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# WEALTH ADVISORS

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AN INDEPENDENT WEALTH MANAGEMENT FIRM

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November 2018  
Item 1

This brochure provides information about the qualifications and business practices of SFMG Wealth Advisors. If you have any questions about the contents of this brochure, please contact us at 972-960-6460 or [craig@sfmfg.com](mailto:craig@sfmfg.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about SFMG Wealth Advisors also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2. Material Changes**

Our last annual amendment was filed in March 30, 2018.

Since the following material change has been added:

May 2018: Schwab has offered us an incentive to add more assets to our relationship. See Item 14 for details.

November 2018: Schwab has paid the incentive for the period ending July 2018 and has offered an additional incentive to add more assets to our relationship by November 2019. See Item 14 for details.

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## ITEM 4. ADVISORY BUSINESS

### **Advisory Firm Description**

SFMG, LLC conducts business as SFMG Wealth Advisors, (“SFMG” or “Firm” or “we” or “us”). The history of the firm began with Strategic Financial Management, founded by Greg Morgan in 1992. In 2002, David White and Craig Greenway joined Mr. Morgan to create Strategic Financial Management Group. Kevin Margolis joined Strategic Financial Management Group in 2004, which changed its name to SFMG, LLC, dba SFMG Wealth Advisors in 2005. SFMG is now owned jointly by the four principals.

SFMG Wealth Advisors is a Dallas-based financial planning and wealth management group comprised of professionals with a variety of unique backgrounds and viewpoints. Our team offers high-touch, personalized financial planning and wealth management for individuals and families. We approach each client relationship from a planning perspective, integrating the comprehensive planning services with the management of your investment portfolio. We see this as an ongoing, dynamic relationship between planning and investing. Our aim is to provide advice that meets your needs. Our client service philosophy includes:

- Promoting and providing complete transparency
- Providing a single point of contact – financial concierge
- Simplifying the complex and filtering out the extraneous
- Meeting regularly (or as frequently as you desire) and confirm that your financial goals are on track
- Removing and eliminating obstacles
- Utilizing research and technology that we consider to be effective

We help identify and confirm goals through open and frequent communication. Our financial advisors schedule meetings with you when appropriate to keep you abreast of changes in the market, tax changes, and the economy and their impact on your personal situation.

Our financial advisors serve as fiduciaries offering custom wealth management services for successful individuals who in most cases already have a trusted group of advisors from various disciplines: tax accountants, attorneys, and insurance agents. Our role is not to supplant these services, but to coordinate and support them. Our team of financial advisors helps you execute a plan that brings everything together under one cohesive umbrella.

By focusing on the big picture, we assist you in making the fundamental decisions that will best put you on a path to achieving your individual goals. This unique approach to wealth management surrounds you with a dedicated team of professionals that can simplify your life and integrate all of your financial professionals and decisions.

### **Types of Advisory Services**

#### *Wealth Management Services*

For most of our client relationships, we provide wealth management services, which are comprised of both Financial Planning and Investment Advisory Services.

### Financial Planning

We listen. We believe that before quality advice can be offered, it is essential to understand your goals and concerns. For our relationships where we provide Financial Planning services, we will collect the pertinent data, conduct personal interviews with our client, prepare computer-assisted analyses of the financial data, and present a written financial plan based upon the objectives and priorities. We will be available to help implement the recommendations.

