics**

EFS has adopted a Code of Ethics ("The Code") that is designed to ensure that all employees adhere to the highest standards of ethical conduct. The Code states that all of our employees must act in the best interest of the client at all times. It also states that employees should avoid any practice that creates or appears to create a material conflict of interest that could potentially harm a client.

In addition, the EFS Code of Ethics requires, among other things, that employees:

- Submit their personal and related trading accounts to the Compliance Department for review
- Refrain from purchasing Initial Public Offerings (“IPOs”)
- Refrain from trading on insider information
- Get approval prior to purchasing a private placement
- Comply with ethical restraints including restrictions on giving and receiving gifts
- Report any conduct that could potentially harm a client

EFS has also adopted supervisory procedures that are designed to detect the following abusive behavior:

- Front-running, trading ahead or opposite clients
- Trading in securities on the SMH Restricted or Watch List
- Trading that appears to be based on insider information
- Short-term or day trading
- Trading during designated SMH blackout periods

Any officer or employee of the firm who fails to observe the EFS Code of Ethics risks serious sanctions, including personal liability and/or termination of employment.

A copy of the EFS Code of Ethics is available upon request by contacting us using the information on the cover page of this brochure.

### **Related Person Invests in the Same Securities**

EFS investment advisory personnel may invest their personal funds and establish an EMAP account for themselves. Our advisory personnel may also participate in the EFS Employee 401(k) Plan that uses abbreviated EMAP asset allocation models, which do not include exchange-traded funds. In that regard, employees may buy and sell for themselves the same underlying securities as clients and will have interests in securities owned by or recommended to our clients, including mutual funds, ETFs or insurance products. Although all employees get the benefit of a fee reduction on EMAP accounts, those accounts are not given preferential trading treatment. Employee accounts are monitored and rebalanced on the same basis as all other unrestricted client accounts invested in accordance with the same EMAP asset allocation model strategy. We have adopted procedures relating to personal securities transactions, insider trading and internal trading that are designed to prevent client harm resulting from this conflict of interest.



## Agency Cross Procedures

In order to comply with the agency cross provisions of the Investment Advisers Act, EFS relies on SMH policies and procedures. SMH has policies and procedures in place to ensure that transactions introduced on behalf of EMAP clients are not crossed with transactions introduced to the clearing firm on behalf of SMH brokerage customers. As a general matter, the nature of the securities acquired for EMAP and financial planning clients are not likely to cross transactions since shares of mutual funds and variable annuities are purchased from their issuers and are not exchange-traded. Although ETFs are exchange-traded, EFS would not, acting as investment adviser, generally recommend that such shares be crossed from one advisory client account to another and would never act as a broker with respect to any such potential cross transaction.

## Item 12: Brokerage Practices

### Brokerage Selection

Clients who establish a wrap fee account with EFS must consent to a clearing/custodying broker-dealer that we have a clearing arrangement with. We have selected the following unaffiliated registered broker-dealers, which are members of FINRA and SIPC, to execute and clear transactions and provide custody services for EMAP wrap fee clients:

- TD Ameritrade Institutional (as cleared through TD Ameritrade Clearing, Inc.), a division of TD Ameritrade, Inc. ("TD Ameritrade")
- Fidelity Institutional Wealth Services ("Fidelity") (as cleared through National Financial Services LLC)
- Pershing Advisor Solutions ("PAS") (as cleared through Pershing LLC)

EFS places all transactions associated with wrap fee accounts for execution through these executing broker-dealers. Most client accounts are established with TD Ameritrade although each clearing broker-dealer offers services that include custody of securities, trade execution, clearance and settlement of transactions. Each also provides services that are typically made available to institutional investment managers and generally are not offered to retail customers. These services include duplicate client statements and confirmations, access to block trading — which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts — the ability to have advisory fees deducted directly from client accounts and access to mutual funds with no transaction fees. All clearing firms receive a fixed percentage as compensation for their services. That percentage is based on all EMAP account assets that are maintained in the custody of their firm.

In selecting clearing firms, we evaluate all the services offered, the quality of those services and the cost indirectly borne by clients to determine if the clearing firm provides overall quality of services for the price. While we have attempted to negotiate favorable commission rates for transactions and believe that each clearing firm offers competitive commission rates, we do not otherwise seek to obtain the best combination of price and execution with respect to wrap fee account asset allocation model transactions. We will periodically compare clearing firm services and prices against other broker-dealers qualified to provide comparable services. While another broker-dealer may offer these services at a lower overall cost, EFS is not required to move all accounts to that broker-dealer.

Non-EMAP clients may establish accounts to place brokerage transactions. Client brokerage transactions are introduced through SMH, an affiliated broker-dealer, and cleared through Pershing LLC. SMH is an introducing broker and clears and settles transactions made in SMH brokerage accounts through Pershing, which performs the clearance, settlement, execution of transactions and custody functions.

## **ERP**

Plan sponsors select the clearing and custodian broker-dealer of their choice. Neither EFS nor any of our affiliates provide brokerage services in connection with the investment advisory services provided by us to Plan sponsor clients through ERP.

## **Soft Dollars**

EFS has no formal soft dollar arrangements and does not use soft dollars to acquire any research services. Custodian firms offer services to EFS including custody of client securities; trade execution; clearance and settlement of transactions; access to platform systems; duplicate client statements; research-related products and tools; access to a trading desk; access to block trading, which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts; the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services.

## **Brokerage for Client Referrals**

EFS participates in the TD Ameritrade Institutional program known as AdvisorDirect. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. ("TD Ameritrade"), member FINRA/SIPC/NFA. TD Ameritrade is an independent and unaffiliated SEC-registered broker-dealer. There is no employee or agency relationship between TD Ameritrade and EFS. The AdvisorDirect program allows TD Ameritrade to refer its brokerage customers and other investors seeking fee-based personal investment management or financial planning services to other advisers such as EFS. TD Ameritrade has established the referral program as a means of

retaining brokerage customers. TD Ameritrade does not supervise EFS and has no responsibility for our management of client asset allocation models or other advice or services. EFS was chosen by TD Ameritrade to participate in this program based on the number of client accounts maintained with TD Ameritrade, amount of the assets, profitability and the volume of trades placed, along with other relevant factors.

We receive client referrals from TD Ameritrade through participation in the AdvisorDirect program that may result in economic benefit to EFS. We pay TD Ameritrade an ongoing referral fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the annual advisory fee that the client pays us. We will also pay TD Ameritrade the referral fee on any advisory fees we received from any of a referred client's family members, including a spouse, child or any other family member who resides with the referred client and also becomes an EFS client. Clients who are referred through this program do not pay higher fees or costs than other EFS clients. For more information, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgment Form.

EFS participation in the AdvisorDirect program poses potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to EFS to encourage clients to custody their assets at TD Ameritrade and maintain client accounts that are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, we may have an incentive to recommend to clients that assets under management be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. We have agreed not to solicit clients referred through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. EFS participation in AdvisorDirect does not diminish our duty to seek best execution of trades for client accounts.

## **Trade Aggregation Policy**

Whenever appropriate and when the price or execution of a security can be impacted favorably by aggregating orders among accounts, EFS aggregates transactions on behalf of all EMAP accounts, including accounts of Advisors and employees. It is our policy that such transactions will be allocated to all participating client accounts in a fair and equitable manner. There is no preferential treatment given to any account. Transactions may be traded together to ensure best execution and to avoid price differential. There is seldom, if ever, a problem finding sufficient mutual fund shares to purchase for EMAP accounts. These shares are purchased from the issuer and sold at the net asset value next determined after an order is received. Shares of mutual funds are sold back to the issuer and since we only buy open-end funds, each issuing mutual fund must stand ready to buy the shares back at the shares' net asset value, as determined after the redemption order is received. Similarly, we buy and sell highly liquid ETF interests or shares and there is seldom any difficulty finding a sufficient supply of ETFs on the market. Variable annuities and 529 College Saving Plans are purchased directly from the issuer, and no aggregation of these transactions occurs.