The scope of our planning services includes the following to the degree any client needs:

- **Net Worth/Cash Flow Statements**  
Our financial advisors evaluate your current assets and liabilities, including all income and expenses. We also consider potential inheritances, salary changes, or major one-time expenses.
- **Retirement Planning**  
Once we have established your projected cash flow, we answer the most fundamental question: “Will I be able to maintain my current standard of living once I retire?” Our planners utilize a sophisticated set of tools to measure and analyze various assumptions on retirement dates, savings rates, longevity expectations, and market conditions. In estimating returns conservatively, we partner with you to establish what we believe is the most effective possible retirement scenario.
- **Tax Planning**  
Our team works in concert with your tax professional to identify any areas of opportunity that might impact your current and future tax situation.
- **Insurance Planning**  
We help your insurance agents to determine the best level of coverage for homeowners, auto, liability, disability, life, and long-term care insurance. Managing risks minimizes the impact of unforeseen events.
- **Estate Planning**  
We work with your attorney to provide a plan that distributes your assets to your heirs according to your wishes with the least amount of taxes and expenses possible.
- **Education Planning**  
We also assist with comprehensive education planning. Our planners advise you on how much to set aside and how to take advantage of the tax-advantaged education saving options.
- **Corporate Benefits**  
Clients who reach a corporate executive level receive significant corporate benefits such as company stock or stock options. Our team will advise you on how to integrate the exercise of stock options and minimize the tax implications as well as the implementation of other benefits.

- **Business Planning**  
For many clients, their most valuable asset is their closely held business. We can assist you in determining employee benefits packages and succession planning and how to best integrate the business value and determines a structure and deal terms in your overall planning.
- **Charitable Planning**  
Our wealth management services include advising you concerning philanthropic gifting. We compare suitable solutions ranging from donor-advised funds to private foundations. We then help you direct your giving through tools that provide the maximum impact for your selected charitable causes and maximize your tax benefit.

#### Investment Advisory Services

Our mission is to build and preserve your wealth over the long term. Investment advisory services include the review, recommendations, and/or analysis of investment assets in your accounts. By signing our Client Agreement and account application with the custodian, you give us the authority to trade in your account without receiving permission from you before each trade. Investments we select may include, but not be limited to, money market instruments, stocks, bonds, mutual funds, exchange traded funds (ETFs), annuities, private limited partnership investments, hedge funds and private equity funds. Although we cannot predict short-term trends, we can assist you in detecting long-term patterns and respond accordingly. As the market changes, we make the needed adjustments to your portfolio to reflect our view of the current risk environment. Every decision we make is in accordance with your long-term goals and risk tolerance. We provide you with written quarterly reports, which are in addition to the statements you receive directly from your account custodian.

Our investment management process is to:

- Determine your risk tolerance
- Establish your Investment Policy Statement (“IPS”)
- Invest your portfolio consistently with your IPS
- Make tactical changes reflecting current economic and market conditions
- Review your portfolio’s quarterly performance versus appropriate benchmarks
- Conduct periodic meetings with you to review your risk tolerance and objectives to determine if anything has changed for you.

Please see the “Methods of Analysis, Investment Strategies and Risk of Loss” section below for more details.

#### **Tailored Advisory Services**

We tailor each financial plan and our investment management recommendations to you. You may restrict us from buying or selling particular investments in your portfolio. These restrictions may be changed at any time by notifying us.

### Termination

The Client Agreement may be terminated by either party immediately upon receipt of written notice from the other party. If you should terminate the relationship during a quarter, we refund to you on a pro rata basis the fees which you have prepaid and which we will have not yet earned. Upon termination of the Client Agreement, we have no obligation to take any action with regard to investments in your account(s).

### Client Assets Under Management

As of September 30, 2018, we managed approximately \$1,348,000 on a discretionary basis, where we are able to place trades in clients' accounts without receiving permission for each transaction, and non-discretionary basis.

## ITEM 5. FEES AND COMPENSATION

*We are a fee-only firm, and receive no compensation for the sale of any product.* In the past some of our personnel have sold insurance products to clients, for which continuing commission checks still arrive. We donate the full amount of these commission checks to charity.