## Item 13: Review of Accounts

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EFS client accounts are reviewed by advisory personnel of EFS. EMAP accounts are monitored on an ongoing basis. Accounts are rebalanced or assets reallocated based on market or other conditions as warranted. Securities we buy or sell for accounts are subject to our limited discretionary authority. Changes in the asset allocation models, which include adding, removing or replacing securities at the recommendation of the EFS Investment Committee, are made infrequently, based on significant changes in the economic, financial or political climate; changes in the tax code; and the management of the securities used by the asset allocation model. Changes may also be made based on the client's personal circumstances, including health, employment and family status, or restrictions that the client may place on the investments in the account.

EFS Advisors generally meet weekly to review economic, tax, financial, political, social and other relevant issues and to determine if any changes in strategy are warranted and, if so, to implement such changes. Based on these meetings, each Advisor independently reviews clients' situations and makes recommendations as needed.

On at least an annual basis, the Advisor contacts EMAP clients to update their personal and financial information including health, employment, marital and family status, time horizon, goals and objectives, and risk tolerance. The Advisor uses the information to determine if there are any changes that could impact the ongoing suitability of the account. Clients may request a review at any time as well.

Non-EMAP accounts and financial planning client brokerage accounts at SMH are monitored periodically where consistent with the EFS financial plan and client instructions.

ERP Plan assets are monitored on an ongoing basis. Plan assets are rebalanced or reallocated based on market or other conditions as warranted. Changes in the asset allocation models, which include adding, removing or replacing securities at the recommendation of the EFS Investment Committee, are made infrequently based on significant changes in the economic, financial or political climate; changes in the tax code; and the management of the securities used by the Investment Option. Changes may be made based on the Plan sponsor's circumstances or restrictions that they may place on the investments in the account.

## Item 14: Client Referrals and Other Compensation

### Other Advisers Offering EMAP

EFS sponsors EMAP as discussed above and makes the asset allocation models available to clients of other unaffiliated registered investment advisers (“RIAs”), including Sanders Morris Harris Inc., which is an affiliated firm. We provide systems, services and back-office support to those RIAs. The RIA is responsible for the supervision of its Advisors and the selection of the EMAP asset allocation model recommendations made to clients. The RIA initiates the relationship with the client and is the ongoing client relationship manager. The RIA, through its Advisors, compiles personal and financial information about the client, maintains the appropriate books and records, makes an asset allocation model recommendation that will meet the client’s goals and objectives, maintains the ongoing client relationship, and meets with the client on a periodic basis to discuss suitability and any reasonable restrictions the client would like to impose on their account. EFS reviews and approves the recommendation. The EMAP fee is shared between the two entities on a negotiated basis. The client does not pay an increased fee as a result of this arrangement.

### Client Referrals

From time to time, EFS may enter into agreements to pay other investment advisers for client referrals in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act, the respective federal and state laws governing the same, and ERISA, if applicable. In such cases, wrap fees will be shared between the two entities. EMAP or ERP fees are based on a percentage of client assets invested in the wrap fee program. Any such referral fee shall be paid solely from the investment advisory fee. The client does not pay an increased fee as a result of these arrangements.

Compensation to other investment advisory firms who refer clients to EFS (“Solicitor”) is on a negotiated basis. The Solicitor provides the client with a copy of the EFS ADV and a copy of the EFS written disclosure document, which describes the arrangement between EFS and the solicitor including the terms, conditions and compensation.