### Wealth Management Services Fee

Our fee for Wealth Management services is assessed at the annual rate in effect at the time you engaged SFMG as your investment advisor. The current annual rate for new clients follows:

Portion of Investment Portfolio	Annual Rate
First \$1,000,000	1.25%
Next \$2,000,000	0.80%
Assets over \$3,000,000	0.60%

This fee is cumulative and in very limited circumstances is negotiable. We base the management fee on the market value of your portfolio as determined by the custodian (or outside pricing service) at the end of the last trading day of the previous calendar quarter. We charge the investment management fee each quarter at one-fourth of the above annual rate and deduct this fee directly from your account. Clients can direct SFMG as to whether, and which, accounts should be aggregated as a "household" to attain the lowest overall fee rate; and whether, and which, account should be charged the management fee for another account. Each Client Agreement specifies a client's individual payment terms.

We do not purchase securities on margin as a practice. There are times when a client will choose to use margin as a form of inexpensive alternative borrowing for various non-investment purposes. Also an account may enter margin if the account "overdrafts" as a result of a cash distribution. These overdraft margin amounts are usually covered within a few days. We charge on the investment values in client accounts we actively manage and do not charge on margin balances. However, the overdraft margin amounts are netted with the investment values when calculating the management fee.

New clients pay in advance and pay on cash, accrued interest and accrued dividends in their accounts. Accounts for new clients are charged at the end of the initial period in

arrears and in advance for the next quarter. All flows into new accounts for the initial quarter are charged on a pro rata basis. Thereafter, we adjust the quarterly fee on a pro rata basis for flows of cash or assets in or out of the account that are equal to or exceed \$100,000 in any one day. Fee adjustments for flows in and out of the account are calculated based on the actual days in the quarter the assets were in the account.

Because we have a long history of serving our clients and pride ourselves on meeting clients' needs individually, earlier clients have different fee schedules or different fee structures. Some earlier clients are not on a "tiered" schedule, and pay the same percentage on all assets, regardless of the size of their account. Some earlier fee schedules had different breakpoints for tiers. Some earlier clients are billed in arrears, in which case the fee is not adjusted for flows in or out of their accounts. Some earlier clients are not charged on cash, hold assets not included in the fee calculation, and some have particular asset classes charged at a lower rate than other asset classes. This means some clients pay more than other clients with the same amount or same type of assets under our management. All new clients are charged as noted above except in extenuating circumstances, such as having an especially large and complex portfolio, holding a majority of assets in fixed income or cash.

If you have invested in a private partnership which we have recommended, we determine the billing basis for the partnership annually. The initial year, we use your capital investment as the billing basis, after which we use the capital account as reported on your most recent Form 1065 K-1, which is generated by an outside accounting firm. Changing the billing base may lag by a quarter or more, depending upon when we receive the updated information. As you make contributions to your capital account during the year (between K-1 reporting cycles) we adjust the partnership's billing basis accordingly. For the private partnership investments, we charge a flat fee at the lowest annual rate shown on your Client Agreement or as stated separately on your Client Agreement. These rates also vary between clients, with some paying more than others owning similar investments. The billing basis of any private partnership position is not included in the base of the Wealth Management Service fee or Portfolio Management fee discussed below and is reported separately on your invoice.

On the rare occasion when a client holds a fixed annuity for which we do not receive periodic valuations from the insurance company, we will manually calculate the value based on the interest rate stated in the annuity documents, and will bill on this manually calculated value.

The account balances we use to calculate each account's billing base may vary from the account balance shown on the custodian's quarter-end statement because:

- Pending (or unsettled) transactions are not included in the custodian's end of month account balance. We report transactions as of their trade date, including pending (or unsettled) transactions. ;
- We include accrued interest and accrued dividends; and
- We include private partnerships not held at the custodian.

### Financial Planning Fees

In certain limited circumstances, you may engage us to create a Financial Plan exclusive of Portfolio Management or request we perform financial planning services outside the scope of services in our original Client Agreement. In these situations, we charge by estimating the total time to complete the plan. This estimate depends upon the complexity of your financial situation and your requirements of a plan. We then multiply the estimated time by the appropriate hourly rate and set a minimum and maximum estimated fee. Our current hourly rates are \$150, \$250 or \$350 per hour depending on the level of personnel completing the work. One-half of the minimum fee is due upon signing of the Client Agreement. We bill the remaining actual fee upon delivery of the final plan to you. The total fee we charge will never exceed our estimated maximum fee, unless the scope of the project changes in which case we will agree with you prior to incurring additional fees.