### Selection of Other Advisors — Edelman Financial Network™ (“EFN”)

EFN is a network of Advisors created by EFS to refer prospective clients who are interested in working with a local advisor in cities where we do not have a branch office. We may refer prospective clients to these Advisors of other affiliated or unaffiliated registered investment advisory firms for advisory service in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act and the respective federal and state laws governing the same. With the exception of Sanders Morris Harris Inc., an affiliated advisory firm, Advisors are not affiliated with EFS in any manner and they are not our employees.

In selecting advisors, EFS takes into consideration the Advisor's investment philosophy, regulatory status and overall credibility. The Advisor's philosophies must be aligned to a large extent with those of Ric Edelman and EFS. We complete due diligence on each investment advisory firm and Advisor prior to referring a prospective client. Advisors do not pay any fee to join EFN other than a nominal reimbursement to cover the costs of all necessary background checks. We may also provide marketing support and practice management training to the Advisor.

The selected Advisor may offer EMAP or any other financial planning product(s) that meets the prospective client's needs and goals. We receive no compensation or economic benefit from products or services offered by the EFN Advisor other than EMAP. Advisors and EFS share in the EMAP fee. There are no additional costs to the client and, accordingly, the client does not pay a higher fee as a result of this arrangement.

Participation in the Edelman Financial Network raises potential conflicts of interest as the Advisor may have an economic incentive to offer EMAP. A potential conflict of interest may arise from the Advisor's inclination to offer EMAP to clients over other investment products due to the economic benefits of the referral from EFS.

### **TD Ameritrade Institutional Program**

EFS participates in the TD Ameritrade Institutional Program. TD Ameritrade is an unaffiliated registered broker-dealer and a member of FINRA, SIPC and NFA. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. We receive services that include custody of client securities, trade execution, clearance and settlement of transactions. The Institutional Program provides additional significant economic benefit to EFS that is not typically available to TD Ameritrade retail investors. EFS may make these additional services available to its affiliates without cost. There is no direct link between EFS's participation in the programs and the investment advice it gives to its clients.

The economic benefits include the following products and services, which are provided without cost or at a discount:

- Receipt of duplicate client statements and confirmations
- Research-related products and tools
- Consulting services
- Access to a trading desk serving EFS
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts)
- The ability to have advisory fees deducted directly from client accounts

- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees and to certain institutional money managers
- Discounts on compliance, marketing, research and technology
- Practice management products or services provided to EFS by third-party vendors
- TD Ameritrade may also pay for business consulting and professional services received by EFS related persons

Some of the products and services made available by TD Ameritrade through the Institutional Program may benefit us but may not benefit client accounts. These products or services may assist us in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help us manage and further develop our business enterprise. Receiving these economic benefits creates a potential conflict of interest and may indirectly influence EFS to recommend TD Ameritrade to clients for custody and brokerage services.

### **TD Ameritrade Operations Panel**

EFS employee(s) may serve on a TD Ameritrade Institutional Operations Panel from time to time. The panel is sponsored by TD Ameritrade and consists of approximately 24 independent advisors who advise TD Ameritrade on issues relevant to its service, technology and products provided. In-person meetings are held three to four times a year. Panel members are not compensated for their participation; however, TD Ameritrade pays or reimburses EFS for the travel, lodging and meal expenses incurred when attending panel meetings.

Panel members are selected by TD Ameritrade and appointed to serve for a three-year term. Longer service is permitted at the discretion of TD Ameritrade Institutional sales, service and senior management. At times, panel members are provided with confidential information about TD Ameritrade initiatives. Therefore, panel members are required to sign a confidentiality agreement. The benefits received by EFS do not depend on the number of brokerage transactions directed to TD Ameritrade. However, receiving economic benefit creates a potential conflict of interest and may indirectly influence us to recommend TD Ameritrade to clients for custody and brokerage services.

### **Compensation for Other Products and Services**

EFS Advisors receive commissions on insurance and/or securities products purchased by financial planning clients who choose to implement their financial plan through us. Advisory personnel may also receive 12b-1 fees as a result of placing clients with retail mutual funds.