If you should choose to terminate the Client Agreement prior to completion of the plan, you may do so immediately in writing. You would owe us for all time expended to date on the plan, not to exceed the maximum plan fee shown on the Client Agreement. If we owe you funds, we would issue you a check within 15 days of the termination. If you owe us, we would invoice you for work completed as of the termination date and would expect payment within 15 days of receipt of the invoice.

Once the plan has been completed, we charge renewal financial planning fees at an hourly rate based on actual time we spend to review and update your financial plan and/or to provide other services you might request.

We also provide financial planning or due diligence on a negotiated flat-fee basis or hourly rate of \$350 for specific questions or situations, as you might request that are outside the scope of the services described above.

#### Portfolio Management Fees

In very limited situations, you may engage us to provide only Portfolio Management services. The current annual rate for this service is as follows:

Portion of Investment Portfolio	Annual Rate
First \$1,000,000	1.00%
Next \$2,000,000	0.80%
Assets over \$3,000,000	0.60%

The method for calculating and paying this fee is the same practice as described under "Wealth Management Services" above.

#### Additional Fees

When we recommend a mutual fund for your account, you are typically charged three separate fees, either directly or indirectly. The first fee is our investment management fee where the fund is included in the asset base for the quarterly fee calculation. The second is the set of internal fees charged by the investment company for the fund's investment management, marketing, administration and marketing assistance. These internal expenses are disclosed in each fund's prospectus which is provided to you by your account custodian. This set of fees also applies to any money market fund, ETF or ETN purchased in your account. The third fee is a transaction fee which is assessed by

the custodian for its service of providing access to a universe of mutual fund families through one account (and the universe of funds available may vary from one custodian to another). To avoid such fees you would be required to open a separate account with each individual mutual fund company instead of using the custodian we recommend. This would also negatively affect our ability to deliver our services efficiently. Not all mutual fund trades we purchase for client accounts incur this transaction fee. Some funds require a minimum holding period to avoid redemption fees.

Any SEC fees, commissions, transaction fees, etc., that are charged against your account(s) are separate from our management fee and will be deducted from your account by your custodian. We require that you use a “qualified custodian” to hold your publicly traded securities that we manage. Qualified custodians provide you with statements showing all holdings and transactions occurring in the account on a monthly or quarterly basis.

Some private placements we recommend are required to be held by a qualified custodian for tax reporting purposes. Currently, Schwab and Fidelity charge an “Annual Custody Fee” and Schwab charges a one time “Transaction Fee” to hold and report on these assets. These fees are in addition to our fees and the fees listed above.

#### **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

This section does not apply to us, as we do not charge performance-based fees.

#### **ITEM 7. TYPES OF CLIENTS**

We provide investment advice to:

- Individuals and families
- high net worth individuals
- pension plans
- trust, estates or charitable organizations
- corporations or other business not listed above

We have a negotiable minimum client relationship size of \$500,000, which is applied to a family of related accounts.

#### **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

By understanding your goals through our comprehensive planning process, we are able to quantify the returns that are required to reach your financial objectives. We begin by developing a personal investment policy statement. Each individual investment policy lists such factors as risk tolerance, financial objectives, return expectations, time horizon, tax considerations, and ultimately the portfolio asset allocation.

The process of constructing your investment portfolio takes into consideration your financial objectives, tax and cash flow factors, the timeline for reaching your goals, and the return expectations. Our portfolio management style involves dynamic allocations,

with a goal to provide you with a more reactive portfolio to market risks than the typical “buy, hold, and hope” approach.

The dynamic and tactical nature of the portfolios is governed by our Investment Committee along with our market/economic research and signals. The Investment Committee operates in a manner that provides uniformity and consistency for the investment process. Each member of the Committee possesses unique qualifications, providing a wide array of perspectives and a combined 200+ years of knowledge and experience. This Investment Committee model serves to provide you best-in-class thinking and a system of checks and balances for important investment decisions.

A strategically sound portfolio should be able to respond to the longer-term trends of the economy and financial markets. We do not believe that it is possible to time the short-term moves of the markets efficiently, but larger cyclical moves can typically be observed and we respond in a calibrated and methodical manner. We utilize economic, fundamental valuation, and technical indicators that enable us to implement tactical changes to client portfolios as market conditions dictate. In doing this, we incorporate both the traditional investment classes of stocks, bonds, and cash with investment vehicles such as mutual funds, ETFs, private equity, real estate, commodities, hedge funds, and more.

When mutual funds are used to implement a portfolio, we choose from mutual funds available through our clients’ account custodians. (We may also choose to maintain funds currently held by clients.) We perform our own due diligence in the selection of these mutual funds which includes an analysis of transaction fees, redemption fees and internal expenses. We make every effort to select funds and fund classes with the lowest cost to a client given assumptions of holding periods. We will purchase mutual funds paying 12b-1 fees only when this is the only share class available and we believe this is an appropriate investment. If we were to purchase such funds, the 12b-1 fees are paid to the broker dealer executing the trade, not to SFMG, in which case the broker dealer may provide us with additional benefits, creating a potential conflict of interest.

Finally, the SFMG Wealth Advisors team not only adjusts the portfolio to respond to market trends, but also monitors your risk tolerance given major changes in your situation or outlook. At the end of the day, we want to partner with you to make sure your portfolio reflects your long-term goals and short-term needs, as well as your overall tolerance for risk and volatility.

We structure an investment strategy for your portfolio which is tailored to likely meet your objectives. Risks vary according to the different strategies and particular holdings in each strategy, although all accounts are subject to market risk. In addition, some investments may be considered illiquid. Investing in securities involves risk of loss that you should be prepared to bear. If you invest in private issues, the fund documents further explain risks to investing in that particular issue. Past performance does not guarantee future results.

In limited circumstances, we also may place option trades in your account if authorizing account paperwork is in place and we believe option positions to be appropriate for your investment objective. It is possible for option trades to incur losses beyond the funds originally invested. Investment vehicles we recommend may use hedging strategies.

Hedging is defined as making an investment to potentially reduce the risk of adverse price movements in another asset or group of assets. Hedging is not a guaranteed protection from loss.

Normally (in times of low volatility), we try and minimize turnover in the portfolio by holding investments for a year or longer. However, in times of unusual volatility, we may move in and out of a security more frequently. We may trade on margin for some clients, or make margin borrowing possible. Margin trading may require the liquidation of assets in your account if a margin call should occur during quickly dropping markets.

#### **ITEM 9. DISCIPLINARY INFORMATION**

There is no disciplinary information to be disclosed.

#### **ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

One financial planner on our team holds a Group One insurance license which allows her to provide advice about life and health insurance as part of the financial planning process. She does not sell insurance products to clients.

Mr. Greenway is the managing member of HHIG, LLC, an entity owned by the Firm's managing directors and one senior advisor. HHIG, LLC has invested in other private issues in which some of our clients have also invested, and on which we are charging our private partnership fees mentioned above under Fees.

#### **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

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

We have adopted a Code of Ethics which describes the general standards of conduct that we expect of all Firm personnel (collectively referred to as "employees"). This code of ethics focuses on three specific areas where employee conduct has the potential to adversely affect you:

- misuse of confidential information;
- personal securities trading and
- outside business activities.

Failure to uphold the Code of Ethics will result in disciplinary sanctions, including possible termination of employment with us. You may request a copy of the Firm's Code of Ethics which will be provided to you at no cost.