EMAP clients do not incur sales charges, commissions or 12b-1 fees when purchasing or owning variable annuities or mutual funds.

As a financial planning firm, EFS makes the following statements:

- (1) Our Advisors are also licensed to sell insurance policies from several insurance companies and may receive sales or referral compensation from any such transactions.
- (2) Clients are under no obligation to have us or our advisory personnel implement any suggestions made in the financial plan.
- (3) If asked to implement the suggestions of the financial plan, we intend to implement such financial planning, in whole or in part, through products selected by us and to clear securities transactions through Pershing, TD Ameritrade or Fidelity, as described in Section 12.
- (4) To the extent EFS or our Advisors implement recommendations through SMH,
  - a. We are acting as agents for SMH;
  - b. We will use only products offered by SMH; and
  - c. We will earn commissions.
- (5) Clients have total freedom to execute securities and/or insurance transactions with any company of their choice other than with respect to participation in EMAP or the receipt of ongoing, annual financial planning recommendations.

### **Indirect Compensation Regarding Radio and Television Broadcasts**

Ric Edelman is the host of a syndicated radio program, "The Truth About Money with Ric Edelman," and the host of a syndicated television program of the same name airing on public television stations. Both programs educate consumers about investing and financial planning. Mr. Edelman also routinely appears as a guest on other radio and television talk shows. He does not discuss specific securities and does not reveal any of the EMAP asset allocation model holdings or recommendations. The radio show is a live talk show and the public is invited to call in and discuss their personal financial situations. A portion of the television show is filmed before a studio audience where participants can ask questions. The information covers all aspects of financial education. In any of these circumstances, a caller or audience participant may discuss a specific mutual fund, ETF or insurance product that may be held in the accounts of certain EMAP clients or under consideration at the time of the question. Mr. Edelman does not give specific investment advice, and he may give advice that is the same as or different from the advice EFS has taken or may take for its clients.

From time to time, TD Ameritrade may provide significant economic benefits to EFS by directly or indirectly sponsoring the foregoing radio and/or television shows. This economic benefit may



or may not be offered to other independent investment advisors participating in the TD Ameritrade Institutional Program. TD Ameritrade provides this economic benefit to us directly or indirectly at its sole discretion and its own expense. The benefits we receive do not depend on the number of brokerage transactions directed to TD Ameritrade. As part of our fiduciary duties to clients, we endeavor at all times to put the interests of our clients first. Clients are made aware that receiving these economic benefits creates a potential conflict of interest and may indirectly influence our choice of TD Ameritrade for client account custody and brokerage services.

From time to time, iShares, the exchange-traded fund business of BlackRock and one of the industry's leading exchange-traded funds platforms, may indirectly contribute to our marketing efforts through the sponsorship of the television show "The Truth About Money with Ric Edelman." Neither BlackRock nor its affiliates are affiliated with EFS or provide any direct economic benefit to the firm. BlackRock, at its sole discretion, may enter into third-party agreements to underwrite various educational programs. The indirect economic benefit to us does not depend on any reciprocal services or trades directed to BlackRock or iShares. A potential conflict of interest arises out of the fact that we utilize iShares exchange-traded funds extensively in the EMAP asset allocations.

## **Item 15: Custody**

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EFS does not maintain custody of client funds or securities. We establish relationships with various nonaffiliated third-party clearing/custodying broker-dealers who are responsible for taking custody of and maintaining all client funds and securities, as discussed in Item 12. The custodian sends confirmations and account statements directly to clients. Account statements are sent directly to the client by the custodian on at least a quarterly basis. These confirmations and account statements should be reviewed carefully by the client.