The following basic principles guide all aspects of our business and represent the minimum requirements to which we expect employees to adhere. Your interests come before employees' personal interests and before the firm's. We must fully disclose all material facts about conflicts between our interests, our employees' interests, and your interests. Employees must operate on our behalf and on their own behalf consistently with our disclosures and to manage the impacts of any conflicts of interest. We must not take inappropriate advantage of our position of trust or responsibility to you. We all must always comply with all applicable securities laws.

*Misuse of Non-Public Information*

The Code of Ethics contains a policy against the use of non-public information in conducting our business. Employees may not convey non-public information nor use it in placing personal securities trades or any trades for our clients.

*Personal Securities Trading*

Our personnel may buy, sell or hold in their personal accounts the same securities we buy, sell, or hold for you. Employees must obtain pre-approval from the Chief Compliance Officer before purchasing any IPO or private placement for any personal account.

To mitigate conflicts of interest, we have established the following policies in order to ensure our fiduciary responsibilities and to place your interests first:

- An officer, director or employee shall not buy or sell securities for a personal portfolio when the decision to purchase is substantially derived, in whole or in part, by reason of employment with us unless the information is also available to the investing public on reasonable inquiry.
- Our Chief Compliance Officer reviews all personal trades in light of our code of ethics and client trades on at least a quarterly basis. Reports of personal securities holdings are filed with our Chief Compliance Officer by all personnel and are reviewed at least annually.
- Infractions of our personal trading policies will be grounds for disciplinary action, including possible termination.

**Outside Business Activities**

Employees are required to report any outside business activities generating revenue. If any such activities are deemed to be in conflict with clients, such conflicts will be fully disclosed or the employee will be required to cease such activity.

**ITEM 12. BROKERAGE PRACTICES**

**Selecting Broker/Dealers for Trades and Custody of Client Assets**

We have entered into agreements with the following independent and unaffiliated broker dealers to serve as custodians for our clients' accounts: Charles Schwab & Co., Inc. ("Schwab"), Fidelity Institutional Wealth Services ("Fidelity"), American Funds and TD Ameritrade Institutional, a division of TD Ameritrade, Inc., Member FINRA/SIPC ("TD Ameritrade"). We also use Jefferson National Life Insurance Company to execute trades and hold clients' variable annuities.

We have selected these broker/dealers as custodians after analyzing their discounted commission structure, the availability of mutual funds with no transaction fee, their trading platforms, electronic reporting, online access for our clients, and financial stability.

Sometimes we participate in a trading service which enables trades to be placed through a broker other than the custodian ("Prime Broker"). When using Prime Broker services, Schwab, Fidelity and TD Ameritrade usually assess a ticket charge for each security transaction. In these instances, we have the ability to select the executing

broker. In selecting a broker or dealer, we consider, among other things, the broker's or dealer's execution capabilities, reputation, availability of product and quality of research.

We generally will seek competitive commission rates, but will not necessarily attempt to obtain the lowest possible commission for transactions for your account(s). Sometimes we direct transactions to brokers in return for research they provide us. Such research generally will be used to service all of our clients, but brokerage commissions you pay could be used to provide research that is not used in managing accounts.

Fidelity, Schwab and TD Ameritrade generally do not charge their account owners separately for custody services. These firms are compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through them or that settle into their accounts (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions).

#### **Research and Other Soft-Dollar Benefits**

"Soft dollars" is a term applied to commission revenue generated by client trades which is then used to pay for services provided to an investment advisor. These services must benefit our clients and include research and other related services.

We do not have any formal soft dollar agreements; however we do receive access to certain custodians' proprietary account management and data transmission services to enable us to trade clients' accounts electronically. Custodians of our clients' accounts also provide us with educational and compliance material, such as newsletters and access to seminars.