## **Item 16: Investment Discretion**

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### **EMAP**

Based on a written, signed agreement, EMAP clients give EFS limited discretionary authority to execute client-approved investment strategies in their accounts. We are granted limited discretionary authority that allows us to place orders through one of several custodying firms mentioned in Item 12. Clients give us the ability to make the following determinations in accordance with the client's specified investment objectives without client consultation or consent before a transaction is effected:

- Invest client assets into a diversified mix of asset classes and investment securities primarily in the form of shares of open-end registered investment companies, exchange-traded funds and variable annuities
- Modify or change the mix of asset classes and investment securities within the account
- Rebalance the account periodically

Clients are permitted to impose reasonable restrictions on the management of their accounts. When imposing restrictions, clients may request that particular securities or types of securities not be purchased, or that such securities be sold if held in the account. Clients, however, cannot request that particular securities be purchased for their accounts. Additionally, EFS has no influence or control over the mix of securities held by any mutual fund, variable annuity or ETF in which client accounts may be invested. We reserve the right, at our sole discretion, to reject any account for which unreasonable or overly restrictive conditions are requested.

### **Risks**

EFS does not assume market risk on behalf of the client. EFS does not guarantee the performance of the client's account or any specific level of performance. Market values of the securities within the account will fluctuate with market conditions. When the account is liquidated, it may be worth more or less than the original amount invested.

### **Trading Authorization**

Once an asset allocation model has been selected, we have limited discretionary authority to invest the assets in the account. EMAP clients must establish brokerage accounts with one of the custodians mentioned in Item 12 so that we can place securities transactions and maintain assets with a qualified custodian. Transaction costs imposed by any of the clearing/custodying firms are covered by the EMAP fee, except as noted in Item 4 and in the client agreement. We have negotiated fixed fees with the clearing/custodying firms that are based on a percentage of the value of EMAP assets maintained in client accounts. The clearing/custodying firms perform all the necessary brokerage services for accounts maintained with them and provide custody services of client assets. In choosing which brokerage firm to use for EMAP, we generally select TD Ameritrade, who in turn provides certain economic benefits to EFS, as discussed in Items 12 and 14.

### **Reallocations**

EFS has the limited discretionary authority to reallocate assets in client accounts. In a reallocation, we change the target percentages of some or all of the asset classes or types of assets relative to the total account. Accounts are monitored on an ongoing basis and assets reallocated based on market or other conditions, as warranted. Changes in the asset allocation model, which include adding, removing or replacing securities at the discretion of EFS, are made based on significant changes in the economic, financial or political climate; changes in the tax

code; the management of the securities used by the asset allocation model; and/or the client's personal circumstances, including health, employment and family status. EFS may replace a particular security (or securities), if it significantly diverges from its relevant index in terms of risk or return, with a security that is more in line with the risk/return profile of the relevant index or if there is a different security that, in our opinion, would be better suited. Reallocations occur with less frequency than rebalancing. When EFS reallocates accounts, it generally does so in anticipation of the impact that expected long-term market volatility could have on specific asset classes or types. Clients are notified of reallocations after the transactions are made.

### **Rebalancing**

Each client's account is invested in accordance with the client's asset allocation strategy. At the inception of an account, EMAP assets are invested in specific asset types including mutual funds (including funds that are used as funding vehicles for variable annuity contracts) or ETFs that invest in a variety of equity securities, fixed income or cash instruments. Amounts invested in each asset type are determined in accordance with set target percentages of total assets in the account. Afterwards, as markets fluctuate and values change, amounts originally allocated to an asset type will either exceed or fall below the original target allocations. We periodically adjust account holdings back to the original asset targets, or "rebalance" the account. We do not rebalance accounts constantly, and asset allocations may drift away from their original target percentages before EFS, within our authority and judgment, brings those allocations back in line to the original percentages. In a sense, when we rebalance an account, we sell holdings that are appreciating in value to buy other holdings that may be declining in value. However, the investment philosophy of an asset allocation strategy is to be positioned in various asset types so that when the asset type becomes profitable, the account is positioned to take advantage of the upturn.

### **Liquidations**

EFS will accept and follow all liquidation instructions given by clients and seek to execute client orders in a timely manner on a best efforts basis. Occasionally, due to market conditions and time constraints imposed by custodial firms, trades may be executed the following business day. In handling liquidations and purchases, we will execute transactions without regard to pending dividend or capital gains distributions, stock splits, mergers or other corporate or financial events.

### **Contributions**

Contributed cash or money market fund shares in client accounts may remain uninvested in securities for a period of time. EFS invests liquid assets in an orderly manner and believes it is to each client's benefit to invest in an aggregated fashion rather than piecemeal. For this reason, a period of time may elapse between the deposit of cash or liquid assets to the account and the account reaching a fully invested position. Although clients may deposit freely tradable securities in their accounts to meet the EMAP minimum account size, we will liquidate those

securities positions and invest the proceeds in securities matching the client's selected investment strategy. Tax consequences associated with this liquidation and reinvestment process will likely occur, and clients should consult with their tax professionals before depositing securities in their EMAP accounts.

EFS does not provide legal or tax advice to clients. Clients are advised to discuss the possible legal or tax consequences of their investment decisions with their legal or tax advisors prior to effecting any transaction.

## **ERP**

### **Reallocations**

Under the ERP Investment Management Agreement, EFS has the limited discretionary authority to change the asset allocation model for each Investment Option and its Underlying Investments. Investment Options are monitored on an ongoing basis and reallocations are made based on market or other conditions, as warranted. Changes in the model are made based on significant changes in the economic, financial or political climate; the management of the securities used by the asset allocation model; and/or the Plan client's circumstances. We will recommend that the Plan sponsor replace an Underlying Fund from the Plan's investment menu if it significantly diverges from its relevant index in terms of risk or return with another Underlying Fund that is more in line with the risk/return profile of the relevant index. Reallocations occur with less frequency than rebalancing. When we make reallocations, we generally do it in anticipation of the impact that expected long-term market volatility could have on specific asset classes or types. Plan sponsors are notified of reallocations after the transactions are made.

### **Rebalancing**

Each Investment Option is invested in a mix of Underlying Funds in accordance with the corresponding asset allocation model approved by the Plan sponsor and the target allocation percentages determined by that model. As markets fluctuate and values change, the actual percentage allocations of some or all of the Underlying Funds for the Investment Option will either exceed or fall below the original target percentage allocations. At our discretion, we may periodically rebalance an Investment Option's holdings in Underlying Funds to return the Investment Option to its original target percentage allocations. However, we do not rebalance Investment Options constantly. Actual percentage allocations may drift away from their original target percentage allocations before EFS, within our authority and judgment based on market or other conditions as warranted, brings those allocations back in line to the original target percentage allocations. In a sense, when we rebalance an Investment Option, we sell interests in Underlying Funds that are appreciating in value to buy interests in other Underlying Funds that may be declining in value.

## **Item 17: Proxy Voting Client Securities**

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EFS does not accept proxy voting responsibility for client accounts. Therefore, we have no obligation or authority to take action or render any advice with respect to the voting of proxies solicited by or with respect to issuers of securities held by client accounts. We expect clients to expressly retain the authority and responsibility for proxy voting. With respect to ERISA accounts, we generally expect the fund sponsor to expressly retain the authority and responsibility for proxy voting and to specify, in writing, who has voting authority. All clients will receive proxies directly from the custodian firm. Clients may direct any questions to their Advisor should the need arise.

## **Item 18: Financial Information**

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Registered investment advisers are required to provide clients with financial information or disclosures about their financial condition under certain circumstances. EFS is financially sound and does not have any financial condition that would impair the ability to meet contractual or fiduciary commitments to clients. We have not been the subject of any bankruptcy proceeding. Therefore, we are not required to provide any additional financial statements under this item.