Additionally, Schwab, Fidelity and TD Ameritrade make available to us other products and services that benefit us but may not benefit your accounts. As a fiduciary, we make every effort to act in your best interests. Our recommendation that you maintain your assets with particular custodians is based in part on some of the products and services they provide us. Portfolio Center (one of our portfolio management software programs) is provided and partially subsidized by Schwab as a result of our relationship with Schwab. The firm is currently in the process of transferring its portfolio management to Orion, which is unrelated to and not subsidized by Schwab. Our receipt of products and services from custodians creates a potential conflict of interest with you. We generally allow clients to choose which of these custodians they prefer.

Some of these other products and services assist us in managing and administering your accounts. These include software and other technology that provide: access to client account data; the facilitation of trade execution and allocation of aggregated trade orders for multiple client accounts; research, pricing information and other market data; facilitation of payment of our fees from clients' accounts; and assistance with back-office functions, recordkeeping and client reporting. Many of these services generally are used to service all or a substantial number of our client accounts.

Schwab, Fidelity and TD Ameritrade also provide other services intended to help us manage and further develop our business. These services include consulting, publications and conferences on practice management, information technology,

business succession, regulatory compliance and marketing. In addition, our custodians make available, arrange and/or pay for these types of services rendered to us by independent third parties. Custodians could discount or waive fees they would otherwise charge for some of these services or pay all or a part of the fees charged by a third party providing these services to us.

### **Brokerage for Client Referrals**

We trade accounts for clients who come to SFMG as a result of the Schwab Advisor Network at Schwab as long as the accounts are held there.

### **Directed Brokerage**

On rare occasion a client will request that trades be enacted through a specific broker. We prefer you use one of our recommended broker/dealers as your account custodian.

### **Order Aggregation**

Some accounts sharing similar objectives hold the same investments, enabling us to trade in block trades for efficiency and to treat all clients fairly. If these blocks are executed in pieces at different prices on the same day at the same custodian, all shares participating in the block are assigned the same average price per share at the end of the day. Block trades enacted through Schwab, Fidelity or TD Ameritrade are charged transaction fees at the account level, so do not receive a transaction fee advantage. Blocks are allocated across accounts as appropriate, and our employees are able to participate in blocks with clients. In the rare event that a block order is partially filled, the shares would be allocated on a pro rata basis, with employees receiving no shares until all client orders are filled.

## **ITEM 13. REVIEW OF ACCOUNTS**

Each quarter our advisors and our client service teams review each client's portfolio and invoice for accuracy and alignment with the client's investment objective and risk tolerance. Additional reviews occur during the year as our advisors meet with their clients, if there are major market movements or a client's circumstances change significantly.

We provide written reports to financial planning clients that usually consist of current listings of assets and liabilities, cash flow projections and retirement/accumulation projections. The reports include any, or all, of the above or other situation-specific reports dependent upon each client's requests or financial situation.

Written quarterly reports to investment management clients include a current portfolio statement, account and asset performance reports and a calculation of SFMG fees for informational purposes. Your account custodian provides statements to you on a monthly or quarterly basis, and includes valuation of holdings and transaction activity for the period. We remind you to compare the reports we send you with those you receive from your custodian. As stated in Item 4 above, account balances between our statements and those you receive from your custodian can differ. We will provide you with a reconciliation between the two at your request.

## ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION

We pay referral fees to independent contractors. The referring party receives a percentage of our fees or receives a fixed fee, as specified in the contract between that solicitor and us, which is paid from the management fee you pay to us. All such referred clients sign a disclosure acknowledgement letter detailing this relationship and the fee arrangement. You pay the same fees to us regardless of whether or not you were introduced to us by an outside party receiving a portion of the management fee you pay to us.

Some SFMG personnel receive compensation based on new client assets they generate. See individual ADV Form 2Bs for more information.

### Schwab Advisor Network

SFMG receives client referrals from Charles Schwab & Co., Inc. ("Schwab") through SFMG's participation in the Schwab Advisor Network® ("the Service"). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with SFMG. Clients are to receive only those Forms 2Bs for the Advisors assisting with the particular client. Schwab does not supervise SFMG and has no responsibility for SFMG's management of clients' portfolios or SFMG's other advice or services. SFMG pays Schwab fees to receive client referrals through the Service. SFMG's participation in the Service may raise potential conflicts of interest described below.

SFMG pays Schwab a "Participation Fee" on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. This "Participation Fee" denotes SFMG's participation in the Schwab Advisor Network, not that Schwab participates in the management of any referred client accounts. The "Participation Fee" paid by SFMG is a percentage of the value of the assets in the client's account. This fee structure presents a potential conflict, in that SFMG may be incented to refrain from lowering a referred client's fee. SFMG pays Schwab the "Participation Fee" for so long as the referred client's account remains in custody at Schwab. The "Participation Fee" is billed to SFMG quarterly and may be increased, decreased or waived by Schwab from time to time. The "Participation Fee" is paid by SFMG and not by the client.

Clients referred through the Service will receive Schwab's Disclosure Document in addition to our Form ADV, and will be charged the SFMG customary Wealth Management fee rate listed under the section titled "Fees and Compensation." We oversee this Service by attending the initial meeting with a prospective referral along with a Schwab employee, at which time the potential referral signs and receives a copy of the signed Schwab Disclosure Document.

SFMG generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from Schwab. This Fee does not apply if the referred client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees Advisor generally would pay in a single year. Thus, SFMG will have an incentive to recommend

that a referred client's accounts be held in custody at Schwab, but we ultimately will recommend what we believe to be in the client's best interest.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of SFMG's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, SFMG will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit SFMG's fees directly from the accounts.

Additionally, Schwab paid us a \$15,000 incentive toward technology support for adding new client assets to Schwab by July 2018. Schwab has extended an additional potential \$25,000 incentive toward legal, compliance, technology, research, marketing and consulting provided by third parties if we add \$60 million in new client assets to Schwab by November 20, 2019.

For accounts of SFMG's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from SFMG's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, SFMG may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. SFMG nevertheless, acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for SFMG's other clients. Thus, trades for accounts maintained at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

## **ITEM 15. CUSTODY**

Custody is defined as an investment advisory firm, its related entities, and/or its personnel having direct access to your funds or securities. We protect your assets by requiring that you use a "qualified custodian" that sends your account statements at least quarterly. All of the custodians we recommend are qualified.

We have custody of your assets to the extent that we have the authority to instruct your account custodian to deduct our fee directly from your account. This fee deduction is reported to you quarterly in the statements you receive from your custodian and SFMG, and you should contact us if you have any question about the accuracy of the fee calculation.

Several of our clients have established instructions to their custodian which allow clients to direct us to send funds from their account with standing instructions. SFMG is considered to have custody over some of these accounts since the amount and/or timing of these transfers are not pre-defined. However, this authority does not necessitate that an outside public accountant conduct surprise examinations of these accounts.

Three of our investment advisor representatives serve as trustees for some client accounts managed by SFMG. Because of these activities, SFMG has custody of funds and/or securities in each of these accounts. These accounts are examined annually on a surprise basis by an outside public accounting firm.

#### **ITEM 16. INVESTMENT DISCRETION**

We manage assets for you because you grant us trading authority, which gives us the right to place trades in your account(s) without obtaining prior permission from you. We only direct the transfer of funds to an account bearing the same name as the account we manage for you, with the exception of the deduction of our management fees or with a release which you have signed.

#### **ITEM 17. VOTING CLIENT SECURITIES**

We do not vote proxies for you or assist with proxy voting decisions. You receive your proxy voting material directly from your account custodian. You are free to request our assistance in determining how to vote on a particular issue.

#### **ITEM 18. FINANCIAL INFORMATION**

There is no financial condition that is likely to impair our ability to continue to provide services to you.